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**PRIME DIVIDEND CORP.**  
**SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

MAY 31, 2019

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This is the semi-annual Management Report of Fund Performance (MRFP) for the period ended May 31, 2019. This MRFP contains financial highlights but does not contain the complete financial statements of the Company. The semi-annual financial statements and accompanying notes are attached to this report.

Investors may also obtain a copy of the Company's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure by visiting our website at [www.primedividend.com](http://www.primedividend.com) or by writing to the Company at Investor Relations, 200 Front Street West, Suite 2510, Toronto, Ontario M5V 3K2 .

These reports are available to view and download at [www.primedividend.com](http://www.primedividend.com) or [www.sedar.com](http://www.sedar.com).

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**INVESTMENT OBJECTIVES AND STRATEGIES**

The Company invests primarily in a portfolio of common shares which will include each of the following Canadian dividend paying companies:

<b>Banks</b>	<b>Life Insurance Companies</b>
Bank of Montreal	Great-West Lifeco Inc.
Bank of Nova Scotia	Manulife Financial Corporation
Canadian Imperial Bank of Commerce	Sun Life Financial Inc.
National Bank of Canada	
Royal Bank of Canada	
Toronto-Dominion Bank	

<b>Investment Management Companies</b>	<b>Utilities &amp; Other</b>
AGF Management Limited	BCE Inc.
CI Financial Corp.	Power Financial Corporation
IGM Financial Inc.	TC Energy Corp.
	TMX Group Inc.
	TransAlta Corporation

The Company may also invest up to 20% of the net asset value in equity securities of issuers in the financial services or utilities sectors in Canada or the United States other than the core holdings listed above. In order to supplement the dividends received on the portfolio and to reduce risk, the Company will from time to time write covered call options in respect of some or all of the common shares in the portfolio.

The Company offers two types of shares:

### **Preferred shares**

The investment objectives with respect to the Preferred shares are as follows:

1. Effective December 1, 2018, to provide holders with a cumulative preferential floating rate monthly dividend at an annual rate equivalent to the prevailing Canadian prime rate plus 2.35%, with a minimum annual rate of 5% and a maximum rate of 8% based on the original issue price of \$10 of the Preferred shares (previously, to provide holders with cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the prevailing Canadian prime rate plus 0.75%, with a minimum annual rate of 5.0% and a maximum annual rate of 7% based on the original issue price of the Preferred shares); and
2. On or about the termination date of December 1, 2023 (subject to further 5 year extensions thereafter) to pay holders the original issue price.

### **Class A shares**

The investment objectives with respect to the Class A shares are as follows:

1. To provide holders with monthly cash distributions targeted to be at a rate of 10% annualized based on the volume weighted average market price of the Class A shares for the last 5 trading days of the preceeding month. The net asset value per unit must remain above the required \$15 per unit threshold for monthly distributions to be declared; and
2. On the termination date to pay holders the original issue price (\$15) of those shares.

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## **RISK**

The risks of investing in the Company remain as discussed in the Annual Information Form dated February 25, 2019. In addition, note 5 of the semi-annual financial statements (“Management of Risk of Financial Instruments”) contains disclosure on specific types of risks related to the financial investments held by the Company.

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## **RESULTS OF OPERATIONS**

The six month period ended May 31, 2019 reflected a mixed period for Canadian markets. Financial markets rallied significantly from the multi-year low reached on December 24, 2018. Market participants became much more optimistic beginning in January after both the U.S. Federal Reserve and the Bank of Canada signaled a more dovish and accommodative perspective on interest rate changes. In addition, prospects for a successful resolution to global trade negotiations became much more positive in the early months of 2019, which added further fuel to the market rally. However, a set-back in the U.S./China trade negotiations and the escalation of tariffs by the U.S. on Chinese imports caused weakness and increased uncertainty across global markets into the end of May. Fixed income markets were also impacted, with longer term bond yields declining significantly amidst fears that trade tensions could adversely impact economic growth and corporate profits. The yield curve continued to flatten and invert during the period, putting increasing pressure on net interest margins and investment income for Canadian banks and life insurance companies. Notwithstanding these developments, the Canadian economy showed evidence of recovering from the slowdown in late 2018 and early 2019.

The core portfolio companies continue to rank among the highest dividend yielding companies in the S&P TSX 60 and most of these companies have exhibited consistent dividend growth, which should continue to make them relatively attractive investments in the current low interest rate environment.

The net assets per unit (consisting of one Preferred share and one Class A share) finished at \$16.53 as at May 31, 2019, after the payment of \$0.63 in combined distributions to both classes of shares. A combined total of \$18.00 has been paid in distributions since inception.

Pursuant to the special retraction right in connection with the extension of the termination date of the Company, the Company redeemed 24,200 Class A shares and 248,306 Preferred shares

and made retraction payments of \$126,324 and \$2,483,060, respectively, to each class of shares on December 17, 2018. In order to restore an equal amount of shares outstanding for each class, the Class A shares were consolidated on the basis of 0.8083023968 of a post-consolidation Class A share for every one pre-consolidation Class A share outstanding.

In connection with the extension, the Company also amended the dividend entitlement of the Preferred shares effective December 1, 2018, to pay a cumulative preferential floating rate monthly dividend at an annual rate equivalent to the prevailing Canadian prime rate plus 2.35%. The minimum rate per annum at which dividends will be paid on the Preferred Shares remains at 5% and the maximum increased from 7% to 8% based on the original issue price.

The termination date of the Company may be extended thereafter at the Company's discretion for additional terms of five years each. Shareholders would be provided with a special retraction right in connection with any such extension.

Net assets of the Company finished the period at \$15.6 million.

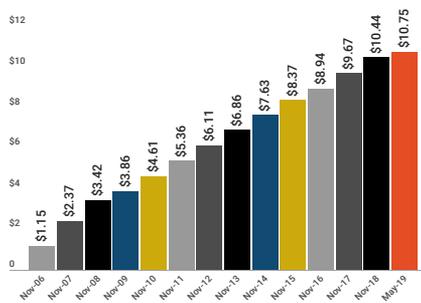
The covered call writing program continued to provide additional income and supplemented the dividend income earned in the portfolio.

### Class A shares - Distributions

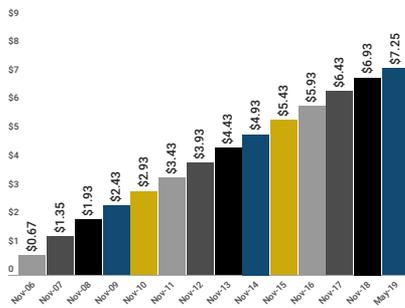
Monthly cash distributions are targeted to be at a rate of 10% annualized based on the volume weighted average market price of the Class A shares for the last 5 trading days of the preceding month. The net asset value per unit must remain above the required \$15 per unit threshold for monthly distributions to be declared. Total distributions per Class A share during the period amounted to \$0.3185 at the target rate.

### Preferred shares - Distributions

Effective December 1, 2018, Preferred shareholders are entitled to receive a cumulative preferential floating rate monthly dividend at an annual rate equivalent to the prevailing Canadian prime rate plus 2.35%, with a minimum annual rate of 5% and a maximum annual rate of 8% based on the original issue price. Previously, Preferred shareholders were entitled to receive cumulative preferential monthly cash dividends at a floating rate based on the prime rate in Canada plus 0.75% per annum on the original issue price with a minimum annual rate of 5.0% and a maximum annual rate of 7.0% based on the original issue price. Total distributions during the period amounted to \$0.3150 per Preferred share.



Class A Share Distributions Since Inception



Preferred Share Distributions Since Inception



**10.4355**

Distributions paid prior to Class A share consolidation on December 21, 2018



**0.3185**

Distributions paid after Class A share consolidation on December 21, 2018



**10.754**

Cumulative total of distributions paid to Class A share since inception



**7.25**

Cumulative total of distributions paid to Preferred share since inception

## RECENT DEVELOPMENTS

Pursuant to the special retraction right in connection with the extension of the termination date of the Company, the Company redeemed 24,200 Class A shares and 248,306 Preferred shares and made retraction payments of \$126,324 and \$2,483,060, respectively, to each class of shares on December 17, 2018. In order to restore an equal amount of shares outstanding for each class, the Class A shares were consolidated on the basis of 0.8083023968 of a post-consolidation Class A share for every one pre-consolidation Class A share outstanding.

## RELATED PARTY TRANSACTIONS

Quadravest Capital Management Inc. (“Quadravest”) as investment manager and manager earns fees from the Company as described below in the Management Fees section.

## FINANCIAL HIGHLIGHTS

The following tables show selected financial information about the Company and are intended to help you understand the Company’s financial performance for the past five years. This information is derived from the Company’s semi-annual financial statements and previous audited annual financial statements. The information in the following table 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 unit.

### The Company’s net assets per unit

	May 31, 2019	Years ended November 30				
		2018	2017	2016	2015	2014
		┌─────────── Years ended November 30 ───────────┐ Prior to Class A share consolidation <sup>(4)</sup>				
Net assets per unit, beginning of period	15.22 <sup>(4)</sup>	17.75	17.15	16.39	18.73	18.52
Increase (decrease) from operations						
Total revenue	0.35	0.67	0.66	0.69	0.68	0.69
Total expenses	(0.21)	(0.38)	(0.36)	(0.32)	(0.33)	(0.38)
Realized gains (losses) for the period	0.20	0.25	0.90	0.14	0.14	0.40
Unrealized gains (losses) for the period	0.35	(1.81)	0.65	1.30	(1.59)	0.76
Total increase (decrease) from operations <sup>(2)</sup>	0.69	(1.27)	1.85	1.81	(1.10)	1.47
Distributions <sup>(3)</sup>						
Canadian dividends	(0.63)	(1.26)	(1.24)	(1.07)	(1.24)	(1.28)
Total distributions	(0.63) <sup>(4)</sup>	(1.26)	(1.24)	(1.07)	(1.24)	(1.28)
Net assets per unit at end of period	16.53 <sup>(4)</sup>	15.22	17.75	17.15	16.39	18.73
Net assets per Preferred share	10.00	10.00	10.00	10.00	10.00	10.00
Net assets per Class A share	6.53 <sup>(4)</sup>	5.22	7.75	7.15	6.39	8.73
Net assets per unit at end of period	16.53 <sup>(4)</sup>	15.22	17.75	17.15	16.39	18.73

- Net assets per unit is the difference between the aggregate amount of the Company’s assets and the aggregate amount of its liabilities, excluding Preferred shares and net assets attributable to holders of redeemable Class A shares, at the valuation date, divided by the number of units then outstanding.
- Total increase (decrease) from operations is before the payment of Preferred and Class A share distributions and is calculated based on the weighted average number of units outstanding during the period.
- Distributions on the Preferred shares and Class A shares are based on the number of Preferred shares and Class A shares outstanding on the record date for each distribution in the period and were paid in cash. Characterization of distributions is based on the tax treatment that is received by investors.
- As a result of the consolidation of Class A shares on a 0.8083023968 for 1 basis after the payment of special retractions on December 17, 2018 in connection with the extension of the termination date of the Company, results in the previous periods are not comparable to the May 31, 2019 results.

## RATIOS AND SUPPLEMENTAL DATA (BASED ON NET ASSET VALUE)

	May 31, 2019	2018	Years ended November 30			2014
			2017	2016	2015	
Net asset value (millions) <sup>(1)</sup>	\$15.6	\$18.2	\$21.2	\$22.5	\$22.3	\$25.5
Number of units outstanding	944,954	1,193,260	1,193,260	1,313,595	1,359,860	1,359,860
Base Management expense ratio <sup>(2)</sup>	2.52%	2.28%	2.03%	1.96%	1.93%	2.01%
Management expense ratio per Class A share <sup>(3)</sup>	16.47%	13.52%	11.53%	13.42%	11.69%	10.31%
Portfolio turnover rate <sup>(4)</sup>	0.0%	0.0%	11.5%	7.5%	1.3%	29.50%
Trading expense ratio <sup>(5)</sup>	0.04%	0.02%	0.04%	0.04%	0.01%	0.03%
Closing market price (TSX): Preferred shares	\$10.21	\$10.10	\$10.30	\$10.20	\$10.16	\$10.30
Closing market price (TSX): Class A shares	\$6.59	\$6.14	\$8.02	\$6.52	\$6.19	\$8.41

- (1) This information is provided as at May 31 or November 30.
- (2) A separate base management expense ratio has been presented to reflect the normal operating expenses of the Company excluding any one time offering expenses. Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of average net asset value during the period.
- (3) Management expense ratio for Class A shares is based on the requirements of NI 81-106. This instrument requires that all split share companies produce an expense ratio which allocates all operating expenses of the Company, all distributions on Preferred shares and all issuance costs to the Class A shares and expresses this as an annualized percentage of net assets applicable only to the Class A shares during the period. The management expense ratio per Class A share should not be interpreted as the required return necessary for the Company or the Class A shares to cover the operating expenses of the Company. This calculation is based only on a portion of the Company's assets whereas the Company utilizes its entire assets to generate investment returns. Management believes that the base management expense ratio per unit disclosed in the table above is the most representative ratio in assessing the ongoing efficiency of the administration of the Company, making comparisons to the expense ratios of single unit mutual funds or determining the minimum investment returns necessary by the Company to achieve growth in net asset value per unit.
- (4) The Company's portfolio turnover rate indicates how actively Quadravest manages the portfolio investments. A portfolio turnover rate of 100% is equivalent to the Company buying and selling all of the securities in its portfolio once in the course of the period. The Company employs a covered call writing strategy which can cause the portfolio turnover rate to be higher than conventional mutual funds. The higher the Company's portfolio turnover rate in a period, the greater the trading costs payable by the Company in the period and the greater chance of an investor receiving taxable capital gains in the period. There is not necessarily a relationship between a high turnover rate and the performance of the Company.
- (5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average net asset value during the period.

## MANAGEMENT FEES

Pursuant to the terms of the investment management agreement, Quadravest is entitled to a base management fee payable in arrears at an annual rate equal to 0.65% of the net asset value of the Company, which includes the outstanding Preferred shares, calculated as at each month-end valuation date. In addition, Quadravest is entitled to receive a performance fee subject to the achievement of certain pre-established total return thresholds.

Pursuant to the management agreement, Quadravest is entitled to an administration fee payable monthly in arrears at an annual rate equal to 0.20% of the net asset value of the Company, which includes the outstanding Preferred shares, calculated as at each month-end valuation date and an amount equal to the service fee payable to dealers on the Class A shares at a rate of 0.50% per annum. No service fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A shares in respect of each month in such calendar quarter.

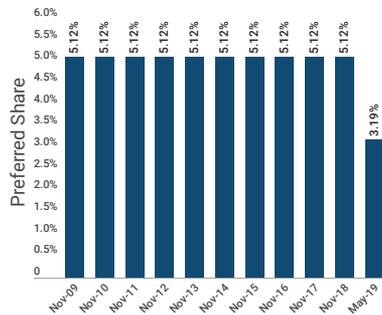
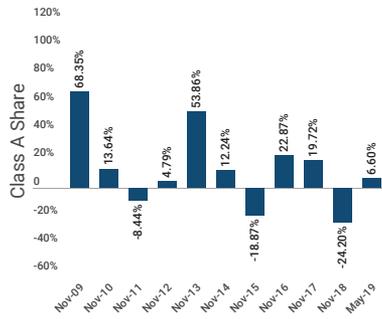
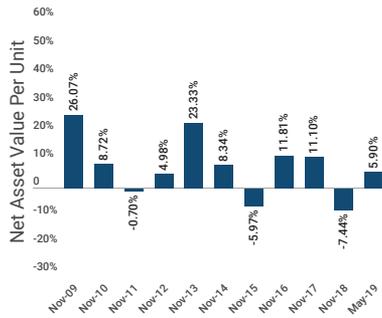
The base management fee was used by Quadravest to provide investment analysis, make investment decisions, and make brokerage arrangements for the purchase and sale of securities including the covered call writing program. The administration fee was used to provide or arrange administrative services required by the Company which includes all operational services, financial accounting, shareholder reporting and regulatory reporting.

## PAST PERFORMANCE

### Year-by-Year Returns

The past performance of 1) the net asset value per unit; 2) the Preferred share on a net asset value basis; and 3) the Class A share on a net asset value basis for each of the last 10 years are presented in the bar charts below. Each bar in the chart reflects the change in percentage terms of how a unit, a Preferred share or a Class A share would have increased or decreased during the applicable year. In respect to the charts displayed below, please note the following:

- The performance information shown assumes that all cash distributions made by the Company during the years shown were reinvested in the applicable securities of the Company;
- The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance; and
- Past performance of the Company does not necessarily indicate how it will perform in the future.



<sup>(1)</sup> The returns per unit and per Class A share for the period ended May 31, 2019 reflect the classification of Class A shares on December 21, 2018.

**SUMMARY OF INVESTMENT PORTFOLIO**  
**All holdings as at May 31, 2019**

Name	Weighting (%)
Toronto-Dominion Bank	10.0
TMX Group Inc.	9.3
TC Energy Corp.	7.6
National Bank of Canada	7.5
Manulife Financial Corporation	6.3
Sun Life Financial Inc.	6.1
Canadian Imperial Bank of Commerce	5.9
Royal Bank of Canada	5.8
Power Financial Corp.	5.6
BCE Inc.	5.5
Great-West Lifeco Inc.	4.9
CI Financial Corp.	4.2
Bank of Nova Scotia	4.0
IGM Financial Inc.	3.6
Bank of Montreal	2.6
AGF Management Ltd.	2.1
TransAlta Corporation	1.3
<b>Total long positions as a percentage of net assets</b>	<b>92.3</b>
Cash	8.3
Other net assets (liabilities)	-0.6
	100.0

The summary of investment portfolio may change due to ongoing portfolio transactions of the Company. Updates are available quarterly.