

STATEMENTS OF FINANCIAL POSITION (Unaudited)

As at	June 30, 2018	December 31, 2017
Assets		
Current assets		
Investments	\$ 415,497,128	\$ 447,636,108
Cash	1,792,653	5,925,769
Options premium receivable	72,800	—
Income receivable	1,348,126	1,303,396
Prepaid expenses	60,312	49,830
Total assets	418,771,019	454,915,103
Liabilities		
Current liabilities		
Option contracts written, at fair value (note 10)	196,147	302,834
Distributions payable to shareholders (note 7)	4,854,931	4,854,931
Accounts payable for investments purchased	—	4,165,357
Accounts payable and accrued liabilities	492,429	431,623
Class J shares (note 5)	100	100
Preferred shares (note 5)	221,939,720	221,939,720
Preferred share premiums (note 5)	26,199	58,201
Total liabilities (excluding Net Assets attributable to holders of redeemable Class A shares)	227,509,526	231,752,766
Net Assets attributable to holders of redeemable Class A shares	\$ 191,261,493	\$ 223,162,337
Redeemable shares outstanding (note 5)		
Preferred shares	22,193,972	22,193,972
Class A shares	22,193,972	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	\$ 8.62	\$ 10.06
Class J share	\$ 1.00	\$ 1.00

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

STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

For the six months ended June 30	2018	2017
Income		
Securities lending income (note 11)	\$ 2,669	\$ 8,361
Net gain (loss) on investments and derivatives:		
Dividend income	8,111,919	6,665,020
Net realized gain (loss) on sale of investments (note 9)	5,048,208	2,784,674
Net change in unrealized gain (loss) on investments	(25,065,634)	(3,621,805)
Net realized gain (loss) on options (note 9)	310,685	445,426
Net change in unrealized gain (loss) on options	230,118	(67,476)
Total net gain (loss) on investments and derivatives	(11,364,704)	6,205,839
Total income (loss), net	(11,362,035)	6,214,200
Expenses		
Management fees (note 8)	1,429,802	1,207,029
Service fees (note 8)	387,909	349,957
Audit fees	22,186	21,025
Independent Review Committee fees (note 8)	11,455	11,159
Custodial fees	17,816	21,223
Legal fees	611	1,084
Shareholder reporting costs	19,972	24,775
Other administrative expenses	84,264	73,236
Interest and bank charges	17	9
Transaction costs	9,327	12,616
Total expenses	1,983,359	1,722,113
Net investment income (loss) before distributions on Preferred shares	(13,345,394)	4,492,087
Distributions on Preferred shares (note 7)	(5,271,068)	(4,357,715)
Preferred share premium amortization (note 5)	32,002	32,003
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares	\$ (18,584,460)	\$ 166,375
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares per share⁽¹⁾	\$ (0.84)	\$ 0.01

⁽¹⁾ Based on the weighted average number of Class A shares outstanding during the period (note 5).

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

STATEMENTS OF CASH FLOWS (Unaudited)

For the six months ended June 30	2018	2017
Cash flows from operating activities:		
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares from operations	\$ (18,584,460)	\$ 166,375
Adjustments to reconcile net cash provided by (used in) operations:		
Net realized (gain) loss on sale of investments (note 9)	(5,048,208)	(2,784,674)
Net change in unrealized (gain) loss on investments	25,065,634	3,621,805
Net realized (gain) loss on options (note 9)	(310,685)	(445,426)
Net change in unrealized (gain) loss on options	(230,118)	67,476
Preferred shares premium amortization (note 5)	(32,002)	(32,003)
Decrease (increase) in income receivable	(44,730)	5,658
Decrease (increase) in prepaid expenses	(10,482)	—
Increase (decrease) in accounts payable and accrued liabilities	60,806	99,353
Purchase of investments and options (note 9)	(8,604,402)	(306,600)
Proceeds from sale of investments and options (note 9)	16,921,915	11,326,363
Cash provided by (used in) operating activities	9,183,268	11,718,327
Cash flows from financing activities:		
Distributions paid to holders of redeemable Class A shares (note 7)	(13,316,384)	(11,008,963)
Cash provided by (used in) financing activities	(13,316,384)	(11,008,963)
Net increase (decrease) in cash	(4,133,116)	709,364
Cash, beginning of period	5,925,769	773,730
Cash, end of period	\$ 1,792,653	\$ 1,483,094
Distributions paid on redeemable Preferred shares (note 7)	\$ 5,271,068	\$ 4,357,715
Supplemental information:⁽¹⁾		
Dividends received	\$ 8,067,189	\$ 6,670,678
Interest paid	17	—

⁽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 (Unaudited)

For the six months ended June 30	2018	2017
Net Assets attributable to holders of redeemable Class A shares at beginning of period	\$ 223,162,337	\$ 178,788,982
Operations:		
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares	(18,584,460)	166,375
Distributions to holders of redeemable shares:		
Distributions paid to redeemable Class A shareholders (note 7)	(13,316,384)	(11,008,963)
Net increase (decrease) in Net Assets attributable to holders of redeemable Class A shares	(31,900,844)	(10,842,588)
Net Assets attributable to holders of redeemable Class A shares at end of period	\$ 191,261,493	\$ 167,946,394

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

SCHEDULE OF INVESTMENT PORTFOLIO (Unaudited)

As at June 30, 2018		Cost	Carrying Value	% of Portfolio
No. of Shares	Banks			
430,073	Bank of Montreal	\$ 31,744,122	\$ 43,686,815	
534,677	Bank of Nova Scotia (The)	32,004,837	39,790,662	
362,270	Canadian Imperial Bank of Commerce	33,579,534	41,411,084	
690,116	National Bank of Canada	27,746,061	43,560,122	
421,807	Royal Bank of Canada	27,232,445	41,746,239	
591,718	Toronto-Dominion Bank (The)	25,380,602	44,099,149	
		177,687,601	254,294,071	61.2%
	Insurance			
1,259,517	Great-West Lifeco Inc.	39,835,676	40,632,018	
753,578	Industrial Alliance Insurance and Financial Services Inc.	30,562,367	38,244,084	
1,689,318	Manulife Financial Corporation	35,583,778	39,901,691	
803,661	Sun Life Financial Inc.	30,062,757	42,425,264	
		136,044,578	161,203,057	38.8%
	Embedded Broker Commission	(210,346)		
	Total Investments	\$ 313,521,833	\$ 415,497,128	100.0%

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 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 August 8, 2018.

2. BASIS OF PRESENTATION

These condensed interim financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. These condensed financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS. 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.

a) Financial Instruments

The Fund classifies its investments, including derivatives, based on both the Fund’s business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The portfolio of financial assets 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 are solely principal and interest; however, these securities 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, including derivatives and short-term investments with a maturity of up to one year from the date of acquisition, are measured at fair value through profit or loss (“FVTPL”). Derivative contracts that have a negative fair value are presented as liabilities 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 13 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 38¹/₃% 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 per share.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited) (continued)

June 30, 2018 and 2017

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.

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 classified as FVTPL under IFRS 9. As at June 30, 2018, the Fund holds equity securities of \$415.5 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**Classification and Measurement of Financial Instruments and Application of Fair Value Option**

In classifying and measuring financial instruments held by the Fund, the Manager is required to make judgements about the classification of financial instruments and the applicability of the fair value option to its investments which are not held for trading. The fair value option has been applied to the Fund’s investments in equity securities as the investments are managed on a fair value basis in accordance with the Fund’s investment strategy. The Fund meets the definition of an investment entity and its purpose is to provide investment management services to its shareholders by investing its Net Assets for capital growth and/or investment income and by measuring its investment performance on a fair value basis.

5. 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 June 30, 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.

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 may retract their Class A shares on November 29, 2018 by providing notice by the last business day of October 2018. This special retraction right does 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 and June 30	22,193,972	18,348,272
Weighted average number of redeemable Class A shares outstanding	22,193,972	18,348,272

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. Agent fees and issue costs accounted for \$1,923,560.

On June 30, 2018, the Class A shares’ closing market price was \$9.39 per share (December 31, 2017 – \$9.96).

NOTES TO THE FINANCIAL STATEMENTS (Unaudited) (continued)

June 30, 2018 and 2017

Redeemable Preferred Shares**Authorized**

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

Holder of Preferred shares are entitled to receive fixed, cumulative, preferential quarterly cash distributions of \$0.11875 per share up to November 29, 2018. 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 may retract their Preferred shares on November 29, 2018 by providing notice by the last business day of October 2018. This special retraction does 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 and June 30	22,193,972	18,348,272

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.

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 period ended June 30, 2018, \$32,002 (six-month period ended June 30, 2017 – \$32,003) was amortized and the premium balance as at June 30, 2018 was \$26,199 (December 31, 2017 – \$58,201).

On June 30, 2018, the Preferred shares' closing market price was \$10.03 per share (December 31, 2017 – \$10.11).

6. 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.

7. DISTRIBUTIONS TO SHAREHOLDERS

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

For the period ended June 30, 2018, the Fund declared distributions of \$0.60 (six-month period ended June 30, 2017 – \$0.60) per Class A share and recorded distributions of \$0.2375 (six-month period ended June 30, 2017 – \$0.2375) per Preferred share, which amounted to \$13,316,384 (six-month period ended June 30, 2017 – \$11,008,963) and \$5,271,068 (six-month period ended June 30, 2017 – \$4,357,715), respectively.

On July 24, 2018, the Fund declared \$0.10 per Class A share in monthly distributions for record dates July 31, 2018, August 31, 2018 and September 28, 2018, respectively.

8. 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 period ended June 30, 2018, the management fee amounted to \$1,429,802 (six-month period ended June 30, 2017 – \$1,207,029), of which \$234,358 was payable as of June 30, 2018 (December 31, 2017 – \$130). The service fees for the period ended June 30, 2018 amounted to \$387,909 (six-month period ended June 30, 2017 – \$349,957), with \$191,664 payable as of June 30, 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 period ended June 30, 2018 was \$11,455 (six-month period ended June 30, 2017 – \$11,159) and consisted only of fees. As at June 30, 2018 and December 31, 2017, there were, respectively, \$38 prepaid and nil in Independent Review Committee fees payable.

9. INVESTMENT TRANSACTIONS

Investment transactions, excluding brokerage commissions, for the periods ended June 30 were as follows:

	2018	2017
Proceeds from sale of investments and options	\$ 16,994,715	\$ 11,326,363
Less cost of investments and options sold:		
Investments and options at cost, beginning of period	320,321,011	259,544,751
Investments purchased and options written during the period	4,439,044	306,600
Investments and options at cost, end of period	(313,124,233)	(251,755,088)
Cost of investments sold and options written during the period	11,635,822	8,096,263
Net realized gain (loss) on sale of investments and options	\$ 5,358,893	\$ 3,230,100

There were no soft dollar commissions paid by the Fund for the periods ended June 30, 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited) (continued)

June 30, 2018 and 2017

10. 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 June 30, 2018:

Underlying Interest	No. of Contracts ⁽¹⁾	Option Type	Expiration Date	Strike Price per Contract	Current Price per Contract	Premium Received	Fair Value	Unrealized Gain (Loss)
Bank of Montreal	500	Call	July 20, 2018	\$ 104.00	\$ 0.23000	\$ 24,500	\$ (11,500)	\$ 13,000
Bank of Montreal	500	Call	July 20, 2018	105.00	0.11000	29,000	(5,500)	23,500
Bank of Montreal	500	Call	August 17, 2018	105.00	0.32000	14,750	(16,000)	(1,250)
Bank of Nova Scotia (The)	600	Call	July 20, 2018	83.00	0.12000	24,000	(7,200)	16,800
Bank of Nova Scotia (The)	500	Call	July 20, 2018	80.00	0.08000	13,000	(4,000)	9,000
Canadian Imperial Bank of Commerce	400	Call	July 20, 2018	116.00	0.55000	18,800	(22,000)	(3,200)
Canadian Imperial Bank of Commerce	400	Call	July 20, 2018	119.00	0.14000	16,400	(5,600)	10,800
Industrial Alliance Insurance and Financial Services Inc.	800	Call	July 20, 2018	56.00	0.01000	23,200	(838)	22,362
Manulife Financial Corporation	1,800	Call	July 20, 2018	25.50	0.01000	32,400	(1,334)	31,066
National Bank of Canada	700	Call	July 20, 2018	64.00	0.44000	26,600	(30,800)	(4,200)
National Bank of Canada	700	Call	July 20, 2018	66.00	0.14000	21,000	(9,800)	11,200
National Bank of Canada	700	Call	August 17, 2018	66.00	0.32000	24,500	(22,400)	2,100
Royal Bank of Canada	500	Call	July 20, 2018	104.00	0.16000	15,500	(8,000)	7,500
Royal Bank of Canada	500	Call	August 17, 2018	103.00	0.29000	13,750	(14,500)	(750)
Sun Life Financial Inc.	900	Call	July 20, 2018	56.00	0.07000	26,100	(6,300)	19,800
Sun Life Financial Inc.	900	Call	July 20, 2018	57.00	0.01000	36,900	(675)	36,225
Sun Life Financial Inc.	900	Call	August 17, 2018	56.00	0.25000	19,800	(22,500)	(2,700)
Toronto-Dominion Bank (The)	600	Call	July 20, 2018	78.00	0.12000	17,400	(7,200)	10,200
						\$ 397,600	\$ (196,147)	\$ 201,453

⁽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	Strike Price per Contract	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.

11. 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 June 30, 2018 were \$28.1 million (December 31, 2017 – \$7.4 million) and \$29.5 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 periods ended June 30, securities lending income was as follows:

	2018	2017
Gross securities lending income	\$ 3,812	\$ 11,944
Securities lending charges	(1,143)	(3,583)
Net securities lending income received by the Fund	\$ 2,669	\$ 8,361

During the period ended June 30, 2018, securities lending charges represented 30% (six-month period ended June 30, 2017 – 30.0%) of the gross securities lending income.

12. 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 June 30, 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
Bank	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 (Unaudited) (continued)

June 30, 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 June 30, 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 \$37.2 million or 19.5% (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 21.6% (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 June 30, 2018 and December 31, 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 11. 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 can 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 June 30, 2018	Less Than 3 Months	3 Months to 1 Year	Greater Than 1 Year	Total
Option contracts written, at fair value	\$ 196,147	\$ —	\$ —	\$ 196,147
Accounts payable and accrued liabilities	492,429	—	—	492,429
Distributions payable to shareholders	4,854,931	—	—	4,854,931
Total	\$ 5,543,507	\$ —	\$ —	\$ 5,543,507

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 June 30, 2018 and December 31, 2017, the Fund had no exposure to currency risk.

13. 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 June 30, 2018	Level 1	Level 2	Level 3	Total
Equities	\$ 415,497,128	\$ —	\$ —	\$ 415,497,128
Option contracts written	(196,147)	—	—	(196,147)
Total	\$ 415,300,981	\$ —	\$ —	\$ 415,300,981

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 June 30, 2018 had a retraction price per share of \$10.00 (December 31, 2017 – \$10.00) and a traded price per share of \$10.03 (December 31, 2017 – \$10.11).

There were no transfers of financial assets and liabilities between the levels during the period ended June 30, 2018 and the year ended December 31, 2017.

All fair value measurements above are recurring. The carrying values of cash, income receivable, 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 period ended June 30, 2018 was \$20,017,426 (six-month period ended June 30, 2017 – loss of \$837,131).

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 period ended June 30, 2018 was \$540,803 (six-month period ended June 30, 2017 – gain of \$377,950).

14. SUBSEQUENT EVENT

The Fund completed an overnight offering of Class A and Preferred shares for aggregate gross proceeds of approximately \$50.1 million on July 4, 2018. There were 2,532,000 Class A and Preferred shares issued at \$9.80 per Class A share and \$10.00 per Preferred share respectively.