

TSX: LBS, LBS.PR.A

BROMPTON
FUNDS



Life & Banc Split Corp. Annual Report 2020

*Equal-weight portfolio of major Canadian life
insurance companies and banks.*

**VALUE
INTEGRITY
PERFORMANCE**

THE FOUNDATION FOR EXCELLENCE

MANAGEMENT REPORT OF FUND PERFORMANCE

March 17, 2021

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

THE FUND

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

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

INVESTMENT OBJECTIVES AND STRATEGIES

The Fund’s investment objectives are:

- i) to provide holders of Preferred shares with fixed, cumulative, preferential quarterly cash distributions in the amount of \$0.13625 per share and to return the original issue price of \$10.00 per Preferred share to shareholders at maturity; and
- ii) to provide holders of Class A shares with regular monthly cash distributions, targeted to be \$0.10 per share, and the opportunity for growth in Net Asset Value per share.

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

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

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

RECENT DEVELOPMENTS

Market Volatility and COVID-19

The outbreak of the respiratory disease designated as COVID-19 had caused increased volatility and disruptions in global financial markets during most of year 2020. With the development of effective vaccines, major stock market indices have substantially recovered their losses by the end of the 2020 after hitting their lowest point in March 2020, with some indices making new highs. Until the pandemic is under control and economic growth and unemployment recover, there may still be continued volatility in the securities markets which will impact the prices of the securities held in the portfolio of the Fund. The Fund's Net Asset Value reflecting the value of the Fund's portfolio based on the most recent valuation date can be found on the Fund's webpage at www.bromptongroup.com.

Treasury Offering

On January 27, 2021, the Fund completed a treasury offering (the "Treasury Offering") of Class A shares and Preferred shares for aggregate gross proceeds of approximately \$54 million. Class A shares were offered at \$7.80 and Preferred shares were offered at a price of \$10.15 per share.

RISKS

Risks associated with an investment in the shares of the Fund are discussed in the Fund's 2020 annual information form, which is available on the Fund's website at www.bromptongroup.com or on SEDAR at www.sedar.com. There were no changes during the year ended December 31, 2020 that materially affected the risks associated with an investment in the shares of the Fund as they were discussed in the annual information form.

RESULTS OF OPERATIONS

Distributions

For the year ended December 31, 2020, distributions to Class A shareholders were \$0.40 per share, down from \$1.20 per share in 2019, reflecting four monthly distributions of \$0.10 per Class A share for the months of January, February, November and December. The Net Asset Value per unit was less than \$15.00 for all other months and, consequently there were no distributions for those months. Preferred share distributions were \$0.55 per share, unchanged from 2019. Since inception, the Fund has distributed \$15.25 per Class A share and \$7.25 per Preferred share. Based on the December 31, 2020 closing market prices, the current distribution rate was 5.3% on Preferred shares. The Fund has a distribution reinvestment plan which allows participating Class A shareholders to automatically reinvest monthly distributions, commission free, in additional Class A shares of the Fund. For the year ended December 31, 2020, 52,266 Class A shares were acquired in the market at an average price of \$7.42 pursuant to this plan.

Changes in Net Assets from Operations (see Financial Highlights)

The Fund's investment portfolio generated revenue of \$0.76 per Class A share in 2020, compared to \$0.72 per Class A share in 2019. Revenue increased by approximately \$0.04 per Class A share in 2020, contributed by an increase in the investment portfolio dividend rates and their yields. Total expenses were \$0.11 per Class A share in 2020, compared to \$0.18 per Class A share in 2019. Expenses per Class A share in 2019 included \$0.02 per share expense from the 2019 treasury offering. In 2020 excluding this expense, Class A per share expense decreased by \$0.05, which was contributed by termination of the service fees and lower fees paid on lower Net Asset Value per Class A share.

Net Asset Value

At December 31, 2020, the Net Asset Value per Class A share was \$6.49, down from \$7.95 at December 31, 2019, an 18.4% decrease due primarily to a roughly 6.0% average decrease in prices of the security holdings in the Fund's portfolio. The Net Asset Value of the Fund is determined by taking the total assets of the Fund and deducting the Fund's liabilities. For the purpose of calculating the Net Asset Value of the Fund as a whole, the Preferred shares are not considered a liability of the Fund. The aggregate Net Asset Value of the Fund was \$442.3 million at December 31, 2020, down from \$490.0 million at December 31, 2019. The \$47.7 million decrease reflected a decrease in net assets of \$14.1 million, \$10.8 million in Class A share distributions, \$14.8 million of Preferred share distributions and \$8.0 million of redemption payments for Class A and Preferred shares.

Investment Portfolio

At December 31, 2020 and 2019, the Fund's investments included common shares of six banks and four insurance companies as indicated in the Investment Objectives and Strategies section.

As reported in the table below, the Fund had a net realized and change in unrealized loss of \$31.7 million in 2020. The Fund has generated unrealized losses in both the insurance and banks sectors. Insurance companies had total net realized and change in unrealized loss of \$24.4 million, while banks accounted for \$6.2 million loss. During 2020, the Fund selectively wrote call options on the insurance companies and banks in the portfolio to generate premiums of \$1.4 million and had a net realized and change in unrealized loss on the options of \$1.1 million. The net loss represents the premiums received, less the amount paid to close out the options. During 2020, the Fund wrote call options on an average notional value of 3.5% of the Fund's portfolio. At December 31, 2020, there were 4 option contracts outstanding, with a notional value representing 3.9% of the portfolio.

Portfolio Sectors

Net Gains (Losses) by Sector (millions)	% of Portfolio as of 31-Dec-20	Realized \$	Change in Unrealized \$	Total \$
Banks	60.8	2.5	(8.7)	(6.2)
Insurance	39.2	2.3	(26.7)	(24.4)
Options	-	(1.1)	-	(1.1)
Total	100.0	3.7	(35.4)	(31.7)

Liquidity

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

RELATED PARTY TRANSACTIONS

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

MANAGEMENT FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund for which it is paid a management fee equal to 0.60% per annum of the Net Asset Value of the Fund. The management fee is used by the Manager to cover its costs to obtain the Fund's assets, the cost to administer the Fund, the cost of investment management services and for profit. Prior to January 1, 2020, the Fund also paid the Manager a service fee equal to 0.40% per annum of the Net Asset Value of the Class A shares. The service fee was in turn paid by the Manager to investment dealers based on the proportionate number of Class A shares held by clients of each dealer at the end of each calendar quarter. During the year ended December 31, 2019, the Fund paid \$0.8 million in service fees. Effective January 1, 2020, the Fund has discontinued the payment of the service fee. For the year ended December 31, 2020, management fees amounted to \$2.7 million.

FINANCIAL HIGHLIGHTS

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

Net Assets per Class A Share¹

For the year ended December 31	2020	2019	2018	2017	2016
	\$	\$	\$	\$	\$
Net Assets, beginning of year ²	7.95	5.91	10.06	9.74	7.46
Increase (decrease) from operations:³					
Total revenue	0.76	0.72	0.74	0.72	0.72
Total expenses	(0.11)	(0.18)	(0.27)	(0.26)	(0.17)
Preferred share distributions	(0.54)	(0.54)	(0.50)	(0.47)	(0.47)
Realized gains (losses)	0.14	0.16	0.35	0.51	0.23
Unrealized gains (losses)	(1.31)	3.01	(3.48)	1.13	3.17
Total increase (decrease) in Net Assets from operations	(1.06)	3.17	(3.16)	1.63	3.48
Distributions to Class A shareholders:²					
Dividends	0.07	0.02	0.18	0.25	0.14
Return of capital	0.33	1.18	1.02	0.95	1.06
Total distributions to Class A shareholders	0.40	1.20	1.20	1.20	1.20
Net Assets, end of year²	6.49	7.95	5.91	10.06	9.74

¹ The financial information was prepared in accordance with International Financial Reporting Standards.

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

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

Ratios and Supplemental Data (Based on Net Asset Value)

As at December 31	2020	2019	2018	2017	2016
Net Asset Value (\$) (000s) - including Preferred shares	442,266	489,996	411,952	445,160	362,272
Number of Class A shares outstanding (000s)	26,818	27,296	25,888	22,194	18,348
Management expense ratio (“MER”) – Class A shares ¹	13.01%	9.98%	9.75%	8.52%	8.37%
Trading expense ratio ²	0.01%	0.01%	0.01%	0.02%	0.01%
Portfolio turnover rate ³	3.16%	6.06%	5.75%	9.48%	6.06%
Net Asset Value per unit (\$) ⁴	16.63	18.09	16.04	20.17	19.86
Net Asset Value per Class A share (\$)	6.49	7.95	5.91	10.06	9.74
Net Asset Value per Preferred share (\$) ⁵	10.00	10.00	10.00	10.00	10.00
Closing market price - Class A shares (\$)	7.20	7.97	6.68	9.96	9.72
Closing market price – Preferred shares (\$)	10.35	10.31	9.84	10.11	10.12

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

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

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

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

⁵ Net Asset Value per Preferred share does not include accrued Preferred share distributions.

Expense Ratio

The MER per Class A share noted in the table in 2020 was 13.01%, up from 9.98% in 2019. The MER per Class A share includes Preferred share distributions, which represent the cost of leverage. Despite the Fund benefiting from the termination of the service fees in 2020 by 0.40%, the MER increased by 3.03% in 2020. The increase resulted from the combination of fixed preferred share distributions and fixed operating costs over a lower average Class A Net Asset Value. The MER per Class A share, excluding Preferred share distributions and issue costs, was 2.22% in 2020, up from 2.13% for 2019.

The MER per unit was 4.36% for 2020 compared to 4.27% in 2019. The MER per unit, excluding Preferred share distributions (which were covered by the portfolio’s dividend income), was 0.74% for 2020, down from 0.91% in 2019. This ratio is more representative of the ongoing efficiency of the administration of the Fund.

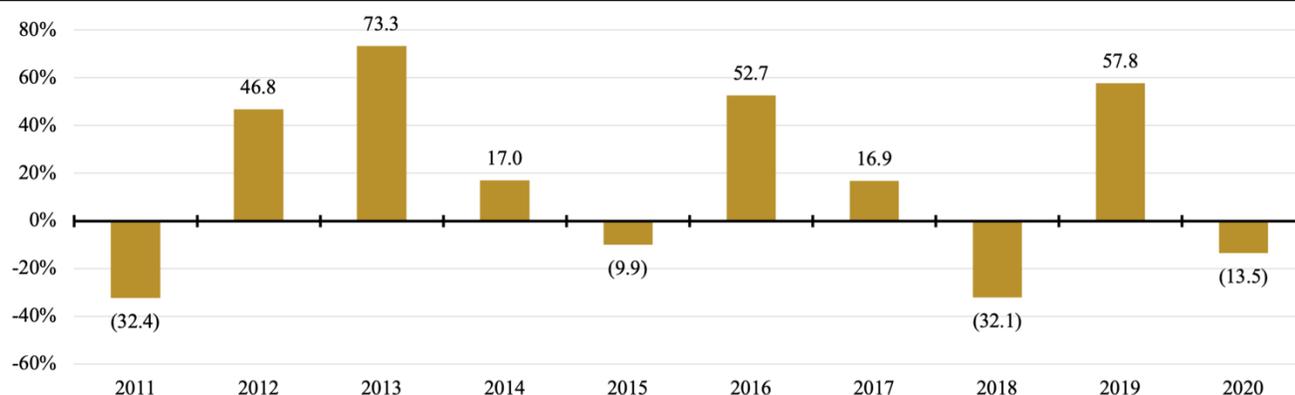
PAST PERFORMANCE

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

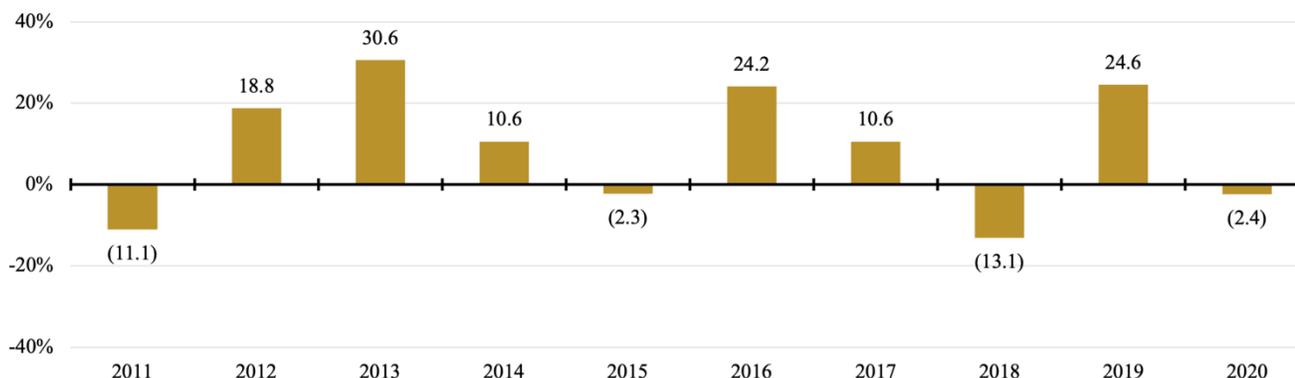
The bar chart shows the Fund’s returns for a Class A share and a unit for the periods ended December 31, 2011 to December 31, 2020. The chart shows, in percentage terms, how investments held in a Class A share and a unit on the first day of each fiscal period would have changed by the last day of the fiscal period.

Year by Year Returns

LBS Class A share



LBS unit



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

Annual Compound Returns

	1-Year %	3-Year %	5-Year %	10-Year %	Since Inception ¹ %
Life & Banc Split Corp. - Class A shares ²	(13.5)	(2.5)	10.6	11.6	7.9
S&P / TSX Capped Financials Index	1.6	3.8	9.5	9.4	7.3
S&P / TSX Composite Index	5.6	5.7	9.3	5.7	5.7
Life & Banc Split Corp. - Preferred shares ²	5.6	5.4	5.2	5.2	5.2
S&P / TSX Preferred Share Index	6.1	0.4	4.2	2.0	1.9
Life & Banc Split Corp. - Unit ³	(2.4)	1.9	7.7	8.4	6.5

¹ Period from October 17, 2006 (commencement of operations) to December 31, 2020.

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

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

In 2020, the Fund's units underperformed the S&P/TSX Financial Index and S&P/TSX Composite Index due to weaker performance from the insurance sector relative to other sectors in the index. The S&P/TSX Financial Index holds approximately 20% less in the insurance sector, thereby mitigating the negative impact of this sector. The S&P/TSX Composite Index holds only 30.17% in the Financial sector, while the Fund's portfolio composition was comprised of approximately 61% in the Financial Sector and the remaining was held in the insurance sector. The Fund's Class A shares' return was negatively impacted by the structured leverage provided by the Preferred Shares. In down markets, the Class A share NAV will decline more due to the structured leverage and conversely in rising markets the Class A NAV will increase disproportionately with the market. The Fund's Preferred shares outperformed the S&P/TSX Preferred Share index over the 3, 5, and 10 year periods and since inception, while the Class A shares outperformed the S&P/TSX Financial Index over the 5 and 10 year periods and since inception.

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2020

Total Net Asset Value¹	\$ 442,265,766
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Portfolio Composition	% of Portfolio	% of Net Asset Value
Banks	60.6	61.3
Insurance	39.0	39.4
Cash and short-term investments	0.4	0.5
Total investment portfolio	100.0	101.2
Other net liabilities		(1.2)
Total Net Asset Value		100.0

Holdings	% of Portfolio	% of Net Asset Value
Bank of Montreal	10.7	10.7
National Bank of Canada	10.6	10.7
Canadian Imperial Bank of Commerce	10.4	10.6
iA Financial Corporation Inc.	10.1	10.2
Sun Life Financial Inc.	9.9	10.0
Great-West Lifeco Inc.	9.8	9.9
Bank of Nova Scotia	9.7	9.8
Royal Bank of Canada	9.6	9.8
Toronto-Dominion Bank	9.6	9.7
Manulife Financial Corp.	9.2	9.3
Cash and short-term investments	0.4	0.5
Total	100.0	101.2

¹ Net Asset Value of the Fund includes the value of the Preferred shares

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

2020 TAX INFORMATION

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

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

The following tables outline the breakdown in the Fund's distributions on Class A and Preferred shares paid in 2020 on a per share basis.

Class A Shares

Record Date	Payment Date	Eligible Dividends \$	Return of Capital \$	Total Distributions \$
31-Dec-19	15-Jan-20	0.01823	0.08177	0.10000
31-Jan-20	14-Feb-20	0.01823	0.08177	0.10000
28-Feb-20	13-Mar-20	0.01823	0.08177	0.10000
30-Nov-20	14-Dec-20	0.01823	0.08177	0.10000
		0.07292	0.32708	0.40000

Preferred Shares

Record Date	Payment Date	Eligible Dividends \$	Total Distributions \$
31-Dec-19	15-Jan-20	0.13625	0.13625
31-Mar-20	15-Apr-20	0.13625	0.13625
30-Jun-20	15-Jul-20	0.13625	0.13625
30-Sep-20	15-Oct-20	0.13625	0.13625
		0.54500	0.54500

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

FORWARD-LOOKING STATEMENTS

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

MANAGEMENT RESPONSIBILITY STATEMENT

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

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

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

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

(Signed) “Mark A. Caranci”

(Signed) “Ann P. Wong”

Mark A. Caranci

*Chief Executive Officer
Brompton Funds Limited
March 17, 2021*

Ann P. Wong

*Chief Financial Officer
Brompton Funds Limited*

INDEPENDENT AUDITOR'S REPORT

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

OUR OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2020 and 2019 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Fund's financial statements comprise:

- the statements of financial position as at December 31, 2020 and 2019;
- the statements of comprehensive income for the years then ended;
- the statements of cash flows for the years then ended;
- the statements of changes in net assets attributable to holders of redeemable class A shares for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

BASIS FOR OPINION

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

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

Independence

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

OTHER INFORMATION

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

**Chartered Professional Accountants,
Licensed Public Accountants**

Toronto, Ontario

March 17, 2021

Life & Banc Split Corp. - Annual Report 2020

STATEMENTS OF FINANCIAL POSITION

As at December 31	2020	2019
Assets		
Current assets		
Investments	\$ 445,658,651	\$ 493,727,826
Cash	1,999,605	1,969,992
Income receivable	1,096,640	1,153,606
Prepaid expenses	54,937	39,901
Total assets	448,809,833	496,891,325
Liabilities		
Current liabilities		
Option contracts written, at fair value (note 9)	58,544	68,458
Distributions payable to shareholders (note 6)	6,335,696	6,448,718
Accounts payable and accrued liabilities	149,827	377,673
Class J shares (note 4)	100	100
Preferred shares (note 4)	268,177,580	272,961,580
Total liabilities (excluding Net Assets attributable to holders of redeemable Class A shares)	274,721,747	279,856,529
Net Assets attributable to holders of redeemable Class A shares	\$ 174,088,086	\$ 217,034,796
Redeemable shares outstanding (note 4)		
Preferred shares	26,817,758	27,296,158
Class A shares	26,817,758	27,296,158
Class J shares	100	100
Net Assets attributable to holders of redeemable shares per share		
Preferred share (\$)	10.00	10.00
Class A share (\$)	6.49	7.95
Class J share (\$)	1.00	1.00

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

(Signed) "Christopher S.L. Hoffmann"

(Signed) "Mark A. Caranci"

Christopher S.L. Hoffmann

Director

Mark A. Caranci

Director

STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31	2020	2019
Income		
Securities lending income (note 10)	\$ 24,674	\$ 19,068
Net gain (loss) on investments and derivatives:		
Dividend income	20,636,048	19,513,209
Net realized gain (loss) on sale of investments (note 8)	4,871,170	7,199,586
Net change in unrealized gain (loss) on investments	(35,405,825)	81,200,645
Net realized gain (loss) on options (note 8)	(1,162,237)	(2,888,530)
Net change in unrealized gain (loss) on options	42,205	(66,958)
Total net gain (loss) on investments and derivatives	(11,018,639)	104,957,952
Total income (loss), net	(10,993,965)	104,977,020
Expenses		
Management fees (note 7)	2,728,877	3,136,079
Service fees (note 7)	-	812,665
Audit fees	41,029	44,267
Independent Review Committee fees (note 7)	17,387	18,283
Custodial fees	46,666	50,003
Legal fees	9,427	2,926
Shareholder reporting costs	47,473	50,246
Other administrative expenses	161,275	175,048
Interest and bank charges	16	624
Agents' fees and issuance costs of Preferred shares, amortized	-	513,740
Transaction costs	22,178	27,340
Total expenses	3,074,328	4,831,221
Net investment income (loss) before distributions on Preferred shares	(14,068,293)	100,145,799
Distributions on Preferred shares (note 6)	(14,811,224)	(14,684,525)
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares	\$ (28,879,517)	\$ 85,461,274
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares per share¹	\$ (1.06)	\$ 3.17

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

STATEMENTS OF CASH FLOWS

For the years ended December 31	2020	2019
Cash flows from operating activities:		
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares from operations	\$ (28,879,517)	\$ 85,461,274
Adjustments to reconcile net cash provided by (used in) operations:		
Net realized (gain) loss on sale of investments (note 8)	(4,871,170)	(7,199,586)
Net change in unrealized (gain) loss on investments	35,405,825	(81,200,645)
Net realized (gain) loss on options (note 8)	1,162,237	2,888,530
Net change in unrealized (gain) loss on options	(42,205)	66,958
Increase (decrease) in distributions payable to Preferred shareholders	(65,182)	487,287
Decrease (increase) in income receivable	56,966	409,666
Decrease (increase) in prepaid expenses	(15,036)	(15,195)
Increase (decrease) in accounts payable and accrued liabilities	(227,846)	26,559
Purchase of investments and options (note 8)	(13,026,148)	(28,428,286)
Proceeds from sale of investments and options (note 8)	29,430,722	34,534,389
Cash provided by (used in) operating activities	18,928,646	7,030,951
Cash flows from financing activities:		
Proceeds from issuance of redeemable Class A shares (note 4)	-	11,409,660
Agents' fees and issue costs paid on issuance of redeemable Class A shares (note 4)	5,744	(577,747)
Proceeds from issuance of redeemable Preferred shares (note 4)	-	14,086,000
Amounts paid for retraction of redeemable Class A shares (note 4)	(3,250,154)	(852)
Amounts paid for retraction of redeemable Preferred shares (note 4)	(4,784,000)	(1,000)
Distributions paid to holders of redeemable Class A shares (note 6)	(10,870,623)	(32,192,060)
Cash provided by (used in) financing activities	(18,899,033)	(7,275,999)
Net increase (decrease) in cash	29,613	(245,048)
Cash, beginning of year	1,969,992	2,215,040
Cash, end of year	\$ 1,999,605	\$ 1,969,992
Distributions paid on redeemable Preferred shares (note 6) (\$)	14,876,406	14,197,238
Supplemental information:¹		
Dividends received (\$)	20,693,014	19,922,875
Interest paid (\$)	16	624

¹ Included in cash flows from operating activities.

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE CLASS A SHARES

For the years ended December 31	2020	2019
Net Assets attributable to holders of redeemable Class A shares, beginning of year	\$ 217,034,796	\$ 153,075,371
Operations:		
Increase (decrease) in Net Assets attributable to holders of redeemable Class A shares	(28,879,517)	85,461,274
Distributions to holders of redeemable Class A shares (note 6):		
Net investment income	(1,972,993)	(481,760)
Return of capital	(8,849,790)	(31,851,150)
Total	(10,822,783)	(32,332,910)
Redeemable Class A share transactions:		
Proceeds from issuance of redeemable Class A shares (note 4)	-	11,409,660
Agents' fees and issue costs paid on issuance of redeemable Class A shares (note 4)	5,744	(577,747)
Retraction of redeemable Class A shares (note 4)	(3,250,154)	(852)
Net increase (decrease) from redeemable Class A share transactions	(3,244,410)	10,831,061
Net increase (decrease) in Net Assets attributable to holders of redeemable Class A shares	(42,946,710)	63,959,425
Net Assets attributable to holders of redeemable Class A shares, end of year	\$ 174,088,086	\$ 217,034,796

Life & Banc Split Corp. - Annual Report 2020

SCHEDULE OF INVESTMENT PORTFOLIO

As at December 31, 2020

	Number of Shares	Cost \$	Carrying Value \$	% of Portfolio
Banks				
Bank of Montreal	491,773	37,554,537	47,529,860	
Bank of Nova Scotia	632,077	39,693,943	43,423,690	
Canadian Imperial Bank of Commerce	429,670	41,643,955	46,683,645	
National Bank of Canada	661,016	28,469,104	47,335,356	
Royal Bank of Canada	413,507	28,898,097	43,141,185	
Toronto-Dominion Bank	599,618	28,538,946	43,022,592	
		204,798,582	271,136,328	60.8
Insurance				
Great-West Lifeco Inc.	1,446,417	45,793,978	43,898,756	
iA Financial Corporation Inc.	818,078	35,083,645	45,141,544	
Manulife Financial Corp.	1,822,418	38,673,094	41,277,768	
Sun Life Financial Inc.	781,961	30,531,354	44,204,255	
		150,082,071	174,522,323	39.2
Embedded Broker Commission		(119,483)		
Total Investments		354,761,170	445,658,651	100.0

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020 and 2019

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 is the custodian of the Fund’s assets and prepares the valuations of the Fund. The address of the Fund’s registered office is Bay Wellington Tower, Brookfield Place, Suite 2930, 181 Bay Street, Toronto, Ontario, M5J 2T3.

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

These financial statements were approved by the Board of Directors of Life & Banc Split Corp. on March 9, 2021.

2. BASIS OF PRESENTATION

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

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

a) Financial Instruments

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

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

b) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded marketable securities) is based on quoted market prices at the close of trading on the measurement date. The Fund uses the last bid price for financial assets and the last ask price for financial liabilities. The Fund’s policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

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

c) Cash

Cash is comprised of demand deposits with financial institutions.

d) Investment Transactions and Income and Expense Recognition

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

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. Dividend income and dividend expense on securities sold short are recognized on the ex-dividend date.

Option premiums paid or received by the Fund are, so long as the options are outstanding, reflected as an asset or liability, respectively, in the Statements of Financial Position and are valued at an amount equal to the current market value of an option that would have the effect of closing the position. Gains or losses realized upon expiration, repurchase or exercise of the options are included in net realized gains or losses on options.

e) Transaction Costs

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

f) Income Taxes

The Fund is a mutual fund corporation as defined in the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. Also, the Fund is generally subject to tax of 38 1/3% under Part IV of the Act on taxable dividends received from Canadian corporations in the year. This tax is fully refundable upon payment of sufficient dividends.

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

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

g) Securities Lending

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

h) Classification of Redeemable Shares by the Fund

As required under International Accounting Standard ("IAS") 32, *Financial Instruments: Presentation*, shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset must be classified as financial liabilities. Under IFRS, the Fund's Preferred shares and Class J shares are classified as liabilities as they are not the most subordinate class of shares. The Class A shares contain multiple redemption features and, therefore are considered to have more than one contraction obligation to its Class A shareholders. As a result, the Fund's Class A shares have been classified as financial liabilities.

4. REDEEMABLE SHARES

Units

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

Class J Shares

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

As of December 31, 2020, 100 (December 31, 2019 - 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) in respect of a cash distribution, after the payment of a cash distribution 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 outstanding Class A shares, with a 5-year term, has a maturity date of October 30, 2023. 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.

A holder of Class A shares may concurrently retract an equal number of Class A and Preferred shares on the second last business day of November of each year ("Annual Retraction 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 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 Annual Retraction Date.

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

Issued

	2020	2019
	Number	Number
	of Shares	of Shares
Redeemable Class A shares, outstanding at January 1	27,296,158	25,887,658
Issuance of redeemable Class A shares	-	1,408,600
Retraction of redeemable Class A shares	(478,400)	(100)
Redeemable Class A shares, outstanding at December 31	26,817,758	27,296,158
Weighted average number of redeemable Class A shares outstanding	27,251,026	26,944,098

On April 4, 2019, the Fund issued 1,408,600 shares at \$8.10 per share for gross proceeds of \$11,409,660. Agent's fees and issue costs amounted to \$587,274.

During the year ended December 31, 2020, pursuant to the annual retraction option, 478,400 Class A shares were purchased for cancellation (year ended December 31, 2019 – 100).

On December 31, 2020, the Class A shares' closing market price was \$7.20 per share (December 31, 2019 – \$7.97).

Redeemable Preferred Shares**Authorized**

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

Holders of Preferred shares were entitled to receive fixed, cumulative, preferential quarterly cash distributions of \$0.13625 per share. The Preferred shares rank in priority to the Class A shares with respect to the payment of distributions and the repayment of capital on the dissolution, liquidation, or winding-up of the Fund. Each Preferred share is entitled to one vote on certain shareholder matters.

The current outstanding Preferred shares, with a 5-year term, has a maturity date of October 30, 2023. 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 ("Annual Retraction 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 Annual Retraction Date.

Issued

	2020	2019
	Number	Number
	of Shares	of Shares
Redeemable Preferred shares, outstanding at January 1	27,296,158	25,887,658
Issuance of redeemable Preferred shares	-	1,408,600
Retraction of redeemable Preferred shares	(478,400)	(100)
Redeemable Preferred shares, outstanding at December 31	26,817,758	27,296,158

On April 4, 2019, the Fund issued 1,408,600 Preferred shares at a price of \$10 per share for gross proceeds of \$14,086,000.

During the year ended December 31, 2020, pursuant to the annual retraction option, 478,400 Preferred shares were purchased for cancellation (year ended December 31, 2019 – 100).

On December 31, 2020, the Preferred shares' closing market price was \$10.35 per share (December 31, 2019 – \$10.31).

5. CAPITAL MANAGEMENT

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

- i) to provide holders of Preferred shares with fixed, cumulative, preferential quarterly cash distributions and to return the original issue price to holders of the shares on the maturity date, the terms of which may be extended for a period of up to five years as determined by the Board of Directors or such other date if the term of the Fund is extended, and
- ii) to provide holders of Class A shares with regular monthly cash distributions targeted to be \$0.10 per share and the opportunity for growth in Net Asset Value per share.

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

6. DISTRIBUTIONS TO SHAREHOLDERS

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

For the year ended December 31, 2020, the Fund declared distributions of \$0.40 (year ended December 31, 2019 - \$1.20) per Class A share and recorded distributions of \$0.545 (year ended December 31, 2019 - \$0.545) per Preferred share, which amounted to \$10,822,783 (year ended December 31, 2019 - \$32,332,910) and \$14,811,224 (year ended December 31, 2019 - \$14,684,525), respectively.

On January 22, 2021, the Fund declared \$0.10 per Class A share in monthly distributions for record date January 29, 2021.

7. RELATED PARTY TRANSACTIONS

a) Management 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. Prior to 2020, the Fund also paid 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 was 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. Beginning January 1, 2020, the Fund has discontinued the service fee.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2020 and 2019

For the year ended December 31, 2020, the management fee amounted to \$2,728,877 (year ended December 31, 2019 - \$3,136,079), of which \$358 was prepaid as of December 31, 2020 (December 31, 2019 - \$48 prepaid). For the year ended December 31, 2019, the service fee amounted to \$812,665, with \$217,499 payable as of December 31, 2019. The Fund is responsible for the payment of all expenses relating to its operations and the carrying on of its business.

b) Independent Review Committee Fees

The total remuneration paid to members of the Independent Review Committee during the year ended December 31, 2020 was \$17,387 (year ended December 31, 2019 - \$18,283) and consisted only of fees. As at December 31, 2020 and 2019, there were no Independent Review Committee fees payable.

8. INVESTMENT TRANSACTIONS

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

	2020 \$	2019 \$
Proceeds from sale of investments and options	29,430,722	34,534,389
Less cost of investments and options sold:		
Investments and options at cost, beginning of year	367,347,560	369,142,607
Investments purchased and options written during the year	13,026,148	28,428,286
Investments and options at cost, end of year	(354,651,919)	(367,347,560)
Cost of investments sold and options written during the year	25,721,789	30,223,333
Net realized gain (loss) on sale of investments and options	3,708,933	4,311,056

There were no soft dollar commissions paid by the Fund for the years ended December 31, 2020 and 2019.

9. OPTION CONTRACTS

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

As at December 31, 2020:

Underlying Interest	Number of Contracts ¹	Expiration Date	Strike Price per Contract \$	Premium Received \$	Fair Value \$
Bank of Montreal	472	15-Jan-21	100.00	23,128	(12,272)
Bank of Nova Scotia	587	15-Jan-21	69.00	21,719	(14,088)
Manulife Financial Corp.	1,860	15-Jan-21	23.50	40,920	(14,880)
Royal Bank of Canada	412	15-Jan-21	107.00	23,484	(17,304)
				109,251	(58,544)

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2020 and 2019

As at December 31, 2019:

Underlying Interest	Number of Contracts ¹	Expiration Date	Strike Price per Contract \$	Premium Received \$	Fair Value \$
Bank of Montreal	708	21-Feb-20	104.00	46,020	(18,408)
iA Financial Corporation Inc.	910	17-Jan-20	72.00	30,940	(50,050)
				76,960	(68,458)

¹ Each contract was written for 100 shares of the underlying security.**10. SECURITIES LENDING**

The Fund has entered into a securities lending program with its custodian, CIBC Mellon Trust Company (and certain of its affiliates). The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or the United States Government or its agencies, or a permitted supranational agency as defined in National Instrument 81-102. The market values of the securities on loan and the related collateral at December 31, 2020 were \$17.1 million (December 31, 2019 – \$34.6 million) and \$18.0 million (December 31, 2019 – \$36.3 million), respectively.

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

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

	2020 \$	2019 \$
Gross securities lending income	35,247	27,239
Securities lending charges	(10,573)	(8,171)
Net securities lending income received by the Fund	24,674	19,068

During the year ended December 31, 2020, securities lending charges represented 30.0% (year ended December 31, 2019 – 30.0%) of the gross securities lending income.

11. FINANCIAL RISK MANAGEMENT

The Fund's investment activities expose it to a variety of financial risks. The Schedule of Investment Portfolio presents the securities held by the Fund as at December 31, 2020, and groups the securities by market segment. The following comparative summary represents the investment sectors held by the Fund as at December 31, 2019. Significant risks that are relevant to the Fund are discussed below.

As at	December 31, 2019
Investment Sector	% of Portfolio
Banks	58.4
Insurance	41.6
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.

a) Other Price Risk

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

The Fund is exposed to other price risk from its investment in equity securities and option contracts. As at December 31, 2020, 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 \$43.3 million or 24.9% (December 31, 2019 – approximately \$48.3 million or 22.3%). 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 \$44.5 million or 25.6% (December 31, 2019 – approximately \$49.3 million or 22.7%). In practice, the actual trading results may differ, and the difference could be material.

b) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund did not have significant credit risk exposure as at December 31, 2020 and 2019. The carrying amount of securities on loan, cash and income receivable represents the maximum credit risk exposure as they will be settled in the short term.

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

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

c) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to liquidity risk through its monthly and annual retractions of Class A shares and Preferred shares. For the monthly and annual retractions of Class A shares and Preferred shares, the Fund receives notice at least 10 business days prior to the retraction dates, which gives the Manager time to sell securities, although there may not be sufficient time to sell the securities at a reasonable price. All Class A shares and Preferred shares outstanding on October 30, 2023 are scheduled to be redeemed by the Fund on that date unless the term of the Fund is extended.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2020 and 2019

The tables below list the Fund's other financial liabilities into relevant maturity groupings based on the remaining period between the financial statement date and the contractual maturity date.

As at December 31, 2020:

	Less Than 3 Months \$	3 Months to 1 Year \$	Greater Than 1 Year \$	Total \$
Option contracts written, at fair value	58,544	-	-	58,544
Accounts payable and accrued liabilities	149,827	-	-	149,827
Distributions payable to shareholders	6,335,696	-	-	6,335,696
Total	6,544,067	-	-	6,544,067

As at December 31, 2019:

	Less Than 3 Months \$	3 Months to 1 Year \$	Greater Than 1 Year \$	Total \$
Option contracts written, at fair value	68,458	-	-	68,458
Accounts payable and accrued liabilities	377,673	-	-	377,673
Distributions payable to shareholders	6,448,718	-	-	6,448,718
Total	6,894,849	-	-	6,894,849

d) Currency Risk

Currency risk is the risk that financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. As at December 31, 2020 and 2019, the Fund had no exposure to currency risk.

e) Interest Rate Risk

Interest rate risk is the risk that the fair value of the Fund's interest bearing investments will fluctuate due to changes in market interest rates. Interest bearing investments are namely, bonds, money market investments, short-term investments, debentures and mortgages or other income-producing securities, whose value of these securities increases if interest rates fall and decreases if interest rates rise. As of December 31, 2020 and 2019, the Fund had no exposure to interest rate risk.

12. FAIR VALUE MEASUREMENT

The Fund's assets and liabilities recorded at fair value have been categorized within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

December 31, 2020 and 2019

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

Assets and liabilities at fair value as at December 31, 2020	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities	445,658,651	-	-	445,658,651
Option contracts written	(58,544)	-	-	(58,544)
Total	445,600,107	-	-	445,600,107

Assets and liabilities at fair value as at December 31, 2019	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Equities	493,727,826	-	-	493,727,826
Option contracts written	(68,458)	-	-	(68,458)
Total	493,659,368	-	-	493,659,368

The Preferred shares issued and outstanding as at December 31, 2020 had a retraction price per share of \$10.00 (December 31, 2019 – \$10.00) and a traded price per share of \$10.35 (December 31, 2019 – \$10.31).

There were no transfers of financial assets and liabilities between the levels during the years ended December 31, 2020 and 2019.

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 year ended December 31, 2020 was \$30,534,655 (year ended December 31, 2019 - gain of \$88,400,231).

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 loss from option contracts during the year ended December 31, 2020 was \$1,120,032 (year ended December 31, 2019 – loss of \$2,955,488).

13. SUBSEQUENT EVENT

On January 27, 2021, the Fund completed a treasury offering (the "Treasury Offering") of Class A shares and Preferred shares for aggregate gross proceeds of approximately \$54 million. Class A shares were offered at \$7.80 and Preferred shares were offered at a price of \$10.15 per share.

14. INCOME TAXES

As at December 31, 2020 and 2019, the Fund had no non-capital loss and capital loss carry-forwards for income tax purposes.

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