

**ANNUAL INFORMATION FORM**

**S SPLIT CORP.**

**Preferred Shares and Class A Shares**

**March 29, 2018**

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## **FORWARD-LOOKING STATEMENTS**

Certain statements in this annual information form are forward-looking statements, including those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “expect”, “intend” and similar expressions to the extent they relate to the Fund (as defined below) or Strathbridge (as defined below). Forward-looking statements are not historical facts but reflect the current expectations of the Fund and Strathbridge regarding future results or events. Such forward-looking statements reflect the Fund’s and Strathbridge’s current beliefs and are based on information currently available to them. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results or events to differ materially from current expectations. Some of these risks, uncertainties and other factors are described in this annual information form under the heading “Risk Factors”. Although the forward-looking statements contained in this annual information form are based upon assumptions that the Fund and Strathbridge believe to be reasonable, neither the Fund nor Strathbridge can assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained herein were prepared for the purpose of providing investors with information about the Fund and may not be appropriate for other purposes. Neither the Fund nor Strathbridge assumes any obligation to update or revise them to reflect new events or circumstances, except as required by law.

## THE FUND

S Split Corp. (the “Fund”) is a mutual fund corporation incorporated under the laws of the Province of Ontario on January 26, 2007.

The manager and investment manager of the Fund is Strathbridge Asset Management Inc. (formerly Mulvihill Capital Management Inc.) (“Strathbridge”, “Manager” or “Investment Manager”).

On May 11, 2007, the articles of incorporation of the Fund were amended to create the preferred shares (the “Preferred Shares”) and the class A shares (the “Class A Shares”) of the Fund. On May 17, 2007, the Fund completed its initial public offering of 4,500,000 Preferred Shares at a price of \$10.00 per Preferred Share and 4,500,000 Class A Shares at a price of \$15.00 per Class A Share. On May 31, 2007, the Fund completed an additional offering of 250,000 Preferred Shares at a price of \$10.00 per Preferred Share and 250,000 Class A Shares at a price of \$15.00 per Class A Share pursuant to the exercise of an over-allotment option granted to the Fund’s agents in connection with the Fund’s initial public offering.

On November 20, 2009, the Fund completed an offering of warrants to holders of its Class A Shares (“Class A Shareholders”). The Fund issued 3,818,100 warrants to subscribe for and purchase an aggregate of approximately 3,818,100 Units (as defined below). Each Class A Shareholder received one transferable warrant for each Class A Share held. Altogether 1,292,700 Class A Shares and 1,292,700 Preferred Shares were issued pursuant to the exercise of the warrants for gross proceeds of \$24.24 million.

On August 24, 2010, the Fund completed another warrant offering to holders of its Class A Shares. The Fund issued 3,923,580 warrants to purchase an aggregate of approximately 3,923,580 Units. Each Class A Shareholder received one transferable warrant for each Class A Share held. Altogether, 1,668,042 Class A Shares and 1,668,042 Preferred Shares were issued pursuant to the exercise of the warrants for gross proceeds of \$33.1 million.

On October 22, 2014, S Split Corp. announced that shareholders of the Fund had approved a proposal to extend the term of the Fund for seven years beyond its scheduled termination date of December 1, 2014, and for automatic successive seven year terms after November 30, 2021. As part of the extension of the term of the Fund, the Fund also made other changes, including:

- (i) providing a special redemption right to enable holders of Class A Shares and Preferred Shares to retract their shares on December 1, 2014 on the same terms that would have applied had the Fund redeemed all Class A Shares and Preferred Shares in accordance with the existing terms of such shares;
- (ii) providing that the annual redemption date shall be November 30 in each year, instead of June 30, commencing in November 2015;
- (iii) changing the monthly retraction prices for the Class A Shares and the Preferred Shares, such that monthly retraction prices are calculated by reference to market price in addition to net asset value; and
- (iv) allowing the Fund to consolidate the Class A Shares or redeem the Preferred Shares on a pro-rata basis, as the case may be, in order to maintain the same number of Class A Shares and Preferred Shares outstanding.

Pursuant to the special retraction right granted to shareholders in connection with the extension of the Fund, 255,199 Preferred Shares and 1,760,848 Class A Shares were surrendered for retraction. Shareholders received retraction payments of \$9.9141 per Class A Share and \$10.00 per Preferred Shares based on the terms under the special retraction right. In order to maintain an equal number of Preferred Shares and Class A Shares, the Fund redeemed 1,505,649 Preferred Shares on a pro-rata basis from all holders of record of Preferred Shares on December 5, 2014, representing approximately 51% of the issued and outstanding Preferred Shares. Each Preferred Share that was redeemed pursuant to the partial redemption was redeemed at a price equal to \$10.00, being the original issue price per Preferred Share.

On January 2, 2015, shareholders approved by special resolution change to the Fund's investment restrictions to enable the Fund to invest up to 10% of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest.

The outstanding Preferred Shares and Class A Shares are listed on the Toronto Stock Exchange ("TSX") under the symbols SBN.PR.A and SBN, respectively.

The principal offices of the Fund and of Strathbridge are located at 121 King Street West, Suite 2600, P.O. Box 113, Toronto, Ontario, M5H 3T9. The phone numbers, website address and e-mail address of Strathbridge are (416) 681-3900 (toll-free at 1-800-725-7172), [www.strathbridge.com](http://www.strathbridge.com) and [info@strathbridge.com](mailto:info@strathbridge.com).

## **INVESTMENT OBJECTIVES AND STRATEGY**

The Fund invests in a portfolio of common shares ("BNS Shares") of The Bank of Nova Scotia ("BNS"). The investment objectives for the Preferred Shares are: (a) to provide holders of Preferred Shares with fixed cumulative preferential monthly cash distributions in the amount of \$0.04375 per Preferred Share (\$0.525 per year) representing a yield on the issue price of the Preferred Shares of 5.25% per annum; and (b) to return the issue price of \$10.00 per Preferred Share to holders of Preferred Shares at the time of redemption of such shares on November 30, 2021 (the "Termination Date"). The investment objectives for the Class A Shares are: (a) to provide holders of Class A Shares with regular monthly cash distributions targeted to be 6.00% per annum on the net asset value ("NAV") of the Class A Shares; and (b) to provide holders of Class A Shares with the opportunity for leveraged growth in NAV and distributions per Class A Share.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting ("SSO"), to enhance the income generated by the portfolio and to reduce volatility. The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to continuously writing and rolling options every thirty days. This proprietary process has been developed by the Manager over many years through various market cycles. The Manager believes that in a flat or downward trending market, a portfolio that is subject to covered option writing will generally provide higher relative returns and lower volatility than one on which no options are written. However, in a rising market, the use of options may have the effect of limiting or reducing the total returns of the Fund since the premiums associated with writing covered options may be outweighed by the foregone opportunity of remaining fully invested in the securities comprising the portfolio. The composition of the portfolio, the number of BNS Shares that may be subject to call options and put options and the terms of such options will vary from time to time, based on Strathbridge's assessment of market conditions.

## **STATUS OF THE FUND**

While the Fund is technically considered to be a mutual fund under the securities legislation of certain provinces of Canada, the Fund is not a conventional mutual fund and has obtained exemptions from certain requirements of Canadian securities laws relating to mutual funds.

The Fund differs from conventional mutual funds in a number of respects, most notably as follows: (a) while the Preferred Shares and the Class A Shares of the Fund may be surrendered at any time for retraction, the retraction price is payable monthly whereas the securities of most conventional mutual funds are retractable daily; (b) the Preferred Shares and the Class A Shares of the Fund have a stock exchange listing whereas the securities of most conventional mutual funds do not; and (c) unlike most conventional mutual funds, the Preferred Shares and the Class A Shares are not offered on a continuous basis.

## **SHARE CAPITAL**

### **Issue of Preferred Shares, Class A Shares and Class J Shares**

The Fund is authorized to issue an unlimited number of Preferred Shares, an unlimited number of Class A Shares and an unlimited number of Class J Shares. The holders of Class J Shares are entitled to one vote per share.

## **Description of Units**

While the Preferred Shares and Class A Shares were offered separately they were issued on the basis that there would be one Class A Share outstanding for every Preferred Share outstanding (together notionally considered a “Unit”). The number of Units outstanding at any time will be equal to the sum of the number of Preferred Shares and Class A Shares outstanding divided by two.

## **Preferred Shares**

### ***Distributions***

Holders of Preferred Shares are entitled to receive fixed cumulative preferential monthly cash distributions of \$0.04375 per share to yield 5.25% per annum on the issue price of \$10.00 per Preferred Share.

Distributions are payable to holders of Preferred Shares of record at 5:00 p.m. (EST) on the last day of each month. As registrations of interests in the Preferred Shares will be made through the book-entry only system, the Fund will, prior to March 31 of each year, provide CDS Clearing and Depository Services Inc. (“CDS”) with the information necessary to enable holders to complete an income tax return with respect to amounts paid or payable by the Fund to such holders in the preceding calendar year. Each holder will in turn receive such information from the holder’s applicable CDS Participant (as defined below).

### ***Redemptions***

All Preferred Shares outstanding on the Termination Date will be redeemed by the Fund on that date. The redemption price payable by the Fund for each Preferred Share outstanding on that date will be equal to the lesser of (a) \$10.00 plus any accrued and unpaid dividends and (b) the NAV of the Fund on that date divided by the number of Preferred Shares then outstanding.

Notice of redemption will be given to participants in the CDS book-based system (“CDS Participants”) holding Preferred Shares on behalf of the beneficial owners thereof at least 30 days prior to the Termination Date.

### ***Retraction Privileges***

Preferred Shares may be surrendered at any time for retraction to Computershare Investor Services Inc., the Fund’s registrar and transfer agent, but will be retracted only on a monthly Valuation Date (as defined below). Preferred Shares surrendered for retraction by a holder of Preferred Shares at least 10 business days prior to the last day of a month (a “Valuation Date”) will be retracted on such Valuation Date and the shareholder will receive payment on or before the fifteenth business day of the following month (the “Retraction Payment Date”).

Except as noted below, holders of Preferred Shares whose shares are surrendered for retraction will be entitled to receive a retraction price per Preferred Share (the “Preferred Share Retraction Price”) equal to 95% of the lesser of (a) the NAV per Unit determined as of the relevant Valuation Date less the cost to the Fund of the purchase of a Class A Share in the market for cancellation; (b) the Unit Market Price (as defined below) less the cost to the Fund of purchasing a Class A Share in the market for cancellation; and (c) \$10.00. The cost of the purchase of a Class A Share will include the purchase price of the Class A Share, commission and such other costs, if any, related to the liquidation of any portion of the Fund’s portfolio required to fund such purchase. Any declared and unpaid distributions payable on or before a Valuation Date in respect of the Preferred Shares tendered for retraction on such Valuation Date will also be paid on the Retraction Payment Date.

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

The “Class A Market Price” means the weighted average trading price of the Class A Shares on the principal stock exchange on which the Class A Shares are listed (or, if the Class A Shares are not listed on any stock exchange, on the principal market on which the Class A Shares are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date.

The “Preferred Market Price” means the weighted average trading price of the Preferred Shares on the principal stock exchange on which the Preferred Shares are listed (or, if the Preferred Shares are not listed on any stock

exchange, on the principal market on which the Preferred Shares are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date.

Holders of Preferred Shares also have an annual retraction right under which they may concurrently retract an equal number of Preferred Shares and Class A Shares on the November Valuation Date of each year (the “Annual Valuation Date”). The price paid by the Fund for such a concurrent retraction will be equal to the NAV 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 Fund’s portfolio required to fund such retraction.

The Fund may but is not obligated to require the Recirculation Agent (as defined below) to use commercially reasonable efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement (as defined below). In such event, the amount to be paid to the holder of Preferred Shares on the Retraction Payment Date will be an amount equal to the proceeds of the sale of the Preferred Shares less any applicable commission. Such amount will not be less than the Preferred Share Retraction Price described above.

The retraction right must be exercised by providing written notice within the notice periods prescribed and in the manner described under “Book-Entry Only System” below. Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Preferred Shares not paid for by the Fund on the relevant Retraction Payment Date.

If any Preferred Shares are tendered for retraction and are not resold in the manner described below under “Resale of Preferred Shares Tendered for Retraction”, the Fund has directed the Recirculation Agent to purchase for cancellation on behalf of the Fund that number of Class A Shares that equals the number of Preferred Shares so retracted. Any Class A Shares so purchased for cancellation will be purchased in the market.

#### ***Resale of Preferred Shares Tendered for Retraction***

The Fund entered into an agreement (the “Recirculation Agreement”) with RBC Dominion Securities Inc. (the “Recirculation Agent”) dated May 17, 2007 whereby the Recirculation Agent will use commercially reasonable efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Valuation Date. The Fund may, but is not obligated to, require the Recirculation Agent to seek such purchasers and, in such event, the amount to be paid to the holder of Preferred Shares on the applicable Retraction Payment Date will be an amount equal to the proceeds of the sale of the Preferred Shares less any applicable commission, provided that such amount will not be less than the retraction price that would otherwise be payable to a holder.

Subject to the Fund’s right to require the Recirculation Agent to use commercially reasonable efforts to find purchasers for any Preferred Shares tendered for retraction prior to the relevant Valuation Date, any and all Preferred Shares that have been surrendered to the Fund for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Valuation Date, unless not retracted, in which event such Preferred Shares will remain outstanding.

#### ***Priority***

The Preferred Shares rank in priority to the Class A Shares and 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.

#### **Class A Shares**

##### ***Distributions***

One of the Fund’s investment objectives is to provide holders of Class A Shares with regular monthly cash distributions targeted to be 6.00% per annum on the NAV of the Class A Shares. The Fund determined to base the distributions it intends to pay on the NAV of the Class A Shares to better facilitate the preservation and enhancement of the Fund’s NAV and to enable holders of Class A Shares to benefit from any increases in the NAV of the Fund through the resulting increased distributions. The monthly distributions will be determined using the last NAV prior to the declaration date for the distribution.



The Fund also intends to pay annual distributions to the holders of Class A Shares in an amount equal to all net realized capital gains, dividends and option premiums (other than option premiums in respect of options outstanding at year-end) earned by the Fund in such year (net of expenses, taxes and loss carry-forwards) that are in excess of the distributions paid to the holders of Preferred Shares. Accordingly, if any amounts remain available for the payment of distributions after payment of distributions on the Preferred Shares and the regular monthly distributions on the Class A Shares, a special year-end distribution of such amount, payable in cash and/or Class A Shares, will be payable to holders of Class A Shares of record on the last day of December in each year. Any such special year-end distribution payable in Class A Shares will increase the aggregate adjusted cost base of Class A Shares to holders of such shares. Immediately following payment of such a distribution in Class A Shares, the number of Class A Shares outstanding will be automatically consolidated such that the number of Class A Shares outstanding after such distribution will be equal to the number of Class A Shares outstanding immediately prior to such distribution.

There can be no assurance that the Fund will be able to make distributions at its targeted rate. No distributions will be paid on the Class A Shares if the distributions payable on the Preferred Shares are in arrears or if the NAV per Unit is equal to or less than \$16.50. Additionally, it is currently intended that no special year-end distributions will be paid if after such payment the NAV per Unit would be less than \$25.00, unless the Fund would need to make such distributions so as to fully recover refundable taxes.

The amount of distributions in any particular month will be determined by Strathbridge, as Manager, having regard to the investment objectives of the Fund, the net income and net realized capital gains of the Fund during the month and in the year to date, the net income and net realized capital gains of the Fund anticipated in the balance of the year and distributions made in previous months.

Distributions paid on the Class A Shares may consist of ordinary dividends, capital gains dividends and non-taxable returns of capital.

Distributions will be payable to holders of Class A Shares of record at 5:00 p.m. (EST) on the record date, which will generally be on the fifteenth day before the last day of each month. As registrations of interests in the Class A Shares will be made through the book-entry only system, the Fund will, prior to March 31 of each year, provide CDS with the information necessary to enable holders to complete an income tax return with respect to amounts paid or payable by the Fund to such holders in the preceding calendar year. Each holder will in turn receive such information from the holder's applicable CDS Participant.

### ***Redemptions***

All Class A Shares outstanding on the Termination Date will be redeemed by the Fund on that date. The redemption price payable by the Fund for each Class A Share outstanding on that date will be equal to the greater of (a) the NAV per Unit on that date minus the sum of \$10.00 plus any accrued and unpaid dividends on a Preferred Share and (b) nil. "NAV per Unit" for this purpose means the NAV of the Fund divided by one half of the aggregate number of Class A Shares and Preferred Shares then outstanding.

Notice of redemption will be given to CDS Participants holding Class A Shares on behalf of the beneficial owners thereof at least 30 days prior to the Termination Date.

### ***Retraction Privileges***

Class A Shares may be surrendered at any time for retraction to Computershare Investor Services Inc., but will be retracted only on a monthly Valuation Date. Class A Shares surrendered for retraction by a holder of Class A Shares at least 10 business days prior to a Valuation Date will be retracted on such Valuation Date and the shareholder will be paid on or before the Retraction Payment Date.

Except as noted below, holders of Class A Shares whose shares are surrendered for retraction will be entitled to receive a retraction price per Class A Share (the "Class A Share Retraction Price") equal to 95% of the lesser of (a) the difference between (i) the NAV per Unit determined as of the relevant Valuation Date and (ii) the cost to the Fund of purchasing a Preferred Share in the market for cancellation; and (b) the difference between (i) the Unit Market Price and (ii) the cost to the Fund of purchasing a Preferred Share in the market for cancellation. The cost of the purchase of a Preferred Share will include the purchase price of the Preferred Share, commission and such other

costs, if any, related to the liquidation of any portion of the Fund's portfolio required to fund such purchase. If the NAV per Unit is less than \$10.00, the Class A Share Retraction Price will be nil. Any declared and unpaid distributions payable on or before a Valuation Date in respect of the Class A Shares tendered for retraction on such Valuation Date will also be paid on the Retraction Payment Date.

Holders of Class A Shares also have an annual retraction right under which they may concurrently retract an equal number of Class A Shares and Preferred Shares on the Annual Valuation Date. The price paid by the Fund for such a concurrent retraction will be equal to the NAV 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 Fund's portfolio required to fund such retraction.

The Fund may but is not obligated to require the Recirculation Agent to use commercially reasonable efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Retraction Payment Date pursuant to the Recirculation Agreement. In such event, the amount to be paid to the holder of Class A Shares on the Retraction Payment Date will be an amount equal to the proceeds of the sale of the Class A Shares less any applicable commission. Such amount will not be less than the Class A Share Retraction Price described above.

The retraction right must be exercised by providing written notice within the notice periods prescribed and in the manner described under "Book-Entry Only System" below. Such surrender will be irrevocable upon the delivery of notice to CDS through a CDS Participant, except with respect to those Class A Shares that are not paid for by the Fund on the relevant Retraction Payment Date.

If any Class A Shares are tendered for retraction and are not resold in the manner described below under "Resale of Class A Shares Tendered for Retraction", the Fund has directed the Recirculation Agent to purchase for cancellation on behalf of the Fund that number of Preferred Shares that equals the number of Class A Shares so retracted. Any Preferred Shares so purchased for cancellation will be purchased in the market.

#### ***Resale of Class A Shares Tendered for Retraction***

Pursuant to the terms of the Recirculation Agreement, the Recirculation Agent will use commercially reasonable efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Valuation Date. The Fund may, but is not obligated to, require the Recirculation Agent to seek such purchasers and, in such event, the amount to be paid to the holder of Class A Shares on the applicable Retraction Payment Date will be an amount equal to the proceeds of the sale of the Class A Shares less any applicable commission, provided that such amount will not be less than the retraction price that would otherwise be payable to a holder.

Subject to the Fund's right to require the Recirculation Agent to use commercially reasonable efforts to find purchasers for any Class A Shares tendered for retraction prior to the relevant Valuation Date, any and all Class A Shares that have been surrendered to the Fund for retraction are deemed to be outstanding until (but not after) the close of business on the relevant Valuation Date, unless not retracted thereon, in which event such Class A Shares will remain outstanding.

#### ***Priority***

The Class A Shares rank subordinate 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.

#### **Suspension of Retractions or Redemptions**

The Fund may suspend the redemption or retraction of the Preferred Shares or the Class A Shares or the payment of redemption or retraction proceeds: (a) during any period when normal trading is suspended on the TSX or New York Stock Exchange; or (b) with the prior permission of the Ontario Securities Commission, for any period not exceeding 120 days during which Strathbridge determines that conditions exist that render impractical the sale of assets of the Fund or that impair the ability of the Fund to determine the value of the assets of the Fund. The suspension may apply to all requests for retraction received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All holders of Preferred Shares or Class A Shares making such requests shall be advised by Strathbridge of the suspension and that the retraction will

be effected at a price determined on the first applicable Valuation Date following the termination of the suspension. All such shareholders shall have and shall be advised that they have the right to withdraw their requests for retraction. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by Strathbridge shall be conclusive.

### **Purchase for Cancellation**

Subject to applicable law, the Fund may at any time or times purchase Preferred Shares and Class A Shares for cancellation at prices per Unit not exceeding the NAV per Unit on the applicable Valuation Date immediately prior to such purchase.

### **Class J Shares**

The holders of Class J Shares are not entitled to receive distributions. The holders of Class J Shares are entitled to one vote per share. The Class J Shares are redeemable and retractable at a price of \$1.00 per share. The Class J Shares rank subordinate to both the Preferred Shares and the Class A Shares with respect to distributions on the dissolution, liquidation or winding up of the Fund.

A trust established for the benefit of the holders from time to time of the Preferred Shares and the Class A Shares is the owner of record of all of the issued and outstanding Class J Shares. The Class J Shares have been escrowed with Computershare Trust Company of Canada pursuant to an escrow agreement dated May 17, 2007.

### **Book-Entry Only System**

Registration of interests in and transfers of the Preferred Shares and the Class A Shares are made only through a book-entry only system administered by CDS. Preferred Shares and Class A Shares must be purchased, transferred and surrendered for retraction or redemption through a CDS Participant. All rights of an owner of Preferred Shares or Class A Shares must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by CDS or the CDS Participant through which the owner holds such Preferred Shares or Class A Shares. Upon purchase of any Preferred Shares or Class A Shares, the owner will receive only the customary confirmation. References in this annual information form to a holder of Preferred Shares or Class A Shares means, unless the context otherwise requires, the owner of the beneficial interest in such shares.

The ability of a beneficial owner of Preferred Shares or Class A Shares to pledge such shares or otherwise take action with respect to such owner's interest in such shares (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

An owner of Preferred Shares or Class A Shares who wishes to exercise retraction privileges must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the owner a written notice of the owner's intention to retract shares, no later than 5:00 p.m. (EST) on the relevant notice date. An owner who wishes to retract Preferred Shares or Class A Shares should ensure that the CDS Participant is provided with notice (the "Retraction Notice") of the owner's intention to exercise the owner's retraction privilege sufficiently in advance of the relevant notice date to permit the CDS Participant to deliver notice to CDS by the required time. The Retraction Notice will be available from a CDS Participant or Computershare Investor Services Inc. Any expense associated with the preparation and delivery of Retraction Notices will be borne by the owner exercising the retraction privilege.

By causing a CDS Participant to deliver to CDS a notice of the owner's intention to retract Preferred Shares or Class A Shares, an owner shall be deemed to have irrevocably surrendered such Preferred Shares or Class A Shares for retraction and appointed such CDS Participant to act as the owner's exclusive settlement agent with respect to the exercise of the retraction privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any Retraction Notice that CDS determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect and the retraction privilege to which it relates shall be considered for all purposes

not to have been exercised. A failure by a CDS Participant to exercise retraction privileges or to give effect to the settlement thereof in accordance with the owner's instructions will not give rise to any obligations or liability on the part of the Fund to the CDS Participant or to the owner.

The Fund has the option to terminate registration of the Preferred Shares or the Class A Shares through the book-entry only system in which case certificates for the Preferred Shares or the Class A Shares in fully registered form would be issued to beneficial owners of such shares or to their nominees.

## **SHAREHOLDER MATTERS**

### **Meetings of Shareholders**

Except as required by law or set out below, holders of Preferred Shares and Class A Shares will not be entitled to receive notice of, to attend or to vote at any meeting of shareholders of the Fund.

### **Acts Requiring Shareholder Approval**

The following matters require the approval of holders of Preferred Shares and Class A Shares by a two-thirds majority vote (other than items (c) which require approval by a simple majority vote) at a meeting called and held for such purpose:

- (a) a change in the fundamental investment objectives and strategy of the Fund as described under "Investment Objectives and Strategy";
- (b) a change in the investment criteria of the Fund as described under "Investment Restrictions";
- (c) any introduction of, or change in the basis of calculating fees or other expenses that are charged to the Fund that could result in an increase in charges to the Fund;
- (d) a change of the manager of the Fund, other than a change resulting in an affiliate of such person assuming such position or a change in the investment manager of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (e) a termination of the Investment Management Agreement (except as described under "Investment Management Agreement") or of the Management Agreement;
- (f) a decrease in the frequency of calculating the NAV per Unit or of retracting Preferred Shares or Class A Shares;
- (g) certain material reorganizations with, or transfer of assets to or from another investment fund or a reorganization that results in the Fund no longer being an investment fund;
- (h) a change of the Termination Date to a later date; and
- (i) an amendment, modification or variation in the provisions or rights attaching to the Preferred Shares, Class A Shares or Class J Shares.

The auditors of the Fund may be changed without the prior approval of holders of Preferred Shares and Class A Shares provided that the independent review committee of the Fund approves the change and holders of Preferred Shares and Class A Shares are sent a written notice at least 60 days before the effective date of the change.

Each Preferred Share and each Class A Share will have one vote at such a meeting. Ten percent of the outstanding Preferred Shares and Class A Shares, respectively, represented in person or by proxy at the meeting will constitute a quorum. If no quorum is present, the holders of Preferred Shares and Class A Shares then present will constitute a quorum at an adjourned meeting.

## Reporting to Shareholders

The Fund will provide annual and semi-annual financial statements of the Fund to shareholders in accordance with applicable laws.

## INVESTMENT RESTRICTIONS

The Fund is subject to certain investment criteria that, among other things, limit the securities the Fund may acquire to comprise its portfolio. The Fund's investment criteria may not be changed without the approval of the holders of Preferred Shares and Class A Shares by a two-thirds majority vote of such holders who attend and vote at a meeting called for such purpose. The Fund's investment criteria provide that the Fund may:

- (a) purchase equity securities only if such securities are BNS Shares;
- (b) purchase and hold cash equivalents;
- (c) write a call option in respect of a BNS Share only if such BNS Share is actually held by the Fund at the time the option is written;
- (d) not dispose of any BNS Share that is subject to a call option written by the Fund unless such option has either terminated or expired;
- (e) write put options in respect of any BNS Shares only if, so long as the options are exercisable, the Fund continues to hold cash equivalents sufficient to acquire the securities underlying the options at the aggregate strike price of such options;
- (f) reduce the total amount of cash equivalents held by the Fund only if the total amount of cash equivalents held by the Fund remains an amount not less than the aggregate strike price of all outstanding put options written by the Fund;
- (g) invest up to 10% of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest;
- (h) purchase put options on BNS Shares and purchase put options and call options with the effect of closing out existing call options and put options written by the Fund;
- (i) purchase derivatives and enter into derivative or other transactions, including call options and put options, and short-sale arrangements only as specifically permitted under National Instrument 81-102 – *Investment Funds* ("NI 81-102") or as permitted by the Canadian Securities Administrators;
- (j) not make any investment or conduct any activity that would result in the Fund failing to qualify as a "mutual fund corporation" within the meaning of the *Income Tax Act* (Canada) (the "Tax Act"); and
- (k) not enter into any arrangement (including the acquisition of securities for the Fund's portfolio and the writing of covered call options in respect thereof) where the result is a dividend rental arrangement for the purposes of the Tax Act.

In addition, as a mutual fund, the Fund is subject to certain restrictions and practices contained in securities legislation, including NI 81-102, which are designed in part to ensure the investments of the Fund are relatively liquid and to ensure the proper administration of the Fund. A copy of such standard investment restrictions and practices will be provided by Strathbridge to any person on request.

The Fund has obtained an exemption from certain of the provisions of NI 81-102 including:

- (a) Section 2.1(1) – to permit the Fund to invest all of its net assets in the BNS Shares, provided that the Fund does not become an insider of BNS as a result of such investment;

- (b) Section 10.3 – to permit the Fund to calculate the retraction price for the Preferred Shares and the Class A Shares in the manner described in this annual information form and on the applicable Valuation Date;
- (c) Section 10.4(1) – to permit the Fund to pay the retraction price for the Preferred Shares and the Class A Shares on the Retraction Payment Date;
- (d) Subsection 12.1(1) – to relieve the Fund from the requirement to file the prescribed compliance reports; and
- (e) Section 14.1 – to relieve the Fund from the requirement relating to the record date for the payment of distributions of the Fund, provided that it complies with the applicable requirements of the TSX.

### **Use of Other Derivative Instruments**

The Fund may purchase put options on individual securities in the Fund’s portfolio or indexed put options in order to protect the Fund from declines in the market prices of the individual securities in the Fund’s portfolio or in the value of the Fund’s portfolio as a whole. The Fund may also invest up to 10% of its net assets to purchase call options in respect of securities in which the Fund is permitted to invest. The Fund may enter into trades to close out positions in such permitted derivatives. In addition to writing covered call options and cash covered put options, and to the extent permitted by Canadian securities regulators, from time to time, the Fund may purchase call options and put options with the effect of closing out existing call options and put options written by the Fund.

### **CALCULATION OF NET ASSET VALUE AND NET ASSET VALUE PER UNIT**

The NAV of the Fund on a particular date will be equal to (a) the aggregate value of the assets of the Fund, less (b) the aggregate value of the liabilities of the Fund, including any distributions declared and not paid that are payable to shareholders on or before such date, less (c) the stated capital of the Class J Shares (\$100). For greater certainty, the Preferred Shares will not be treated as liabilities for these purposes. The “NAV per Unit” on any day is obtained by dividing the NAV of the Fund on such day by the number of Units outstanding on that day.

The NAV per Unit and the NAV per Class A Share will be calculated once each week at the close of business. In the last week of the month, the NAV per Unit will be calculated on the last business day of the month at the close of business. Such information will be provided by Strathbridge to the public on request and will also be available on Strathbridge’s website at [www.strathbridge.com](http://www.strathbridge.com).

### **Valuation Policies and Procedures**

In determining the NAV of the Fund at any time:

- (a) the value of any security that is listed on any recognized exchange shall be determined by the closing sale price at the valuation time or, if there is no closing sale price, the average between the closing bid and the closing asked price on the day on which the NAV is being determined, all as reported by any report in common use or authorized as official by a recognized stock exchange; provided that if such stock exchange is not open for trading on that date, then on the last previous date on which such stock exchange was open for trading;
- (b) where a covered clearing corporation option or over-the-counter option is written, the premium received by the Fund shall be reflected as a deferred credit that shall be valued at an amount equal to the current market value of the clearing corporation option or over-the-counter option that would have the effect of closing the position. Any difference resulting from revaluation of such options shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the NAV. The securities, if any, which are the subject of a written clearing corporation option, or over-the-counter option shall be valued at their then current market value;
- (c) purchased or written clearing corporation options, over-the-counter options, debt-like securities and listed warrants shall be valued at the current market value thereof;

- (d) the value of any cash on hand, on deposit or on call, prepaid expenses, cash dividends declared and interest accrued and not yet received, shall be deemed to be the face amount thereof, unless the Fund determines that any such deposit or call loan is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Fund determines to be the reasonable value thereof;
- (e) the value of any bonds, debentures, and other debt obligations shall be valued by taking the average of the bid and ask prices on the valuation date at such times as the Fund, in its discretion, deems appropriate. Short-term investments including notes and money market instruments shall be valued at cost plus accrued interest;
- (f) the value of any security, the resale of which is restricted or limited, shall be the lesser of the value thereof based on reported quotations in common use and that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Fund's acquisition cost was of the market value of such securities at the time of acquisition; provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restriction will be lifted is known;
- (g) all expenses or liabilities (including fees payable to the Fund) of the Fund shall be calculated on an accrual basis; and
- (h) the value of any security or property to which, in the opinion of the Fund, the above valuation principles cannot be applied shall be the fair value thereof determined in such manner as the Fund from time to time provides.

The above principles are used to calculate NAV for all purposes other than financial statement reporting. With respect to financial reporting, International Financial Reporting Standards requires that portfolio securities in an active market be valued based on a price within the bid-ask spread. The Fund uses the last traded market price (closing sale price) for both financial assets and financial liabilities where the last traded price falls within the day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

## **RESPONSIBILITY FOR OPERATIONS**

### **The Manager**

Strathbridge was incorporated in 1984 by The Canada Trust Company under the name CT Investment Counsel Inc. ("CTIC") to manage the institutional pension fund business of The Canada Trust Company. In 1985, The Canada Trust Company and The Canada Permanent Trust Company amalgamated resulting in all of the pension assets managed by The Canada Permanent Trust Company being transferred to CTIC management. In addition, the investment professionals of The Canada Permanent Trust Company joined the CTIC team.

In February 1995, John P. Mulvihill purchased 100% of CTIC from The Canada Trust Company and changed CTIC's name to Mulvihill Capital Management Inc. Strathbridge became the manager of the Fund on September 1, 2010 as successor by amalgamation with Mulvihill Fund Services Inc. Subsequently, on October 3, 2011, Mulvihill Capital Management Inc. announced a name change to Strathbridge.

Strathbridge is the Manager of the Fund and, as such, is responsible for providing or arranging for the provision of required administrative services to the Fund including: authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements and financial and accounting information as required by the Fund; ensuring that the Fund's shareholders are provided with annual and semi-annual financial statements and other reports as are required by applicable law from time to time; ensuring that the Fund complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Fund's reports to shareholders and the Canadian securities regulatory authorities; providing the Custodian (as defined below) with information and reports necessary for it to fulfil its fiduciary responsibilities; determining the amount of distributions to be made by the Fund; and negotiating contractual agreements with third-party providers of services, including registrars, transfer agents, auditors and printers.

Strathbridge shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of holders of Preferred Shares and Class A Shares, and, shall exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

Strathbridge may resign as Manager of the Fund upon 60 days' notice to shareholders and the Fund. If Strathbridge resigns it may appoint its successor but, unless its successor is an affiliate of Strathbridge, its successor must be approved by shareholders. If Strathbridge has committed certain events of bankruptcy or insolvency or is in material default of its obligations under the Management Agreement and such default has not been cured within 30 days after notice of the same has been given to Strathbridge, the Fund shall give notice thereof to shareholders and the shareholders may remove Strathbridge and appoint a successor manager of the Fund.

Strathbridge is entitled to fees for its services as Manager under the Management Agreement and will be reimbursed for all reasonable costs and expenses incurred by it on behalf of the Fund. In addition, Strathbridge and each of its directors, officers, employees and agents will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against Strathbridge or any of its officers, directors, employees or agents in the exercise of its duties as manager, except those resulting from Strathbridge's wilful misconduct, bad faith, negligence or breach of its obligations under the Management Agreement.

The management services of Strathbridge under the Management Agreement are not exclusive and nothing in the Management Agreement prevents Strathbridge from providing similar management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities.

#### **Directors and Officers of the Manager**

The name and municipality of residence and principal occupation of each of the directors and officers of Strathbridge are as follows:

<i><b>Name and Municipality of Residence</b></i>	<i><b>Principal Occupation</b></i>
John P. Mulvihill Toronto, Ontario	Chairman, President, Chief Executive Officer, Secretary and Director
John D. Germain Toronto, Ontario	Senior Vice-President, Chief Financial Officer and Director
John P. Mulvihill Jr. Toronto, Ontario	Vice-President – Portfolio Manager and Director
Peggy Shiu Toronto, Ontario	Vice-President – Portfolio Manager and Chief Compliance Officer
Jack Way Toronto, Ontario	Vice-President – Portfolio Manager
Jeff Dobson Milton, Ontario	Vice-President – Portfolio Manager

Each of the officers and directors listed above has held their position with Strathbridge or an affiliate during the five years preceding the date hereof.

#### **The Investment Manager**

Strathbridge manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an investment management agreement (the "Investment Management Agreement") entered into between the Fund and Strathbridge on April 26, 2007.



All the individuals on the team responsible for investment management at Strathbridge have significant experience in managing investment portfolios. The officers of Strathbridge who are primarily responsible for the management of the Fund's portfolio are John P. Mulvihill and John D. Germain. Also assisting in the management of the portfolio are John Mulvihill Jr., Jeff Dobson, Peggy Shiu, Jack Way and Jeff Thompson.

**John P. Mulvihill**, Chairman, President, Chief Executive Officer, Secretary and Director of Strathbridge, is the senior portfolio manager of Strathbridge and has over 35 years of investment management experience. Prior to purchasing CTIC from The Canada Trust Company in 1995, Mr. Mulvihill had been Chairman of CTIC since 1988. At CTIC he had primary responsibility for the asset allocation and portfolio management of CTIC's pension and mutual fund assets.

**John D. Germain**, Senior Vice-President, Chief Financial Officer and Director of Strathbridge, has been with Strathbridge since March 1997. Prior to joining Strathbridge, he had been employed at Merrill Lynch Canada Inc. since 1992. For the last two years of his employment at Merrill Lynch Canada Inc., he was a member of the Fixed Income Trading Group.

**John P. Mulvihill Jr.**, Vice-President and Director of Strathbridge, has been with Strathbridge since April 2008 working with the portfolio management group specializing in metals and mining companies.

**Jeff Dobson**, Vice-President, joined Strathbridge in April 2001 after nearly 16 years at Scotia Capital. He brings extensive experience in portfolio management, especially in the use of equity options. His most recent position prior to joining Strathbridge involved managing a portfolio comprised of equity options, their underlying stocks, as well as equity index derivatives.

**Peggy Shiu**, Vice-President and Chief Compliance Officer, has been with Strathbridge since April 1995. She is a member of the investment management team and has extensive experience in the Canadian, U.S. and ADR equity markets.

**Jack Way**, Vice-President, has been with Strathbridge since August 1998 and brings an extensive background in asset management with over 25 years of experience as an investment manager during which he spent considerable time working in the U.S. market.

**Jeff Thompson**, Portfolio Manager, has been with Strathbridge since 1990 primarily working in the fixed income group. Since 2008, he has worked extensively on trading equity options and foreign currency hedging.

### ***Investment Management Agreement***

The services provided by Strathbridge pursuant to the Investment Management Agreement include making all investment decisions for the portfolio and the writing, purchase and sale of all option contracts in accordance with the investment objectives, strategy and restrictions of the Fund. Decisions as to the purchase and sale of securities and as to the execution of all portfolio and other transactions will be made by Strathbridge. In the purchase and sale of securities for the Fund and the trading of option contracts, Strathbridge will seek to obtain overall services and prompt execution of orders on favourable terms.

Under the Investment Management Agreement, Strathbridge is required to act at all times on a basis that is fair and reasonable to the Fund, to act honestly and in good faith with a view to the best interests of the shareholders of the Fund and to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment Management Agreement provides that Strathbridge shall not be liable in any way for any default, failure or defect in any of the securities of the Fund, nor shall it be liable if it has satisfied the duties and standard of care, diligence and skill set forth above. Strathbridge will, however, incur liability in cases of wilful misfeasance, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

The Investment Management Agreement, unless terminated as described below, will continue in effect until the Termination Date. The Fund may terminate the Investment Management Agreement only if Strathbridge has

committed certain events of bankruptcy or insolvency or is in material breach or default of the provisions thereof and such breach has not been cured within 30 days after notice thereof has been given to Strathbridge by the Fund.

Except as set out below, Strathbridge, as Manager, may not terminate the Investment Management Agreement or assign the same except to an affiliate of Strathbridge, as Investment Manager, without the approval of the shareholders of the Fund. Strathbridge may terminate the Investment Management Agreement if the Fund is in material breach or default of the provisions thereof and such breach or default has not been cured within 30 days of notice of the same to the Fund or if there is a material change in the fundamental investment objectives, strategy or criteria of the Fund.

If the Investment Management Agreement is terminated, Strathbridge will promptly appoint a successor investment manager to carry out the activities of Strathbridge until a meeting of the Fund's shareholders is held to confirm such appointment.

Strathbridge is entitled to fees for its services as Investment Manager under the Investment Management Agreement and will be reimbursed for all reasonable costs and expenses incurred by Strathbridge on behalf of the Fund. In addition, Strathbridge and each of its directors, officers, employees and agents will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against Strathbridge or any of its officers, directors, employees or agents in the exercise of its duties as investment manager, except those resulting from Strathbridge's wilful misconduct, bad faith, negligence or breach of its obligations under the Investment Management Agreement and provided the Fund has reasonable grounds to believe the action or inaction that gave rise to such claim was in the best interests of the Fund.

## **CONFLICTS OF INTEREST**

### **Principal Holders of Securities**

CDS & Co., the nominee of CDS, holds all Preferred Shares and Class A Shares as registered owner for various brokers and other persons on behalf of their clients and others. As of March 28, 2018, the Fund and the Manager are not aware of (a) any holders of Preferred Shares that beneficially own, directly or indirectly, more than 10% of the Preferred Shares of the Fund, or (b) any holders of Class A Shares that beneficially own, directly or indirectly, more than 10% of the outstanding Class A Shares of the Fund.

As of March 28, 2018, the directors and officers of the Manager beneficially owned, in aggregate, less than 10% of the outstanding Preferred Shares and Class A Shares of the Fund and the members of the IRC (as defined below) beneficially owned, in aggregate, less than 10% of the outstanding Preferred Shares and Class A Shares.

S Split Trust, a trust established for the benefit of the holders of the Preferred Shares and Class A Shares from time to time, owns 100% of the 100 issued and outstanding Class J Shares of the Fund. The Class J Shares are held in escrow by Computershare Trust Company of Canada pursuant to an escrow agreement dated May 17, 2007.

As of March 28, 2018, John P. Mulvihill owned of record and beneficially 95,073 shares (100%) of Mulvihill Capital Inc., which is the sole shareholder of Strathbridge.

## **FUND GOVERNANCE**

### **Independent Review Committee**

Under National Instrument 81-107 – *Independent Review Committee for Investment Funds* ("NI 81-107") all publicly offered investment funds, including the Fund, are required to establish an independent review committee ("IRC") to whom the manager of the fund must refer all conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the manager to establish written policies and procedures for dealing with conflict of interest matters, maintain records in respect of those matters and provide assistance to the IRC in carrying out its functions. The IRC is required to conduct regular assessments and provide reports to the manager and shareholders in respect of its activities.

The members of the IRC of the Fund are Michael M. Koerner, Robert W. Korthals and Robert G. Bertram. The aggregate compensation paid by the Fund to the members of the IRC for the year ended December 31, 2017 was \$7,500.

### Directors and Officers of the Fund

The following are the names, municipalities of residence, positions and principal occupations of the directors and officers of the Fund:

<i>Name and Municipality of Residence</i>	<i>Position with the Fund</i>	<i>Principal Occupation</i>
John P. Mulvihill Toronto, Ontario	Chairman, President, Chief Executive Officer, Secretary and Director	Chairman, President, Chief Executive Officer, Secretary and Director, Strathbridge
Michael M. Koerner <sup>(1)(2)</sup> Toronto, Ontario	Director, IRC Member	President, Canada Overseas Investments, Ltd. (private investment company)
Robert W. Korthals <sup>(1)(2)</sup> Toronto, Ontario	Director, IRC Member	Corporate Director
Robert G. Bertram <sup>(1)(2)</sup> Aurora, Ontario	Director, IRC Member	Corporate Director
John D. Germain Toronto, Ontario	Senior Vice-President, Chief Financial Officer and Director	Senior Vice-President, Chief Financial Officer and Director, Strathbridge

(1) Independent director.

(2) Member of the Audit Committee.

During the past five years all of the directors and officers have held the principal occupations noted opposite their respective names, or other occupations with their current employer or a predecessor company. The independent directors of the Fund are paid an annual fee of \$5,000 and a fee for each board meeting attended of \$300.

Each of the directors, other than Mr. Bertram and Mr. Germain, has served as a director of the Fund since its initial public offering. Mr. Bertram was elected a director on January 1, 2009. Mr. Germain was elected a director on September 1, 2010. Each of the directors has been elected to serve until the next annual meeting of shareholders or until his successor is appointed.

The Board of Directors of the Fund is responsible for the overall stewardship of the Fund's business and affairs. Strathbridge administers, either directly or indirectly through third-party service organizations, all functions associated with the operations of the Fund pursuant to the Management Agreement. Under this agreement, the Manager is responsible for certain day to day operations of the Fund including the payment of distributions on its shares and attending to the retraction or redemption of its shares in accordance with their terms.

The Board consists of five directors, three of whom are independent of the Fund. The Board believes that the number of directors is appropriate for the Fund and only directors independent of the Fund are compensated. Amounts paid as compensation are reviewed for adequacy to ensure that they realistically reflect the responsibilities and risk involved in being an effective director. Individual directors may engage an outside advisor at the expense of the Fund in appropriate circumstances subject to the approval of the Board.

To assist the Board in its monitoring of the Fund's financial reporting and disclosure, the Board has established a committee of the Board known as the Audit Committee. The Audit Committee consists of three members, all of whom are independent of the Fund. The responsibilities of the Audit Committee include, but are not limited to, review of the annual financial statements and the annual audit performed by the external auditor, oversight of management's reporting on internal control and oversight of the Fund's compliance with tax and securities laws and

regulations. The Audit Committee has direct communication channels with the external auditors of the Fund which it may use to discuss and review specific issues as appropriate.

The Board is responsible for developing the Fund's approach to governance issues and, together with the Investment Manager, has established a best practices governance procedure. The Fund maintains an Investor Relations line and website to respond to inquiries from shareholders.

Strathbridge has adopted policies, procedures and guidelines concerning the governance of the Fund and to ensure the proper management of the Fund. These policies, procedures and guidelines aim to monitor and manage the business, risks and internal conflicts of interest relating to the Fund, and to ensure compliance with regulatory and corporate requirements.

In addition, Strathbridge has an asset mix committee consisting of the following: John Mulvihill, John Germain, Jack Way, Peggy Shiu and John Mulvihill, Jr. The investment process for the Fund begins at the asset mix committee. Members of this committee meet monthly to examine macro-economic variables and relationships among dominant economic factors. This process culminates in an outlook for the various capital markets around the world and provides the fundamental basis for Strathbridge's long-term market outlook. These views are integrated into the investment decision making process at the portfolio management level. The asset mix committee of Strathbridge oversees investment decisions made by the portfolio managers of the Fund and reports to John P. Mulvihill.

The Fund may use derivatives as permitted by the policies of Canadian securities authorities and consistent with the investment objectives and restrictions of the Fund and with the investment policies set by the asset mix committee of Strathbridge. Policies, procedures and guidelines regarding investing in derivatives, including objectives and goals for derivatives trading and the risk management procedures applicable to such trading are reviewed by Strathbridge on a regular basis. If the Fund uses derivatives, it will hold enough assets to cover any obligations it has under the derivative contracts. The exposure of the Fund to derivatives is monitored daily by senior management.

Strathbridge also employs certain risk assessment tools including mark to market valuing of securities, reporting and monitoring of securities exposure and reconciliations of security transactions.

Because shareholders may only retract their Preferred Shares or Class A Shares on notice for payment not more frequently than monthly, they cannot engage in short-term trading of the Fund's securities with the Fund and the Fund has no policies and procedures in relation to such activities.

### **Proxy Voting Policy**

The Fund has adopted the following proxy guidelines (the "Proxy Guidelines") with respect to the voting of proxies received by it relating to voting securities held by the Fund. The Proxy Guidelines establish standing policies and procedures for dealing with routine matters, as well as the circumstances under which deviations may occur from such standing policies. A general description of certain such policies is outlined below.

(a) *Auditors*

The Fund will generally vote for proposals to ratify auditors except where non-audit-related fees paid to such auditors exceed audit-related fees.

(b) *Board of Directors*

The Fund will vote for nominees of management on a case-by-case basis, examining the following factors: independence of the board and key board committees, attendance at board meetings, corporate governance positions, takeover activity, long-term company performance, excessive executive compensation, responsiveness to shareholder proposals and any egregious board actions. The Fund will generally withhold votes from any nominee who is an insider and sits on the audit committee or the compensation committee. The Fund will also withhold support from those individual nominees who have attended fewer than 75% of the board meetings held within the past year without a valid excuse for these absences.

(c) *Compensation Plans*

The Fund will vote on matters dealing with share-based compensation plans on a case-by-case basis. The Fund will review share-based compensation plans with a primary focus on the transfer of shareholder wealth. The Fund will generally vote for compensation plans only where the cost is within the industry maximum except where (i) participation by outsiders is discretionary or excessive or the plan does not include reasonable limits on participation or (ii) the plan provides for option re-pricing without shareholder approval. The Fund will generally also vote against any proposals to re-price options, unless such re-pricing is part of a broader plan amendment that substantially improves the plan and provided that (i) a value-for-value exchange is proposed; (ii) the top five paid officers are excluded; and (iii) exercised options do not go back into the plan or the company commits to an annual burn rate cap.

(d) *Management Compensation*

The Fund will vote on employee stock purchase plans (“ESPPs”) on a case-by-case basis. The Fund will generally vote for broadly based ESPPs where all of the following apply: (i) there is a limit on employee contribution; (ii) the purchase price is at least 80% of fair market value; (iii) there is no discount purchase price with maximum employer contribution of up to 20% of employee contribution; (iv) the offering period is 27 months or less; and (v) potential dilution is 10% of outstanding securities or less. The Fund will also vote on a case-by-case basis for shareholder proposals targeting executive and director pay, taking into account the issuer’s performance, absolute and relative pay levels as well as the wording of the proposal itself. The Fund will generally vote for shareholder proposals requesting that the issuer expense options or that the exercise of some, but not all options be tied to the achievement of performance hurdles.

(e) *Capital Structure*

The Fund will vote on proposals to increase the number of securities of an issuer authorized for issuance on a case-by-case basis. The Fund will generally vote for proposals to approve increases where the issuer’s securities are in danger of being de-listed or if the issuer’s ability to continue to operate is uncertain. The Fund will generally vote against proposals to approve unlimited capital authorization.

(f) *Constituting Documents*

The Fund will generally vote for changes to constituting documents that are necessary and can be classified as “housekeeping”. The following amendments will be opposed:

- (i) the quorum for a meeting of shareholders is set below two persons holding 25% of the eligible vote (this may be reduced in the case of a small organization where it clearly has difficulty achieving quorum at a higher level, but the Fund will oppose any quorum below 10%);
- (ii) the quorum for a meeting of the board of directors should not be less than 50% of the number of directors; and
- (iii) the chair of the board has a casting vote in the event of a deadlock at a meeting of directors if that chair is not an independent director.

The Proxy Guidelines also include policies and procedures pursuant to which the Fund will determine how to cause proxies to be voted on non-routine matters including shareholder rights plans, proxy contests, mergers and restructurings and social and environmental issues.

The Proxy Guidelines apply to proxy votes that present a conflict between the interests of Strathbridge or an entity related thereto, on the one hand, and the interests of the shareholders, on the other.

The Fund has retained ISS Governance Services, a subsidiary of RiskMetrics Group to administer and implement the Proxy Guidelines for the Fund.

The Proxy Guidelines are available upon request at no cost by calling toll-free at 1-800-725-7172 or by e-mail at [info@strathbridge.com](mailto:info@strathbridge.com).

The Fund maintains annual proxy voting records for the period beginning July 1 and ending June 30 of each year. These records are available after August 31 of each year at no cost by calling toll-free 1-800-725-7172 or on Strathbridge's website at [www.strathbridge.com](http://www.strathbridge.com).

## **BROKERAGE ARRANGEMENTS**

In evaluating the broker's capability to provide best execution, the portfolio managers consider the broker's financial responsibility, the broker's responsiveness, the commission rate involved and the range of services offered by the broker.

There are no ongoing contractual arrangements with any brokers with respect to securities transactions.

In addition to order execution goods and services, dealers or third parties may provide research goods and services, which include: (a) advice as to the value of securities and the advisability of effecting transactions in securities; and (b) analyses and reports concerning securities, issuers, industries, portfolio strategy or economic or political factors and trends that may have an impact on the value of securities. Such goods and services may be provided by the executing dealer directly (known as proprietary research) or by a party other than the executing dealer (known as third party research).

In the event of the provision of a good or service that contains an element that is neither research goods and services nor order execution goods and services ("mixed-use goods and services"), brokerage commissions will only be used to pay for such goods and services which would qualify as either research goods and services or order execution goods and services. The Manager would pay for the remainder of the costs of such mixed-use goods or services.

The portfolio managers make a good faith determination that the portfolio, on whose behalf it directs to a dealer any brokerage transactions involving client brokerage commissions in return for research and order execution goods and services, receives reasonable benefit, considering both the use of the goods and services and the amount of brokerage commissions paid.

There are policies and procedures in place to ensure that, over a reasonable period of time, all clients receive a fair and reasonable benefit in return for the commissions generated.

For a list of any other dealer, broker or third party which provides research goods and services and/or order execution goods and services, at no cost, shareholders can contact us at 1-800-725-7172 or [info@strathbridge.com](mailto:info@strathbridge.com).

## **CUSTODIAN**

Pursuant to an agreement (the "Custodian Agreement") with the Fund dated May 17, 2007, as amended on November 17, 2009, RBC Investor Services Trust (the "Custodian") is the custodian of the assets of the Fund and is responsible for processing redemptions, calculating NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. Pursuant to the terms of the Custodian Agreement, the assets of the Fund may also be held by subcustodians. Either party may terminate the Custodian Agreement by giving the other party 30 days' notice.

The address of the Custodian is 155 Wellington Street West, Toronto, Ontario, M5V 3L3. The Custodian is entitled to receive fees from the Fund and to be reimbursed for all expenses and liabilities which are properly incurred by the Custodian in connection with the activities of the Fund.

## **REGISTRAR AND TRANSFER AGENT**

Computershare Investor Services Inc. provides the Fund with registrar, transfer and distribution agency services in respect of the Preferred Shares and the Class A Shares from its principal offices in Toronto, Ontario.

## **FEES AND EXPENSES**

### **Management and Investment Management Fees**

Strathbridge is entitled to a fee at an annual rate of 0.10% of the NAV of the Fund for its services as manager and 1.55% of the NAV of the Fund for its services as investment manager of the Fund. Fees payable to Strathbridge are calculated and payable monthly in arrears and subject to applicable taxes.

### **Service Fee**

The Fund will pay a service fee (the “Service Fee”) which will be paid to each dealer whose clients hold Class A Shares. The Service Fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.50% annually of the value of the Class A Shares held by clients of the dealer. For these purposes, the value of a Class A Share is the NAV per Unit less \$10.00. No Service Fee is paid in any calendar quarter if regular distributions are not paid to Class A Shareholders in respect of each month in such calendar quarter.

### **Operating Expenses**

The Fund pays for all expenses incurred in connection with the operation and administration of the Fund. It is expected that these expenses will include, without limitation: (a) mailing and printing expenses for periodic reports to shareholders; (b) fees payable to the Transfer Agent; (c) fees payable to members of the IRC of the Fund; (d) fees payable to the auditor and legal advisors of the Fund; (e) regulatory filing, stock exchange and licensing fees; (f) website maintenance costs; and (g) expenditures incurred upon the termination of the Fund. Such expenses will also include expenses of any action, suit or other proceedings in which or in relation to which Strathbridge is entitled to an indemnity by the Fund. The Fund will also be responsible for all commissions and other costs of securities transactions and any extraordinary expenses which may be incurred by it from time to time.

## **AUDITORS**

The auditors of the Fund are Deloitte LLP, Bay Adelaide Centre, East Tower, 8 Adelaide Street West, Suite 200, Toronto, Ontario, M5H 0A9.

## **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of the principal Canadian federal income tax considerations generally relevant to investors in the Preferred Shares and Class A Shares and who, for purposes of the Tax Act, are resident in Canada, hold their Preferred Shares and their Class A Shares as capital property, deal at arm’s length with and are not affiliated with the Fund, and have not with respect to Preferred Shares or Class A Shares entered into a “derivative forward agreement”. This summary is based upon the facts set out in this annual information form, the current provisions of the Tax Act, the regulations thereunder, and the Fund’s understanding of the current published administrative policies and assessing practices of Canada Revenue Agency (“CRA”) publicly available prior to the date hereof.

This summary is based on the assumptions that:

- (a) the Preferred Shares and the Class A Shares will at all times be listed on the TSX;
- (b) the Fund was not established and will not be maintained primarily for the benefit of non-residents of Canada and at no time will the total fair market value of the shares of the Fund held by persons who are non-residents of Canada and/or partnerships (other than Canadian partnerships within the meaning of the Tax Act) exceed 50% of the fair market value of all of the outstanding shares of the Fund;
- (c) the issuers of securities held by the Fund will not be foreign affiliates of the Fund or any shareholder; and
- (d) the investment objectives and investment restrictions will at all relevant times be as set out herein and that the Fund will at all times comply with such investment objectives and hold only permitted investments.

This summary also takes into account all specific proposals to amend the Tax Act announced prior to the date hereof by the Minister of Finance (Canada) (the “Proposed Amendments”). No assurances can be given that the Proposed Amendments will become law as proposed or at all.

**This summary is not exhaustive of all possible Canadian federal income tax considerations and, in particular, does not describe income tax considerations relating to the deductibility of interest on money borrowed to acquire Preferred Shares and Class A Shares. This summary does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, other than the Proposed Amendments. This summary does not deal with foreign, provincial or territorial income tax considerations, which might differ from the federal considerations. This summary does not apply to shareholders that are “financial institutions” as defined in section 142.2 of the Tax Act, “specified financial institutions” as defined in section 248 of the Tax Act or to a shareholder an interest in which is a “tax shelter investment” as defined in section 143.2 of the Tax Act.**

**This summary is of a general nature only 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.**

### **Tax Treatment of the Fund**

The Fund currently qualifies, and intends at all times to qualify, as a “mutual fund corporation” as defined in the Tax Act. As a mutual fund corporation, the Fund is entitled in certain circumstances to a refund of tax paid by it in respect of its net realized capital gains. In certain circumstances where the Fund has recognized a capital gain in a taxation year, it may elect not to pay capital gains dividends in that taxation year and instead pay refundable capital gains tax, which may in the future be fully or partially refundable upon the payment of sufficient capital gains dividends and/or capital gains redemptions. Also, as a mutual fund corporation, the Fund maintains a capital gains dividend account in respect of capital gains realized by the Fund and from which it may elect to pay dividends (“capital gains dividends”) which are treated as capital gains in the hands of the shareholders of the Fund.

The Fund is required to include in computing its income all dividends received. In computing its taxable income, the Fund is generally entitled to deduct all taxable dividends received on shares of taxable Canadian corporations. Dividends received by the Fund on other shares will, however, be included in computing the income of the Fund, and are not deductible in computing its taxable income.

The Fund is a “financial intermediary corporation” (as defined in the Tax Act) and, as such, is not subject to tax under Part IV.1 of the Tax Act on dividends received by the Fund nor is it generally liable to tax under Part VI.1 of the Tax Act on dividends paid by the Fund on “taxable preferred shares” (as defined in the Tax Act). As a mutual fund corporation (which is not an “investment corporation” as defined in the Tax Act), the Fund is generally subject to a refundable tax of 38 1/3% under Part IV of the Tax Act on taxable dividends received during the year to the extent such dividends are deductible in computing taxable income of the Fund. This tax is fully refundable upon payment of sufficient dividends other than capital gains dividends (“Ordinary Dividends”) by the Fund.

The Fund has purchased BNS Shares with the objective of earning dividends thereon over the life of the Fund, and intends to treat and report transactions undertaken in respect of such shares on capital account. Generally, the Fund is considered to hold such shares on capital account unless the Fund is considered to be trading or dealing in securities or otherwise carrying on a business of buying and selling securities or the Fund has acquired the securities in a transaction or transactions considered to be an adventure in the nature of trade.

In computing the adjusted cost base of any particular security, the Fund is generally required to average the cost of that security with the adjusted cost base of all other identical securities owned by the Fund at the time of acquisition.

The Fund writes covered call options with the objective of increasing the yield on its assets beyond the dividends received on BNS Shares. In accordance with CRA’s published administrative practice, transactions undertaken by the Fund in respect of such options are treated and reported for purposes of the Tax Act on capital account.



Premiums received on call options written by the Fund (to the extent such call options relate to securities actually owned by the Fund at the time the option is written and such securities are held on capital account as discussed above) will constitute capital gains of the Fund in the year received, and gains or losses realized upon dispositions of securities owned by the Fund (whether upon the exercise of call options written by the Fund or otherwise) will constitute capital gains or capital losses of the Fund in the year realized. Where a call option is exercised the proceeds received by the Fund for the option will be included in the proceeds of disposition of the securities sold pursuant to the option and the premium received for such option will not give rise to a capital gain at the time the option is written.

To the extent that the Fund earns income (other than certain dividends from taxable Canadian corporations and taxable capital gains) including interest and dividends from corporations other than taxable Canadian corporations, the Fund will be subject to income tax on such income and no refund will be available.

The Fund has elected in accordance with the Tax Act to have each of its “Canadian securities” (as defined in subsection 39(6) of the Tax Act) treated as capital property. Such an election ensures that gains or losses realized by the Fund on dispositions of Canadian securities will be taxed as capital gains or capital losses.

### **Tax Treatment of Shareholders**

Shareholders must include in income Ordinary Dividends received from the Fund. For individual shareholders, Ordinary Dividends will be subject to the usual gross-up and dividend tax credit rules with respect to taxable dividends (including “eligible dividends”) paid by taxable Canadian corporations under the Tax Act. Ordinary Dividends received by a corporation other than a “specified financial institution” (as defined in the Tax Act) will normally be deductible in computing its taxable income.

Ordinary Dividends on Preferred Shares will generally be subject to a 10% tax under Part IV.1 of the Tax Act when such dividends are received by a corporation (other than a “private corporation” or a “financial intermediary corporation”, as defined in the Tax Act) to the extent that such dividends are deductible in computing the corporation’s taxable income.

A shareholder which is a private corporation for purposes of the Tax Act, or any other corporation controlled directly or indirectly by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) may be liable to pay a 38 1/3% refundable tax under Part IV of the Tax Act on Ordinary Dividends received on Preferred Shares or Class A Shares, to the extent that such dividends are deductible in computing the corporation’s taxable income. Where Part IV.1 tax also applies to an Ordinary Dividend received by a particular corporation, the rate of Part IV tax otherwise payable by such corporation is reduced by 10% of the amount of such Ordinary Dividend.

The amount of any capital gains dividend received by a shareholder from the Fund will be considered to be a capital gain of the shareholder from the disposition of capital property in the taxation year of the shareholder in which the capital gains dividend is received.

The intention of the Fund is to pay monthly distributions and, in addition, to pay a special year-end dividend to holders of Class A Shares where the Fund has net taxable capital gains upon which it would otherwise be subject to tax (other than taxable capital gains in respect of options that are outstanding at year-end) or would not otherwise obtain a refund of refundable tax in respect of dividend income.

The Fund may make returns of capital in respect of the Class A Shares. Such a return of capital will not be included in the income of the holder of the share, but will reduce the adjusted cost base of such share. To the extent that the adjusted cost base of a Class A Share would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the shareholder from the disposition of the share and the adjusted cost base will be increased by the amount of such deemed capital gain.

Upon the redemption, retraction or other disposition of a share, a capital gain (or a capital loss) will be realized to the extent that the proceeds of disposition of the share exceed (or are less than) the aggregate of the adjusted cost base of the share and any reasonable costs of disposition. If the holder is a corporation, any capital loss arising on

the disposition of a share may in certain circumstances be reduced by the amount of any Ordinary Dividends received on the share. Analogous rules apply to a partnership or trust of which a corporation, partnership or trust is a member or beneficiary. For purposes of computing the adjusted cost base of each share of a particular class, a shareholder must average the cost of such share with the adjusted cost base of any shares of that class already held as capital property.

One-half of a capital gain is included in computing income as a taxable capital gain and one-half of a capital loss may be deducted against taxable capital gains to the extent and under the circumstances prescribed in the Tax Act. A shareholder that is a Canadian-controlled private corporation will be subject to an additional refundable tax of 6 2/3% of aggregate investment income, which includes an amount in respect of taxable capital gains.

### **Eligibility for Investment**

Provided that the Fund qualifies and continues to qualify as a mutual fund corporation under the Tax Act or if the Class A Shares or Preferred Shares are listed on a “designated stock exchange” for purposes of the Tax Act (which includes the TSX), such shares will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered disability savings plans, registered education savings plans and tax-free savings accounts.

However, if the Preferred Shares or Class A Shares are a “prohibited investment” for a tax-free savings account, registered retirement savings plan, registered disability savings plan, registered education savings plan, or registered retirement income fund, the holder of a tax-free savings account, registered disability savings plan, registered education savings plan or annuitant under a registered retirement savings plan or registered retirement income fund, will be subject to a penalty tax as set out in the Tax Act. An investment in the Preferred Shares or Class A Shares will not generally be a “prohibited investment” unless the holder or annuitant does not deal at arm’s length with the Fund for purposes of the Tax Act or if the holder or annuitant has a significant interest (within the meaning of the Tax Act) in the Fund. Holders of tax-free savings accounts, registered disability savings plans and registered education savings plans, and annuitants under registered retirement savings plans and registered retirement income funds should consult their own tax advisors to ensure that neither Preferred Shares nor Class A Shares would be a “prohibited investment” in their particular circumstances.

### **RISK FACTORS**

An investment in the Fund may be deemed to be speculative and involves significant risks. Investors should review closely the investment objectives and investment strategies to be utilized by the Fund to familiarize themselves with the risks associated with an investment in the Fund. The following are certain considerations relating to an investment in the Fund which should also be considered before purchasing its securities.

#### **Concentration Risk**

The Fund was created to hold only BNS shares and is not expected to have significant exposure to any other investments or assets. The Fund’s holdings are concentrated in BNS Shares and they are not diversified.

#### **Risks Associated with an Investment in BNS Shares**

Investors should review carefully the continuous disclosure documents of BNS, and in particular the annual information form of BNS, for a discussion of the risk factors that BNS considers applicable to BNS and BNS Shares.

At any time, BNS may decide to decrease or discontinue the payment of dividends on BNS Shares. Any decrease in the dividends received by the Fund on its BNS Shares will decrease the distribution coverage ratio for the Preferred Shares. Such a decrease could reduce or result in the cessation of the distributions payable to the holders of Class A Shares. It could also result in the reduction or discontinuance of the distributions payable to the holders of Preferred Shares or result in their payment in a form other than ordinary dividends.

An investment in the Preferred Shares or the Class A Shares does not constitute an investment in BNS Shares. Holders of the Fund’s Preferred Shares or Class A Shares will not own the BNS Shares held by the Fund and will not have any voting or other rights with respect to such shares.

### **Performance of the Fund's Portfolio**

NAV per Unit will vary as the value of the BNS Shares varies. At any time, BNS may decide to decrease or discontinue the payment of dividends on its shares. The Fund has no control over the factors that affect BNS Shares, including factors such as fluctuations in interest rates, changes in management or strategic direction, achievement of strategic goals, mergers, acquisitions and divestitures and changes in dividend and distribution policies. An investment in Units does not constitute an investment in the BNS Shares. Holders of the Preferred Shares and Class A Shares will not own the securities held by the Fund and will not have any voting or other rights with respect to such securities.

### **No Assurances of Achieving Investment Objectives**

There is no assurance that the Fund will be able to achieve its distribution objectives or the Fund's investment objective of returning the issue prices of the Preferred Shares and the Class A Shares to holders of those shares on the Termination Date.

There is no assurance that the Fund will be able to pay distributions. The funds available for distribution to holders of Preferred Shares and Class A Shares will vary according to, among other things, the dividends paid on BNS Shares, the level of option premiums received and the value of the securities comprising the portfolio. Since the dividends received by the Fund will not be sufficient to meet the objectives of the Fund in respect of the payment of distributions, the Fund will depend on the receipt of option premiums and the realization of capital gains to meet those objectives. Although many investors and financial market professionals price options based on the Black-Scholes Model, in practice actual option premiums are determined in the marketplace and there is no assurance that the premiums predicted by such a pricing model can be attained.

### **Greater Volatility of the Class A Shares**

An investment in the Class A Shares is a leveraged investment because the Preferred Shares have priority in payment of any distributions or any proceeds from the winding up of the Fund. This leverage amplifies the potential return to Class A Share investors in so far as returns in excess of the amounts payable to holders of Preferred Shares accrue first to the benefit of the holders of Class A Shares. Conversely, any losses incurred on the Fund's portfolio accrue to the detriment of the holders of Class A Shares since the Preferred Shares rank prior to the Class A Shares in respect of distributions and proceeds upon the winding up of the Fund.

### **Trading at a Discount**

The Fund cannot predict whether the Preferred Shares and the Class A Shares will trade above, at or below NAV per Unit.

### **Use of Options and Other Derivative Instruments**

The Fund is subject to the full risk of its investment position in the BNS Shares comprising the portfolio, including those BNS Shares that are subject to outstanding call options and those BNS Shares underlying put options written by the Fund, should the market price of such BNS Shares decline. In addition, the Fund will not participate in any gain on the BNS Shares that are subject to outstanding call options above the strike price of the options.

The use of options may have the effect of limiting or reducing the total returns of the Fund if the Manager's expectations concerning future events or market conditions prove to be incorrect. In such circumstances, the Fund may have to increase the percentage of its portfolio that is subject to covered call options to meet its targeted distribution. In addition, the premiums associated with writing covered call options may be outweighed by the foregone opportunity of remaining invested directly in the BNS Shares comprising the portfolio.

There can be no assurance that a liquid exchange or over-the-counter market will exist to permit the Fund to write covered call options or cash-covered put options on desired terms or to close out option positions should it desire to do so. The ability of the Fund to close out its positions may also be affected by exchange-imposed daily trading limits on options or the lack of a liquid over-the-counter market. If the Fund is unable to repurchase a call option that is in-the-money, it will be unable to realize its profits or limit its losses until such time as the option becomes

exercisable or expires. In addition, upon the exercise of a put option, the Fund will be obligated to acquire a security at the strike price that may exceed the then current market value of such security.

Where the Fund has purchased call options and entered into other derivative transactions there is also the risk that the counterparty (whether a clearing corporation in the case of exchange-traded instruments, or other third party in the case of over-the-counter instruments) may be unable to meet its obligations under the transaction and may default on such obligations, which could prevent Fund from reducing a loss or making a profit.

### **Reliance on the Manager**

Strathbridge manages the portfolio of the Fund in a manner consistent with the investment objectives, investment strategies and investment restrictions of the Fund. The officers of Strathbridge who are primarily responsible for the management of the Fund's portfolio have extensive experience in managing investment portfolios, but there is no certainty that they will continue to be employees of Strathbridge over the entire life of the Fund.

### **Significant Retractions**

The Preferred Shares and the Class A Shares are retractable annually and monthly for a price based on NAV per Unit (which represents the value that the Fund is able to obtain in the market when it sells portfolio securities to fund the retraction). The purpose of the retraction right is to prevent the Preferred Shares and the Class A Shares from trading at a substantial discount to their market value and to provide shareholders with the right to realize their investment without any trading discount to such value. While the retraction right provides shareholders the option of liquidity, there can be no assurance that it will reduce trading discounts. If a significant number of Preferred Shares and Class A Shares are retracted, the trading liquidity of the Preferred Shares and the Class A Shares could be significantly reduced. In addition, the expenses of the Fund would be spread among fewer Preferred Shares and Class A Shares, potentially resulting in lower NAV per Unit.

### **Tax Changes**

There can be no assurance that changes will not be made to the tax rules affecting the taxation of the Fund or the Fund's investments, or that such tax rules will not be administered in a way that is less advantageous to the Fund or its shareholders.

### **Tax Treatment of Proceeds of Disposition and Option Premiums**

In determining its income for tax purposes, the Fund will treat gains and losses realized on the disposition of securities in the portfolio, option premiums received on the writing of covered call options and cash-covered put options and any losses sustained on closing out options as capital gains and capital losses in accordance with CRA's published administrative practice. CRA's practice is not to grant advance income tax rulings on the characterization of items as capital or income and no advance income tax ruling has been applied for or received from CRA.

If, contrary to CRA's published administrative practice and the advice of counsel or as a result of a change of law, some or all of the transactions undertaken by the Fund in respect of covered options and securities in the portfolio were treated on income rather than capital account, after-tax returns to holders of Preferred Shares and Class A Shares could be reduced and the Fund may be subject to non-refundable income tax in respect of income from such transactions, and the Fund may be subject to penalty taxes in respect of excessive capital gains dividend elections.

### **Exchange of Tax Information**

The Fund is required to comply with due diligence and reporting obligations imposed under amendments to the Tax Act that implemented the Canada-United States Enhanced Tax Information Exchange Agreement. As long as the Preferred Shares and Class A Shares continue to be listed on the TSX, the Fund should not have any U.S. reportable accounts and, as a result, it should not be required to provide information to the CRA in respect of securityholders. However, dealers through which securityholders hold their Preferred Shares and Class A Shares are subject to due diligence and reporting obligations with respect to financial accounts that they maintain for their clients. Securityholders may be requested to provide information to their dealer in order to allow the dealer to identify U.S. persons holding Preferred Shares or Class A Shares. If a securityholder is a U.S. person (including a U.S. citizen or

green card holder who is resident in Canada), or if the securityholder does not provide the requested information, the securityholder's dealer will be required by the Tax Act to report certain information about the securityholder's investment in the Fund to the CRA, unless the Preferred Shares or Class A Shares are held by a registered plan. The CRA is expected to provide that information to the U.S. Internal Revenue Service.

In addition, reporting obligations in the Tax Act have been enacted to implement the Organization for Economic Co-operation and Development's (the "OECD") Common Reporting Standard (the "CRS Rules"). Pursuant to the CRS Rules, in order to meet the objectives of the OECD'S Common Reporting Standard (the "CRS"), Canadian financial institutions are required to have procedures in place to identify accounts held by residents of foreign countries which have agreed to a bilateral information exchange with Canada under the CRS (the "Participating Jurisdictions"), or by certain entities any of whose "controlling persons" are resident in a Participating Jurisdiction, and to report the required information to the CRA. Such information is exchanged on a reciprocal, bilateral basis with the Participating Jurisdictions in which the securityholders, or such controlling persons, are resident. Under the CRS Rules, securityholders are required to provide the required information regarding their investment in the Fund to the securityholder's dealer for the purpose of such an information exchange, unless the Preferred Shares and Class A Shares are held by a registered plan.

### **Recent Global Market Conditions**

Global financial markets have experienced substantial volatility in recent years. Significant sources of this volatility have included the revaluation of assets on the balance sheets of international financial institutions resulting in a reduction in liquidity among financial institutions and generally reduced availability of credit, substantial intervention by central banks as well as global governments in financial markets, low economic growth in various markets and economies, substantial changes in currency valuations and commodity prices and concerns regarding both inflation and deflation. Further, continued concerns about the European Sovereign debt crisis, developments in the Middle East and North Korea, matters related to the United Kingdom's withdrawal from the EU, and matters related to the U.S. government debt limits, may adversely impact the global equity markets, which may adversely affect the prospects of the Fund and the value of the Fund. A substantial drop in the markets in which the Fund invests could be expected to have a negative effect on the value of the shares of the Fund.

### **Cyber Security Risk**

Cyber security risk is the risk of harm, loss and liability resulting from a breach or failure of information technology systems. Breaches or failures of information technology systems ("Cyber Security Events") can result from deliberate attacks or unintentional events and may arise from external or internal sources. Deliberate cyber attacks include gaining unauthorized access to digital systems (through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, equipment or systems, or causing operational disruption. Deliberate cyber attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users).

The primary risk to the Fund from the occurrence of Cyber Security Events include disruption in operations, reputational damage, disclosure of confidential information, regulatory penalties, additional compliance costs associated with corrective measures, and/or financial loss. The Fund's third party service providers (e.g., custodian, administrator, transfer agent) or the issuers that the Fund invests in may also be subject to a Cyber Security Event which could adversely affect the Fund and its operations. The Fund cannot control the cyber security plans and systems put in place by its service providers or any other third party whose operations may affect the Fund or its shareholders and they could be adversely affected as a result.

### **MATERIAL CONTRACTS**

The following documents can reasonably be regarded as material to holders of Preferred Shares and Class A Shares:

- (a) the articles of incorporation and articles of amendment of the Fund;
- (b) the Management Agreement;
- (c) the Investment Management Agreement; and

(d) the Custodian Agreement.

Copies of the foregoing may be inspected during business hours at the principal office of the Fund.

## **ADDITIONAL INFORMATION**

Additional information about the Fund is available in the Fund's management report of fund performance and financial statements.

You can get a copy of these documents at no cost by calling toll-free at 1-800-725-7172 or by e-mail at [info@strathbridge.com](mailto:info@strathbridge.com).

These documents and other information about the Fund, such as information circulars and material contracts, are also available at [www.sedar.com](http://www.sedar.com).

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