BNS SPLIT CORP. II

Annual Report

to Shareholders

September 22, 2019

BNS SPLIT CORP. II

REPORT TO SHAREHOLDERS

The following presents the financial results of BNS Split Corp. II (the "Company") for the year ended September 22, 2019.

Financial Performance

As at September 22, 2019, the net assets attributable to holders of Capital Shares were $23.20 per Capital Share as compared to $24.63 per Capital Share at September 22, 2018, representing a decrease of 5.8% due to depreciation in the fair value of the Company's investment in common shares of The Bank of Nova Scotia (the "BNS Shares"). The total fair value of the Company's investment in BNS Shares following the special annual retraction was $27.3 million (2018 – $30.9 million, following a monthly and special annual retraction), reflecting unrealized appreciation of $9.3 million (2018 – $11.4 million). As a result of the special annual retraction on September 20, 2019, a total of 34,446 Units (2018 – 23,603 Units) were retracted for cash and BNS Shares with an aggregate value of $2.3 million (2018 – $1.6 million).

For the year ended September 22, 2019, dividends and interest income less total operating expenses, excluding transaction costs, ("Net Investment Income") was $1.1 million or $2.41 per Unit (2018 – $1.1 million or $2.25 per Unit), with a Unit consisting of two Capital Shares and one Preferred Share. The increase of $0.16 per Unit, or 7.1%, is primarily due to dividend rate increases on the BNS Shares of $0.20 per Unit offset by increased expenses of $0.04 per Unit mainly due to fixed operating expenses spread over fewer Units as a result of the September 21, 2018 special annual retraction.

The Company's Capital Share distribution policy is to pay holders of Capital Shares quarterly dividends in an amount equal to the Net Investment Income minus the fixed quarterly distribution payable on the Preferred Shares provided the net asset value per Unit at the time of declaration, after giving effect to the dividend, would be greater than the original issue price of the Preferred Shares. Accordingly, for the year ended September 22, 2019, the Company paid ordinary dividends of $0.7 million or $0.805 per Capital Share (2018 – $0.7 million or $0.740 per Capital Share), representing a yield of 3.6% (2018 – 3.3%) based on the closing price of a Capital Share at September 22, 2019. For the year ended September 22, 2019, the Company paid dividends of $0.4 million or $0.7884 per Preferred Share (2018 – $0.4 million or $0.7884 per Preferred Share).

Capital Share and Preferred Share Redemption

The Capital Shares and Preferred Shares are scheduled to be redeemed by the Company on September 22, 2020 (the "Redemption Date") in accordance with the redemption provisions of the shares, as detailed in note 4 to the financial statements. Notice of Redemption will be given by the Company at least 45 days prior to the Redemption Date.

This report, along with the accompanying audited financial statements of the Company, is respectfully submitted to you on behalf of the Board of Directors of BNS Split Corp. II.

Brian D. McChesney
President and Chief Executive Officer

Toronto, Canada
November 21, 2019

BNS SPLIT CORP. II

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of BNS Split Corp. II and all the information in this annual report are the responsibility of management and have been reviewed and approved by the Board of Directors (the "Board").

The financial statements have been prepared by management in accordance with International Financial Reporting Standards. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements. The financial statements have been audited by PricewaterhouseCoopers LLP, on behalf of the shareholders.

The Board has oversight responsibility for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out these responsibilities through its Audit Committee (the "Committee").

The Committee is appointed by the Board. The Committee meets periodically with management and the external auditors to discuss internal controls, the financial reporting process, various auditing and financial reporting issues, and to review the semi-annual and annual reports, the financial statements and the external auditor's report. The Committee reports its findings semi-annually to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board, the engagement or re-appointment of the external independent auditor. PricewaterhouseCoopers LLP has full and free access to the Committee.

Brian D. McChesney
President and Chief Executive Officer

Massimo Ceschia
Chief Financial Officer and Secretary

Toronto, Canada
November 21, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of BNS Split Corp. II

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of BNS Split Corp. II (the Company) as at September 22, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's financial statements comprise:

- the statements of financial position as at September 22, 2019 and 2018;
- the statements of comprehensive income for the years then ended;
- the statements of cash flows for the years then ended;
- the statements of changes in net assets attributable to holders of capital shares for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

Management is responsible for the other information. The other information comprises the Annual Management Report of Fund Performance.

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

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

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
November 21, 2019

STATEMENTS OF FINANCIAL POSITION

As at September 22

	2019	2018
Assets		
Current assets		
Investment, at fair value	$ 27,298,326	$ 30,860,388
Cash *(note 6)*	19,018	13,992
	27,317,344	30,874,380
Liabilities		
Current liabilities		
Accrued liabilities	10,000	10,000
Class J and Class S shares *(notes 3 and 4)*	250	250
Preferred Shares *(notes 1, 3 and 4)*	8,142,024	8,820,955
	8,152,274	8,831,205
Net assets attributable to holders of Capital Shares	$ 19,165,070	$ 22,043,175
Redeemable shares outstanding (*note 4*)		
Capital Shares	826,182	895,074
Preferred Shares	413,091	447,537
Net assets attributable to holders of Capital Shares per Capital Share	$ 23.20	$ 24.63
Redemption Value per Preferred Share	$ 19.71	$ 19.71

See accompanying notes to financial statements.

On behalf of the Board:

Brian D. McChesney
President and Chief Executive Officer

Allan D. Rowe
Chairman of the Board

STATEMENTS OF COMPREHENSIVE INCOME

For the years ended September 22

		2019		2018
Income				
Investment				
Dividends	$	1,361,022	$	1,340,100
Net realized gain on disposition of investment		756,128		591,742
Unrealized depreciation of investment		(2,063,821)		(1,316,284)
Net gain on investment		53,329		615,558
Interest		2,939		83
Total income, net		56,268		615,641
Expenses				
Administrative fees *(note 6)*		79,245		91,980
Directors' fees		50,290		42,905
Insurance premiums		30,880		26,935
Audit fees		25,600		23,515
Rating fees		16,950		16,950
Transfer agent fees		15,780		18,900
Filing fees		14,400		14,665
Printing and mailing charges		12,800		10,710
Listing fees		11,460		12,220
Independent Review Committee fees		7,500		7,500
Legal fees		4,500		4,980
Custodian fees		1,100		1,385
Transaction costs *(note 6)*		200		93
Other		14,345		7,105
Total operating expenses		285,050		279,843
Distributions on Preferred Shares		352,838		371,033
Total expenses		637,888		650,876
Decrease in net assets attributable to holders of Capital Shares	$	(581,620)	$	(35,235)
Decrease in net assets attributable to holders of Capital Shares per Capital Share *(note 3)*	$	(0.65)	$	(0.04)

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

For the years ended September 22

	2019	2018
Operating activities		
Decrease in net assets attributable to holders of Capital Shares	$ (581,620)	$ (35,235)
Adjustments for:		
Net realized gain on disposition of investment	(756,128)	(591,742)
Unrealized depreciation of investment	2,063,821	1,316,284
Proceeds on disposition of investment	727,152	305,752
Net cash flow provided by operating activities	1,453,225	995,059
Financing activities		
Net payment on retraction*	(727,664)	(305,587)
Dividends paid on Capital Shares	(720,535)	(696,496)
Net cash flow used in financing activities	(1,448,199)	(1,002,083)
Net increase (decrease) in cash	5,026	(7,024)
Cash, beginning of year	13,992	21,016
Cash, end of year	$ 19,018	$ 13,992
Supplemental cash flow information**		
Dividends received	$ 1,361,022	$ 1,340,100
Interest received	$ 2,939	$ 83

See accompanying notes to financial statements.

* In addition to the cash payment to retracting shareholders, BNS Shares with a fair value of $1,527,217 (2018 – $1,311,024) were delivered on retraction and are not considered cash flows for the purpose of this statement.

** Classified as operating activities

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CAPITAL SHARES

For the years ended September 22

	2019	2018
Net assets attributable to holders of Capital Shares, beginning of year	$ 22,043,175	$ 23,926,302
Decrease in net assets attributable to holders of Capital Shares	(581,620)	(35,235)
Capital Share transactions:		
Retraction of Capital Shares (*note 1*)	(1,575,950)	(1,151,396)
Dividends paid on Capital Shares (from net investment income)	(720,535)	(696,496)
	(2,296,485)	(1,847,892)
Net assets attributable to holders of Capital Shares, end of year	$ 19,165,070	$ 22,043,175

See accompanying notes to financial statements.

SCHEDULE OF INVESTMENT

As at September 22

Number of Common Shares 2019	Number of Common Shares 2018	Company	Cost 2019	Cost 2018	Fair Value 2019	Fair Value 2018	% of Portfolio at Fair Value 2019	% of Portfolio at Fair Value 2018
365,195	395,646	The Bank of Nova Scotia	$ 17,979,501	$ 19,478,683	$ 27,298,326	$ 30,860,388	100.0	100.0
		Adjustment for transaction costs	(10,409)	(11,350)	—	—	—	—
			$ 17,969,092	$ 19,467,333	$ 27,298,326	$ 30,860,388	100.0	100.0

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

September 22, 2019

1. GENERAL INFORMATION

BNS Split Corp. II (the "Company") is a mutual fund corporation incorporated under the laws of Ontario on February 28, 2005. The address of the Company's registered office is 150 King Street West, 18th Floor, Toronto, Ontario M5H 1J1. Scotia Managed Companies Administration Inc. ("SMCAI" or the "Administrator"), a wholly-owned subsidiary of Scotia Capital Inc. ("SCI") which in turn is a wholly-owned subsidiary of The Bank of Nova Scotia ("BNS"), provides all administrative services for the Company. The Capital Shares and Preferred Shares are scheduled to be redeemed by the Company on September 22, 2020 (the "Redemption Date").

The Company holds a portfolio consisting of common shares of The Bank of Nova Scotia (the "BNS Shares") in order to generate income for the holders of the Company's preferred shares (the "Preferred Shares") and to enable the holders of the Company's capital shares (the "Capital Shares") to participate in any capital appreciation in the BNS Shares and to benefit from any increase in the dividends payable on the BNS Shares. The policy of the Company is to invest in BNS Shares and not engage in trading except in limited circumstances, including to fund retractions or redemptions of Capital Shares and Preferred Shares.

As a result of the Company's special annual retraction on September 20, 2019, 68,892 Capital Shares and nil Preferred Shares were retracted and consequently 34,446 Preferred Shares were redeemed (2018 – 47,206 Capital Shares and 2,700 Preferred Shares were retracted and consequently 20,903 Preferred Shares were redeemed), all for a total consideration of $2,254,881 (2018 – $1,616,611). The retraction and redemption have been accounted for as a reduction of the Preferred Share issued capital in the amount of $678,931 (2018 – $465,215) and a reduction of the Capital Share issued capital in the amount of $1,575,950 (2018 – $1,151,396).

The Company's Capital Share distribution policy is to pay holders of Capital Shares quarterly dividends in an amount equal to the dividends received by the Company on the BNS Shares minus the distributions payable on the Preferred Shares and all administrative and operating expenses provided the net asset value per Unit at the time of declaration, after giving effect to the dividend, would be greater than the $19.71 original issue price of the Preferred Shares.

2. BASIS OF PRESENTATION

Statement of Compliance

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS").

These financial statements were authorized for issuance by the Board of Directors of the Company (the "Board") on November 21, 2019.

Basis of Measurement

These financial statements have been prepared on the historical cost basis except for financial assets and liabilities which are measured at fair value through profit or loss in the Statements of Financial Position. Historical cost is generally based on the fair value of the consideration given in exchange for assets and is computed on an average cost basis.

Functional Currency and Presentation Currency

These financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Company.

Critical Accounting Estimates and Judgments

The preparation of the financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of IFRS 9

The Company adopted IFRS 9, *Financial Instruments* on September 23, 2018 retrospective without restatement of prior periods. There was no impact to the net asset value of the Company on adoption of IFRS 9. The impact of the transition to IFRS 9 is described in Note 11.

Financial Instruments

Classification and measurement and impairment are the two areas where the policies in IFRS 9 differ from IAS 39, *Financial Instruments: Recognition and Measurement.*

i) Recognition and initial measurement

Financial assets and liabilities are recognized initially on the trade date at which the Company becomes party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at fair value, plus or minus transaction costs that are directly attributable to the acquisition or issue of a financial asset or liability, if not measured at fair value through profit or loss.

ii) Classification and subsequent measurement effective September 23, 2018

Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

Equity instruments by default are measured at FVTPL, unless an irrevocable election is made to designate them at FVOCI. This election is generally used for certain equity investments for strategic or long term investment purposes which does not apply to equity instruments held by the Company.

The Company's business model is to manage its investment in the BNS Shares on a fair value basis and accordingly, the Company measures its investment in the BNS Shares at FVTPL. All other financial assets are held to collect contractual cash flows that are solely payments of principal and interest and accordingly, are measured at amortized cost.

Financial liabilities

The Company classifies financial liabilities comprised of accrued liabilities, which are not otherwise held for trading, as subsequently measured at amortized cost.

Net assets attributable to holders of Capital Shares

The Company's obligation for net assets attributable to holders of Capital Shares is presented at the redemption amount.

iii) Classification and subsequent measurement effective prior to September 23, 2018

The Company designated investments as FVTPL as the investments were managed and their performance was evaluated on a fair value basis. This was consistent with the Company's investment strategy. The Company's obligation for net assets attributable to holders of Capital Shares was presented at the redemption amount. All other financial assets and liabilities were carried at amortized cost which approximated their fair values due to their short-term nature. The Company's accounting policies for measuring the fair value of its investments were identical to those used in measuring its net asset value for transactions with its shareholders.

iv) Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

v) Impairment

IFRS 9 replaced the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. There have been no allowances made to financial assets for credit losses on transition to IFRS 9 because the Company determined that the expected credit losses on its financial assets were nominal.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the reporting date. The Company uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Administrator determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The difference between fair value and the adjusted cost base ("ACB") of the security is recorded as unrealized appreciation (depreciation) of investments. Investment transactions are recorded on a trade-date basis. Realized gains (losses) on the disposition of investments and unrealized appreciation (depreciation) of investments are determined on an average cost basis. Transaction costs incurred for securities bought and sold are included as an expense in the Statements of Comprehensive Income.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount is presented in the Statements of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Cash

Cash is comprised of demand deposits.

Income Taxes

The Company qualifies and intends to continue to qualify as a "mutual fund corporation" as defined under the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net investment income and net realized taxable capital gains at rates applicable to mutual fund corporations. The Company will be entitled to refunds in accordance with the provisions of the Act of substantially all tax payable with respect to net taxable capital gains upon payment of sufficient capital gains dividends or in respect of sufficient redemptions of Capital Shares or Preferred Shares. Also, the Company is subject to tax of 38⅓% under Part IV of the Act on taxable dividends received from taxable Canadian corporations in the year. This tax is fully refundable upon payment of sufficient dividends, which the Company intends to pay out. As a result, the Company does not record any provision for related income taxes as it does not anticipate that it will be subject to any material non-refundable net Canadian income tax liability and therefore, the tax benefit of capital and non-capital losses and other tax attributes has not been reflected in the Statements of Financial Position as a deferred income tax asset.

Income Recognition

Dividend income is recorded on an ex-dividend date basis. Interest income represents the interest earned on demand deposits accounted for on an accrual basis.

Increase (Decrease) in Net Assets Attributable to Holders of Capital Shares per Capital Share

The increase (decrease) in net assets attributable to holders of Capital Shares per Capital Share amounts is calculated by dividing the increase (decrease) in net assets attributable to holders of Capital Shares by the weighted average number of Capital Shares outstanding during the year (see note 4).

Classification of Shares

The Company is a limited life entity and has shares which include a contractual obligation for the Company to repurchase or redeem them for cash or another financial asset. As a result, its outstanding shares are classified as financial liabilities in accordance with the requirements of International Accounting Standard 32, *Financial Instruments: Presentation.*

4. REDEEMABLE SHARES

The Company is authorized to issue an unlimited number of Capital Shares, Preferred Shares, Class J shares and Class S shares. An unlimited number of Class B, C, D and E capital shares and Class B, C, D and E preferred shares are also issuable in series.

A summary of the Company's issued and outstanding shares is as follows:

	Series 2 Preferred	Capital	Class J	Class S
Shares outstanding on September 22, 2017	471,140	942,280	150	100
Retraction/redemption on September 21, 2018	(23,603)	(47,206)	—	—
Shares outstanding on September 22, 2018	447,537	895,074	150	100
Retraction/redemption on September 20, 2019	(34,446)	(68,892)	—	—
Shares outstanding on September 22, 2019	413,091	826,182	150	100

The weighted average number of Preferred and Capital Shares outstanding for the year ended September 22, 2019 was 447,340 Series 2 Preferred Shares and 894,700 Capital Shares (2018 – 470,650 Series 2 Preferred Shares and 941,300 Capital Shares).

The Company will ensure that two Capital Shares continue to be outstanding for every Preferred Share.

The Preferred Shares rank prior to the Capital Shares, Class J shares and Class S shares with respect to the payment of dividends, distributions upon a redemption, retraction or return of capital and distributions upon a dissolution, liquidation or wind-up of the Company.

Capital Shares

Holders of Capital Shares are entitled to receive any dividends that the Board may declare. It is the policy of the Board not to pay a dividend on the Capital Shares if the net asset value per Unit at the time of dividend declaration, after giving effect to the dividend, is less than or equal to the original issue price of the Series 2 Preferred Shares or $19.71. In such circumstance, any excess dividends received on the BNS Shares minus the dividends payable on the Preferred Shares and all administrative and operating expenses will be reinvested in short-term debt securities or BNS Shares. In addition, if the Company realizes capital gains, and would otherwise be liable to pay tax thereon, the Company may declare a capital gains dividend on the Capital Shares.

Any Capital Shares outstanding on the Redemption Date will be redeemed by the Company on such date. On such redemption, each holder will receive for every two Capital Shares redeemed, at the holder's option, either:

(i) the amount, if any, by which the Unit Value (see note 7) exceeds $19.71;

(ii) provided the holder tenders to the Company at least 20 business days prior to the Redemption Date, a cash amount of $19.71 for every two Capital Shares redeemed, such holder's pro rata share of the BNS Shares (rounded down to the nearest whole share) plus (minus) the pro rata share of the amount (the "Residual Amount") by which the value of the other assets of the Company (excluding any refundable taxes not then available to the Company) exceed (are less than) the liabilities (including any extraordinary liabilities and accrued termination costs) of the Company as at the Redemption Date and the redemption value of the Class J shares and Class S shares, all as determined by the Board.

The Capital Shares may be surrendered for retraction at any time by the holders. Holders may surrender their Capital Shares for retraction by exercising a Regular Retraction, a Concurrent Retraction or a Special Annual Retraction, all as described below. Retraction payments for Capital Shares will be made on the 22nd day of each month or, where such day is not a business day, on the preceding business day (a "Retraction Payment Date"), provided the Capital Shares have been surrendered for retraction on or before the first business day before the 8th day of such month (the "Valuation Date").

A holder who surrenders two Capital Shares under a regular retraction (a "Regular Retraction") will receive on the Retraction Payment Date the amount, if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing a Preferred Share in the market; and (ii) $1.00. The retraction price of a Capital Share may be more or less than the market price of a Capital Share at the time of retraction.

A holder who surrenders two Capital Shares together with one Preferred Share under a concurrent retraction (a "Concurrent Retraction") will receive on the Retraction Payment Date an amount equal to 95% of the Unit Value less $1.00.

A holder of Capital Shares who surrenders two Capital Shares under a special annual retraction (a "Special Annual Retraction") for the Retraction Payment Date occurring on September 22 in each year or, where such day is not a business day, the preceding business day (each such date being an "Annual Retraction Payment

Date") will receive on the applicable Annual Retraction Payment Date, the amount, if any, by which the Unit Value exceeds $19.71.

A holder who surrenders two Capital Shares together with one Preferred Share under a Special Annual Retraction will receive on the applicable Annual Retraction Payment Date an amount equal to the Unit Value.

Provided a holder of Capital Shares surrenders 10,000 or more Capital Shares for retraction and tenders either one Preferred Share for every two Capital Shares retracted or a cash amount equal to $19.71 for every two Capital Shares retracted plus in each case a delivery charge of $0.05 for every two Capital Shares retracted payable to the Administrator, such holder may elect to receive his or her pro rata share of the BNS Shares (rounded down to the nearest whole share) represented by the Capital Shares retracted plus (minus) the Residual Amount (payable at the Company's discretion in cash or by adjustment to the number of BNS Shares to be delivered to the holder) as at the relevant Valuation Date, all as determined by the Board. For greater certainty, the Preferred Shares will not be treated as liabilities and any tax loss carryforwards will not be treated as an asset.

It should be noted that all the above retractions constitute a taxable disposition of the Company's shares by the shareholders at the time of the retraction whether the retraction is received in the form of cash or BNS Shares.

Holders of Capital Shares are not entitled to vote at any meetings of the Company other than the meetings of the holders of Capital Shares, except as provided by law. Holders of Capital Shares will not be entitled to vote any of the BNS Shares held by the Company.

The market value of the Capital Shares on September 22, 2019 was $22.48 (2018 – $22.64) per share.

Preferred Shares

Holders of Preferred Shares are entitled to receive quarterly fixed cumulative preferential distributions equal to $0.1971 per Preferred Share. Quarterly dividends on the Preferred Shares are paid by the Company on or before the 22nd day of December, March, June, and September in each year.

The Preferred Share distributions are funded from the dividends received on the BNS Shares. If necessary, any shortfall in the distributions on the Preferred Shares will be funded by proceeds from the sale of BNS Shares or, if determined appropriate by the Board, premiums earned from writing covered call options on the BNS Shares. Any portion of the Preferred Share distributions, which is derived from the proceeds of sale of the BNS Shares, will for tax purposes, consist of a non-taxable return of capital or a combination of a capital gains dividend and a non-taxable return of capital.

Any Preferred Shares still outstanding on the Redemption Date will be redeemed by the Company on such date at a price per share equal to the lesser of $19.71 and the Unit Value (see note 7).

The Preferred Shares may be surrendered for retraction at any time. In addition, the Company may redeem the Preferred Shares on any Annual Retraction Payment Date for $19.71 per share. The Company will only redeem the Preferred Shares to the extent that unmatched Capital Shares have been tendered for retraction under the Special Annual Retraction. Where less than all the Preferred Shares are to be so redeemed, the shares shall be redeemed on a pro rata basis or in such other manner as is approved by the Board.

The Preferred Shares may be redeemed by the Company at any time prior to the Redemption Date at a price equal to $19.71 per share.

Holders of Preferred Shares are not entitled to vote at any meetings of the Company other than meetings of the holders of Preferred Shares, except as provided by law, or to vote any of the BNS Shares held by the Company.

The market value of the Series 2 Preferred Shares on September 22, 2019 was $19.90 (2018 – $19.95) per share.

Class J shares

The Class J shares of the Company are retractable at any time. For retractions occurring at a time when any Capital Shares or Preferred Shares are outstanding, the retraction price will be $1.00 per share; for other retractions, the retraction price will be based on the net asset value of the Company. The Class J shares are redeemable by the Company at any time for a redemption price equal to $1.00 per share, being the amount paid-up thereon.

Holders of Class J shares are entitled to receive dividends, if, as and when declared by the Board. However, other than the dividends noted above, holders of Class J shares are not entitled to receive any dividends on the Class J shares at any time when there are any Capital Shares or Preferred Shares issued and outstanding unless approved by all of the independent directors of the Company.

Holders of Class J shares are entitled to one vote per share. BNS Split II Holdings Corp. (“Holdings”) owns all of the 150 issued and outstanding Class J shares of the Company. Two independent directors and one former independent director of the Company each own 33⅓% of the common shares of Holdings.

Class S shares

The holders of the Class S shares are entitled to receive dividends, if, as and when declared by the Board. However, holders of Class S shares are not entitled to receive any dividends on such shares at any time when there are any Capital Shares or Preferred Shares issued and outstanding unless approved by all of the independent directors of the Company.

SMCAI pays operating expenses on behalf of the Company as and when incurred. Reimbursement of such expenses together with payment of the administration fee may be satisfied by payment of a dividend on the Class S shares held by SMCAI. Accordingly, for the year ended September 22, 2019, the Company declared and paid dividends on its Class S shares in an amount of $284,850 (2018 – $279,750) in satisfaction of the Company’s administrative fees and operating expenses (excluding transaction costs).

The holders of the Class S shares are not entitled to vote except as may be required by applicable law. The Class S shares of the Company are retractable at any time at a retraction price of $1.00 per share. The Class S shares are redeemable by the Company at any time for a redemption price equal to $1.00 per share, being the amount paid-up thereon. The Class S shares rank subsequent to both the Capital Shares and the Preferred Shares and pari passu with the Class J shares with respect to dividends and with respect to distributions upon a retraction, redemption or reduction of capital and distributions on the dissolution, liquidation or winding-up of the Company.

SMCAI owns the 100 issued and outstanding Class S shares of the Company.

5. INCOME TAXES

Capital losses may be carried forward indefinitely to reduce future realized capital gains. Non-capital losses may be carried forward for up to twenty years to reduce future net investment income and net realized taxable capital gains.

As of September 22, 2019, the Company has non-capital losses of $1.6 million (2018 – $1.6 million), for which no benefit has been recognized in these financial statements. The non-capital losses by year of expiry are as follows:

2028	$ 261,000
2029	920,000
2032	274,000
2035	154,000
	$1,609,000

6. RELATED PARTY INFORMATION

For its services to the Company, which includes the provision of key management personnel, SMCAI is entitled to receive an administrative fee of 0.25% per annum of the market value of the BNS Shares. For the year ended September 22, 2019, total administrative fees paid to SMCAI were $79,245 (2018 – $91,980).

For the year ended September 22, 2019, administrative fees and operating expenses (excluding transaction costs) of $284,850 (2018 – $279,750) were paid and satisfied by way of a dividend on the Company's Class S shares. During the year, transaction costs of $200 (2018 – $93) were paid to SCI relating to portfolio transactions in connection with the special annual retraction and redemption. At September 22, 2019, the Company had cash on deposit with SCI and The Bank of Nova Scotia of $10,852 (2018 – $11,696). At September 22, 2019, the Company held investments in The Bank of Nova Scotia common shares with an aggregate fair value of $27,298,326 (2018 – $30,860,388).

SMCAI owns all of the issued and outstanding Class S shares of the Company. Holdings owns all of the issued and outstanding Class J shares of the Company. Holdings is owned equally by two independent directors and one former independent director of the Company.

7. UNIT VALUE

A "Unit" consists of two Capital Shares and one Preferred Share. For the Unit Value calculation, Preferred Shares will not be treated as liabilities and any tax loss carryforwards will not be treated as an asset.

Unit Value is defined as:

The amount received by the Company on the disposition of that number of BNS Shares represented by the Unit's pro rata share of the BNS Shares less brokerage fees, commissions and all other transaction costs relating to such sale plus (minus) an amount equal to the pro rata share of the amount by which the value of the other assets of the Company (excluding any refundable taxes not then available to the Company) exceed (are less than) the liabilities (including any extraordinary liabilities and accrued termination costs) of the Company as at the relevant Valuation Date and the redemption value of the Class J shares and Class S shares, all as determined by the Board.

The amount received on the disposition of BNS Shares may vary from the trading price of the BNS Shares on the relevant valuation date as the Company may dispose of its BNS Shares on or after such date. In respect of any retraction by a holder and the calculation of Unit Value, the number of BNS Shares to be disposed of will be rounded down to the nearest whole share.

8. CAPITAL MANAGEMENT

The Company's capital is represented by net assets attributable to holders of Capital Shares and Preferred Shares. The Administrator, with oversight from the Board, is responsible for managing the Company's BNS Shares in line with its mandate and the business affairs of the Company, including receipt of income and the payment of distributions to shareholders. The Company pays fixed dividends on the Preferred Shares and should the net asset value per Unit at the date of each dividend declaration exceed the original issue price of the Preferred Shares after giving effect to the Capital Share dividend, the Company's policy is to pay dividends on the Capital Shares equal to the excess, if any, of dividends received by the Company on the BNS Shares less the fixed preferential dividend paid on the Preferred Shares and all administrative and operating expenses. Where the net asset value per Unit at the time of declaration, after giving effect to the Capital Share dividend, is less than or equal to the original issue price of the Preferred Shares, any excess cash will be reinvested in short-term money market instruments or BNS Shares.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table outlines the fair value hierarchy of the financial instruments as at September 22, 2019 and 2018 as follows:

	Level 1	Level 2	Level 3	Total
As at September 22, 2019				
Investment	$27,298,326	$—	$—	$27,298,326
As at September 22, 2018				
Investment	$30,860,388	$—	$—	$30,860,388

All fair value measurements are recurring. The carrying amounts of cash and accrued liabilities approximate their fair value because of the short-term nature of these items. Instruments are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available.

Instruments are classified as Level 2 when the related security or derivative has inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3. The Company's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer. There were no transfers between levels during the years presented.

10. FINANCIAL INSTRUMENT RISK MANAGEMENT

In the normal course of business, the Company is exposed to a variety of financial risks: market risk (including price risk, interest rate risk and currency risk), credit risk and liquidity risk. As it is the Company's mandate to be fully invested in BNS Shares and pay distributions from cash flows to the maximum extent possible, the Company's overall risk management program focuses on compliance and execution of the Company's investment objectives.

Price Risk

The value of the Capital Shares is dependent on the value of the BNS Shares. The value of the BNS Shares will be influenced by factors outside of the Company's control, including the financial performance of BNS, operational risks relating to the specific business activities of BNS, quality of assets owned by BNS, prices, exchange rates, interest rates, environmental risks, political risks, issues relating to government regulation and other financial market conditions. If the price of the BNS Shares increased or decreased by 5% as at September 22, 2019, all other variables held constant, the net assets per Capital Share would have increased or decreased, respectively, by $1.65 (2018 – $1.72) per Capital Share or 7.1% (2018 – 7.0%) of which $0.49 (2018 – $0.49) per Capital Share or 2.1% (2018 – 2.0%) is the result of leverage to which holders of Capital Shares are exposed. In practice, the actual trading results may differ materially from this sensitivity analysis.

The value of the Preferred Shares is dependent on the prevailing level of market interest rates and on the level of downside protection on the Preferred Shares which is a function of the price of the BNS Shares. Downside protection is the percentage by which the net assets can decline and still cover the $19.71 redemption price of a Preferred Share. Downside protection on the Series 2 Preferred Shares as at September 22, 2019 was 70% (2018 – 71%).

Interest Rate Risk

Interest rate risk arises from changes in the prevailing levels of market interest rates resulting in fluctuations in the value of interest-bearing financial instruments. The majority of the Company's assets are non-interest bearing; however, the Company is indirectly exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its BNS Shares. Any excess cash is invested in short-term money market instruments or in a deposit account.

Currency Risk

The assets and liabilities are held in the functional currency of the Company which is the Canadian dollar. The Company is not exposed to significant foreign currency risks except to the extent that the business activities of BNS are subject to foreign currency fluctuations.

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company maintains all its cash and cash equivalents at its custodian or in bankers' acceptances or term deposits with financial institutions having a minimum debt rating of A. All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is made only when the Company has received payment. Payment is made on purchases once the securities have been received by the Company. Should either party not meet its obligation, the trade will fail.

Liquidity Risk

The Company is exposed to annual retractions and receives notification no later than seven business days prior to the Valuation Date. The BNS Shares are traded in an active market and can normally be readily disposed of. There can be no assurance that an adequate market for the BNS Shares will exist at all times, or that the prices at which the BNS Shares trade, accurately reflect their net asset values. Low trading volumes for the BNS Shares could make it difficult to liquidate holdings quickly.

The Company's redeemable Capital Shares and Preferred Shares represent a financial liability. The Capital Shares and Preferred Shares become payable when retracted by shareholders in accordance with the retraction rights described in note 4 and ultimately on the Redemption Date. The Preferred Shares are redeemable on demand.

As at September 22, 2019, the maturity of the Company's financial liabilities, other than the redeemable shares, based on the remaining period between the financial statement date and the contractual maturity date was $0.01 million due greater than 1 year (2018 – $0.01 million due greater than 1 year).

11. TRANSITION TO IFRS 9 FINANCIAL INSTRUMENTS

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at September 23, 2018.

	Measurement Category		Carrying Amount – September 23, 2018		
	IAS 39	IFRS 9	IAS 39	IFRS 9	Difference
Financial Assets					
Investment	FVTPL	FVTPL	$30,860,388	$30,860,388	—
Cash	Amortized Cost	Amortized Cost	13,992	13,992	—
Financial Liabilities					
Accrued liabilities	Amortized Cost	Amortized Cost	10,000	10,000	—

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BNS SPLIT CORP. II

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Director & Chairman of the Board

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Director

Patrick C. Lincoln*
Director & Chairman of the Audit Committee

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