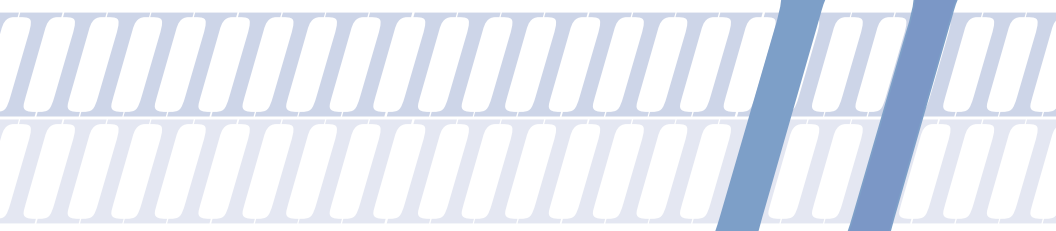


**2010** | **FINANCIAL 15 SPLIT CORP. II**  
**ANNUAL REPORT**



# II

This report may contain forward-looking statements about the Company. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Company action, is also forward-looking. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Company. Any number of important factors could contribute to any divergence between what is anticipated and what actually occurs, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technology change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and you should avoid placing undue reliance on forward-looking statements. While the Company currently anticipates that subsequent events and developments may cause the Company’s views to change, the Company does not undertake to update any forward-looking statements.

---

**FINANCIAL 15 SPLIT CORP. II**  
**ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**  
**NOVEMBER 30, 2010**

---

This is the annual Management Report of Fund Performance (MRFP) for the period ended November 30, 2010. This MRFP contains financial highlights but does not contain the complete financial statements of the Company. The annual financial statements and accompanying notes are attached to this report.

Investors may also obtain a copy of the Company's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure by visiting our website at [www.financial15.com](http://www.financial15.com) or by writing to the Company at Investor Relations, Royal Trust Tower, 77 King Street West, P.O. Box 341, Toronto, Ontario, M5K 1K7.

These reports are available to view and download at [www.financial15.com](http://www.financial15.com) or [www.sedar.com](http://www.sedar.com).

---

**INVESTMENT OBJECTIVES AND STRATEGIES**

Financial 15 Split Corp. II invests primarily in a portfolio of common shares (the "Portfolio"), which will include each of the 15 financial services companies listed below:

---

**Canadian issuers**

Bank of Montreal  
The Bank of Nova Scotia  
Canadian Imperial Bank of Commerce  
CI Fund Financial Corp.  
Great West Lifeco Inc.  
Manulife Financial Corporation  
National Bank of Canada  
Royal Bank of Canada  
Sun Life Financial Services of Canada Inc.  
The Toronto-Dominion Bank

---

**U.S. issuers**

Bank of America Corp.  
Citigroup Inc.  
Goldman Sachs Group Inc.  
JP Morgan Chase & Co.  
Wells Fargo & Co.

The Company may also invest up to 15% of its Net Asset Value in equity securities of issuers other than the 15 financial services companies listed above. In order to supplement the dividends received on the Portfolio and to reduce risk, the Company will from time to time write covered call options in respect of some or all of the common shares in the Portfolio.

The Company offers two types of shares:

### **Preferred Shares**

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

1. To provide holders with fixed cumulative preferential monthly cash dividends in the amount of \$0.04375 per Preferred Share to yield 5.25% per annum on the original issue price; and
2. On or about December 1, 2014 (the termination date) to pay holders the original issue price (\$10) of the Preferred shares.

### **Class A Shares**

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

1. To provide holders with regular monthly cash dividends initially targeted to be \$0.10 per Capital Share to yield 8% per annum on the original issue price; and
2. On or about December 1, 2014 (the termination date), to pay holders at least the original issue price of those shares (\$15).

---

## **RISK**

The risks of investing in the Company remain as discussed in the Annual Information Form dated February 23, 2011. In addition, Note 3 of the annual financial statements (“Management of Risk”) contains disclosure on specific types of risks related to the financial investments held by the Company.

---

## **RESULTS OF OPERATIONS**

The year ended November 30, 2010 reflected a continuation of the global economic and market recovery. In general, equity markets experienced solid positive returns, despite exhibiting several periods of considerable volatility.

During the earlier part of the year, the sustainability of continued economic growth, especially in the United States, became a concern for many investors as leading economic indicators seemed to reflect an increased risk of economic slowing. Although corporate earnings continued to improve from the relatively depressed levels of 2008 and 2009, high unemployment, continued housing weakness and ballooning deficits in the U.S. continued to act as a significant headwind for a more robust economic recovery. These concerns from the world’s biggest economy as well as other exogenous events including the Greek sovereign debt crisis, the resultant decline in the Euro, concerns over a possible slowdown in Chinese growth, a mini intraday market “flash” crash and the negative economic and ecological impact of the BP oil spill all conspired to increase volatility and resulted in a decline in equity markets in April and May.

After a weaker Q2 U.S. GDP report and data points pertaining to U.S. housing and unemployment continued to point to a below average economic recovery, the U.S. Federal Reserve provided clear signals in August that it would engage in further significant monetary stimulus until the

economic recovery was considered sustainable. This signal as well as the prospects of a more business friendly administration after the U.S. November mid term elections appeared to provide the catalyst for a strong rally in equities during the fall of 2010. At its November meeting, the Federal Reserve delivered on its intentions by announcing a \$600 billion quantitative easing program and Republicans gained significantly in the U.S. mid term elections as the equity markets had anticipated in advance.

The Canadian economy has been recognized by many investors as performing at an impressive level when compared to other developed countries. This strength is reflected in solid GDP growth, lower unemployment rates, a stable housing market that has largely been unaffected by the situation south of the border and government finances that are in much better shape than most developed countries. The Bank of Canada has also initiated its first two increases in interest rates during the summer of 2010 as a further sign that the Canadian economy appears to be achieving a sustainable level of economic momentum.

Notwithstanding the much stronger Canadian economic and market environment, it is clear the Canadian equity markets will continue to be adversely affected by external global events such as heightened periods of political instability in foreign countries or exchange rate volatility in the world currency markets. The impact of such global events continues to cause periods of instability and volatility and demonstrates the extent to which equity markets across the world are correlated in times of crisis and global instability. However, these periods of increased market volatility creates opportunities for the Company to add higher option premiums through the covered call writing program.

For the economic recovery in North America to become more robust and sustainable, it will be necessary to transition from a government led growth strategy that has included record spending and highly accommodative monetary policy to private economic growth propelled through the free market capitalist system. If this transition is successful, the companies in the portfolio are expected to be significant beneficiaries of this growth.

Against this backdrop, the market prices of the financial services stocks in the portfolio generally mirrored this activity reaching highs (post March 2009) in April 2010 before experiencing the effects of a broad based market correction during the summer of 2010 and then regaining much of this decline during the fall of 2010. The Net Asset Value finished \$ 0.70 lower to end at \$14.60 per unit (consisting of one Preferred share and one Class A share) as at November 30, 2010. Preferred shareholders received distributions at the regular targeted rates. As a result of the decline in the Net Asset Value below \$15 during the second half of the year, Class A shareholders received only 5 distributions for a total of \$0.50 per share.

The portfolio has generally retained a 2/3 weighting in Canadian financial services stocks versus the U.S. financial services stocks during the year. At the current time, the valuations of the companies in the portfolio generally remain at very reasonable levels when measured by price to earnings ratios and dividend yields are expected to act as a major support at these current market prices, especially for the Canadian financial services stocks.

---

## DISTRIBUTIONS

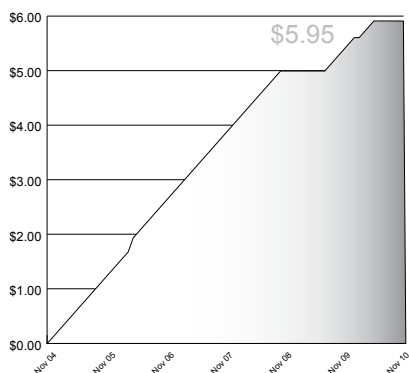
### Class A Shares - Distributions

Class A shareholders are entitled to receive regular monthly cash dividends initially targeted to be \$0.10 per Class A Share to yield 8.0% per annum on the original issue price. As a result of the decline in the Net Asset Value below \$15 during the period, only 5 monthly distributions were paid for a total of \$0.50 per share.

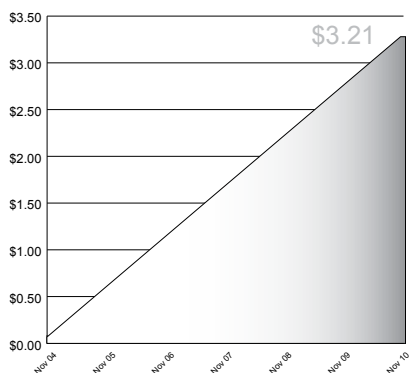
### Preferred Shares - Distributions

Preferred shareholders are entitled to fixed, cumulative preferential monthly cash dividends in the amount of \$0.04375 per Preferred Share to yield 5.25% per annum on the original issue price. Distributions paid during the year were at the fixed rate for a total \$0.525 per share.

### Cumulative Distributions since inception



### Cumulative Distributions since inception



---

## RECENT DEVELOPMENTS

At its January 2011 meeting, the Canadian Accounting Standards Board (AcSb) decided to extend the deferral of mandatory adoption of IFRS for Investment Companies to fiscal years beginning on or after January 1, 2013. The decision is in response to the International Accounting Standards Board's announcement in late 2010 that its Investment Company project is delayed and will not likely be issued before January 1, 2012, which is the current date of the mandatory adoption of IFRS for these entities. The AcSb expects to issue the amendment in March 2011.

The Company expects to report its financial results for the six month period ended May 31, 2014 prepared on an IFRS basis. The Company will also provide comparative data on an IFRS basis, including an operating balance sheet as at December 1, 2013.

The Company has not identified any changes that will impact Net Asset Value per unit as a result of the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of additional note disclosure and potentially different presentation of shareholder interests and other items in the financial statements of the Company. However this determination is subject to change as the Company finalizes its assessment of potential IFRS differences and as new standards are issued prior to the Company's adoption of IFRS.

---

## RELATED PARTY TRANSACTIONS

Quadravest Capital Management Inc. ("Quadravest") as Investment Manager and Manager earns fees from the Company as described below in the Management Fees section.

---

## **MANAGEMENT FEES**

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

Pursuant to the administration agreement, Quadravest is entitled to an administration fee payable monthly in arrears at an annual rate equal to 0.1% of the transactional net assets of the Company, which includes the outstanding Preferred shares, calculated as at each monthly valuation date and an amount equal to the service fee payable to dealers on the Class A shares at a rate of 0.50% per annum. No service fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A shares in respect of each month in such calendar quarter.

Total management fees of \$ 630,078 paid for the period ended November 30, 2010 include the base management fee and the administration fee. The base management fee was used by Quadravest to provide investment analysis, make investment decisions, and make brokerage arrangements for the purchase and sale of securities, including the covered call writing program. The administration fee was used to provide or arrange administrative services required by the Company which includes all operational services, financial accounting, shareholder reporting and regulatory reporting.

---

## **FINANCIAL HIGHLIGHTS**

The following tables show selected financial information about the Company and are intended to help you understand the Company's financial performance. This information is derived from the Company's annual financial statements and previous annual audited financial statements. The Net Assets included in the Net Assets per unit table is from the Company's financial statements and calculated using bid prices since November 30, 2007. The Net Asset Value included in the Ratios/Supplemental data Table is for Transactional pricing purposes and calculated using closing prices (see Note 2 in the financial statements).

## The Company's Net Assets per unit

|                                                          | Years ended November 30 |               |               |               |               |
|----------------------------------------------------------|-------------------------|---------------|---------------|---------------|---------------|
|                                                          | 2010                    | 2009          | 2008          | 2007          | 2006          |
| Net assets per unit, beginning of year <sup>(1)</sup>    | 15.30                   | 13.13         | 23.77         | 26.67         | 25.45         |
| Increase (decrease) from operations                      |                         |               |               |               |               |
| Total revenue                                            | 0.44                    | 0.58          | 0.84          | 0.82          | 0.69          |
| Total expenses                                           | (0.15)                  | (0.14)        | (0.22)        | (0.35)        | (0.36)        |
| Realized gains (losses) for the year                     | (0.33)                  | (0.85)        | 0.17          | 0.57          | 2.01          |
| Unrealized gains (losses) for the year                   | <u>0.37</u>             | <u>3.45</u>   | <u>(9.78)</u> | <u>(2.15)</u> | <u>0.86</u>   |
| Total increase (decrease) from operations <sup>(2)</sup> | <u>0.33</u>             | <u>3.04</u>   | <u>(8.99)</u> | <u>(1.11)</u> | <u>3.20</u>   |
| Distributions <sup>(3)</sup>                             |                         |               |               |               |               |
| Taxable Dividends                                        | (1.03)                  | (0.93)        | (1.44)        | (0.84)        | (0.53)        |
| Capital Gains                                            | <u>-</u>                | <u>-</u>      | <u>(0.19)</u> | <u>(0.88)</u> | <u>(1.45)</u> |
| Total annual distributions                               | <u>(1.03)</u>           | <u>(0.93)</u> | <u>(1.63)</u> | <u>(1.72)</u> | <u>(1.98)</u> |
| Net assets per, at end of year                           | 14.60                   | 15.30         | 13.13         | 23.77         | 26.67         |
| Net assets per Preferred share                           | 10.00                   | 10.00         | 10.00         | 10.00         | 10.00         |
| Net assets per Class A share                             | <u>4.60</u>             | <u>5.30</u>   | <u>3.13</u>   | <u>13.77</u>  | <u>16.67</u>  |
| Net assets per unit at end of year                       | 14.60                   | 15.30         | 13.13         | 23.77         | 26.67         |

- (1) Net asset per unit is the difference between the aggregate value of the assets of the Company and the aggregate value of the liabilities excluding the Preferred shares of the Company on that date divided by the number of units then outstanding.
- (2) Total increase (decrease) from operations is before the payment of Preferred and Class A share distributions and is calculated based on the weighted average number of units outstanding during the period.
- (3) Distributions to Preferred shares and Class A shares are based on the number of Preferred shares and Class A shares outstanding on the record date for each distribution and were paid in cash. Characterization of distributions is based on the tax treatment that is received by investors.

## RATIOS AND SUPPLEMENTAL DATA

|                                                              | Years ended November 30 |           |           |           |           |
|--------------------------------------------------------------|-------------------------|-----------|-----------|-----------|-----------|
|                                                              | 2010                    | 2009      | 2008      | 2007      | 2006      |
| Net assets (millions)                                        | \$83.1                  | \$87.2    | \$85.4    | \$152.8   | \$177.4   |
| Number of units outstanding <sup>(1)</sup>                   | 5,688,250               | 5,688,250 | 6,344,350 | 6,425,850 | 6,650,100 |
| Base Management expense ratio <sup>(2)</sup>                 | 1.03%                   | 1.04%     | 1.15%     | 1.31%     | 1.26%     |
| Management expense ratio with performance fee <sup>(3)</sup> | 1.03%                   | 1.04%     | 1.15%     | 1.31%     | 1.40%     |
| Management expense ratio per Class A share <sup>(4)</sup>    | 14.38%                  | 18.99%    | 8.45%     | 5.28%     | 5.6%      |
| Portfolio turnover rate <sup>(5)</sup>                       | 5.9%                    | 28.2%     | 0.7%      | 16.10%    | 22.9%     |
| Trading expense ratio <sup>(6)</sup>                         | 0.03%                   | 0.12%     | 0.02%     | 0.04%     | 0.04%     |
| Closing market price (TSX):                                  |                         |           |           |           |           |
| Preferred shares                                             | \$10.06                 | \$9.31    | \$5.63    | \$9.98    | \$10.74   |
| Closing market price (TSX):                                  |                         |           |           |           |           |
| Class A shares                                               | \$4.10                  | \$6.01    | \$3.61    | \$12.67   | \$15.15   |

(1) This information is provided as at November 30.

(2) A separate base management expense ratio has been presented to reflect the normal operating expenses of the Company excluding the one time initial offering expenses and performance fees. Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of average net assets during the period.

(3) Performance fees occur in periods in which the total return per unit exceeds a pre established threshold.

(4) Management expense ratio for Class A shares is based on the requirements of National Instrument 81-106. This policy requires that all Split share companies produce an expense ratio which allocates all operating expenses of the Company, all distributions on Preferred shares and all issuance costs to the Class A shares and expresses this as an annualized percentage of net assets applicable only to the Class A shares during the period. The management expense ratio per Class A share should not be interpreted as the required return necessary for the Company or the Class A share to cover the operating expenses of the Company. This calculation is based only on a portion of the Company's assets whereas the Company utilizes its entire assets to generate investment returns. Management believes that the base management expense ratio per unit disclosed in the table above is the most representative ratio in assessing the ongoing efficiency of the administration of the Company, making comparisons to the expense ratios of single unit mutual funds or determining the minimum investment returns necessary by the Company to achieve growth in Net Asset Value per unit.

(5) The Company's portfolio turnover rate indicates how actively the Company's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Company buying and selling all of the securities in its portfolio once in the course of the year. The Company employs a covered call writing strategy which can cause the portfolio turnover rate to be higher than conventional mutual funds. The higher the Company's portfolio turnover rate in a year, the greater the trading costs payable by the Company in the year and the greater chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Company.

(6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average net assets during the period.

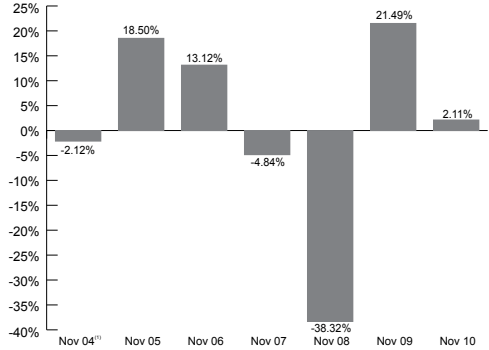
## PAST PERFORMANCE

### Year-by-Year Returns

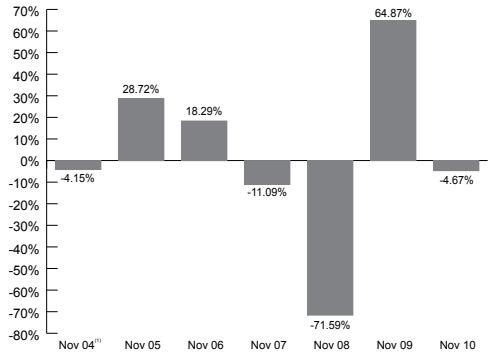
The past performance of 1) the Net Asset Value per unit; 2) the Preferred share on a Net Asset Value basis; and 3) the Class A share on a Net Asset Value basis for each year ended November 30 since inception are presented in the bar charts below. Each bar in the chart reflects the change in percentage terms of how a Unit, a Preferred share or a Class A share would have increased or decreased during the applicable period. In respect to the charts displayed below, please note the following:

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

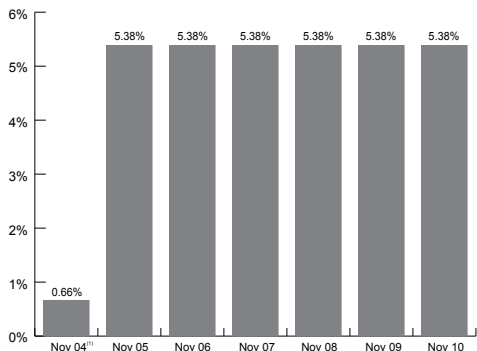
#### NET ASSET VALUE



#### CLASS A SHARE



#### PREFERRED SHARE



<sup>(1)</sup> Based on initial year from October 14, 2004 to November 30, 2004

## Annual Compound Performance

The following table shows the Company's annual compound return for the period ended November 30, 2010:

|                                               | One<br>year | Three<br>years | Five<br>years | Since<br>inception |
|-----------------------------------------------|-------------|----------------|---------------|--------------------|
| Financial 15 Split Corp. II - Unit            | 2.11%       | -8.54%         | -3.81%        | -0.74%             |
| Financial 15 Split Corp. II - Preferred share | 5.38%       | 5.38%          | 5.38%         | 5.38%              |
| Financial 15 Split Corp. II - Class A share   | -4.67%      | -23.57%        | -14.04%       | -8.53%             |

## MARKET INDICES<sup>(1)</sup>

|                         |        |         |         |         |
|-------------------------|--------|---------|---------|---------|
| S&P TSX Financial Index | 8.59%  | -1.84%  | 3.64%   | 7.02%   |
| S&P 500 Financial Index | -3.23% | -19.88% | -14.64% | -11.00% |

- (1) As a result of the Company being limited to a specific universe of stocks and that a covered call writing program is implemented to generate additional income, the investment profile of the Company is quite unique and any comparisons with any other external market indices may not be appropriate.

## SUMMARY OF INVESTMENT PORTFOLIO

All holdings as at November 30, 2010

| Name                                                      | Weighting (%) |
|-----------------------------------------------------------|---------------|
| Goldman Sachs Group Inc.                                  | 7.0%          |
| AGF Management Ltd.                                       | 6.8%          |
| Canadian Imperial Bank of Commerce                        | 6.8%          |
| CI Financial Corp.                                        | 6.7%          |
| Bank of Montreal                                          | 6.2%          |
| Wells Fargo & Co.                                         | 5.9%          |
| Royal Bank of Canada                                      | 5.8%          |
| J.P. Morgan Chase & Co.                                   | 4.9%          |
| Bank of America Corp.                                     | 4.9%          |
| TMX Group Inc.                                            | 4.8%          |
| Citigroup Inc.                                            | 4.2%          |
| Manulife Financial Corporation                            | 4.1%          |
| Bank of Nova Scotia                                       | 3.9%          |
| Sun Life Financial Inc.                                   | 3.4%          |
| National Bank of Canada                                   | 3.3%          |
| Great-West Lifeco Inc.                                    | 3.3%          |
| US Bancorp                                                | 2.7%          |
| Toronto-Dominion Bank                                     | 2.5%          |
| <b>Total long positions as a percentage of net assets</b> | <b>87.2%</b>  |
| Other net assets                                          | 12.8%         |

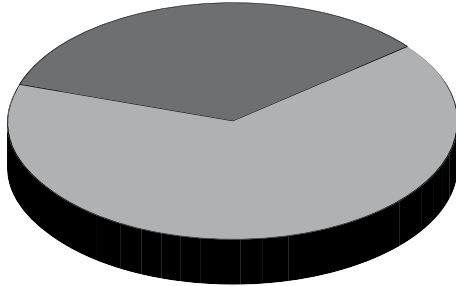
The summary of investment portfolio may change due to ongoing portfolio transactions of the Company. Updates are available quarterly.

---

## PORTFOLIO BREAKDOWN

The following pie chart shows the division of the Company's holdings between Canadian and U.S. investments.

**U.S. Financial Stocks 33.9%**



**Canadian Financial Stocks 66.1%**

---

## **FINANCIAL 15 SPLIT CORP. II**

### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The financial statements of Financial 15 Split Corp. II (the "Company") and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors of the Company.

The Company maintains appropriate procedures to ensure that relevant and reliable financial information is produced. Statements have been prepared in accordance with Canadian generally accepted accounting principles and may include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Company are described in Note 2 to the financial statements.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements.

The Company with the approval of its Board of Directors has appointed the external firm PricewaterhouseCoopers LLP as the auditors of the Company. They have audited the financial statements of the Company in accordance with Canadian generally accepted auditing standards to enable them to express to shareholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

---

**AUDITOR'S REPORT**  
**FEBRUARY 24, 2011**

**Independent Auditor's Report**

**To the Shareholders of Financial 15 Split Corp. II (the Company)**

We have audited the accompanying financial statements of the Company, which comprise the statement of portfolio investments as at November 30, 2010, the statements of financial position as at November 30, 2010 and 2009 and the statements of operations and deficit, cash flow and changes in shareholders' equity for the years then ended, and the related notes including a summary of significant accounting policies.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles, 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.

**Auditor's responsibility**

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2010 and November 30, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants**

**FINANCIAL 15 SPLIT CORP. II**  
**STATEMENTS OF FINANCIAL POSITION**

AS AT NOVEMBER 30

|                                                     | 2010<br>(\$)             | 2009<br>(\$)             |
|-----------------------------------------------------|--------------------------|--------------------------|
| <b>ASSETS</b>                                       |                          |                          |
| Investments - at fair value (note 2)                | 72,187,075               | 86,679,382               |
| Cash                                                | 11,074,920               | 911,563                  |
| Interest, dividends and other receivables           | 117,626                  | 126,476                  |
| Receivable in respect to investments sold           | -                        | 230,532                  |
| <b>Total Assets</b>                                 | <u><b>83,379,621</b></u> | <u><b>87,947,953</b></u> |
| <b>LIABILITIES</b>                                  |                          |                          |
| Fees and other accounts payable                     | 84,941                   | 105,573                  |
| Dividends payable                                   | 248,861                  | 817,686                  |
| Preferred shares (note 4)                           | <u>56,882,500</u>        | <u>56,882,500</u>        |
|                                                     | <u>57,216,302</u>        | <u>57,805,759</u>        |
| <b>SHAREHOLDERS' EQUITY</b>                         |                          |                          |
| Class A and Class B shares (note 5)                 | 78,075,532               | 78,075,532               |
| Deficit                                             | <u>(51,912,213)</u>      | <u>(47,933,338)</u>      |
|                                                     | <u>26,163,319</u>        | <u>30,142,194</u>        |
| <b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b> | <u><b>83,379,621</b></u> | <u><b>87,947,953</b></u> |
| Number of units (1 Preferred share and              |                          |                          |
| 1 Class A share) outstanding                        | 5,688,250                | 5,688,250                |
| Net assets per unit (note 2)                        | 14.60                    | 15.30                    |
| Net assets per Preferred share (note 2)             | 10.00                    | 10.00                    |
| Net assets per Class A share (note 2)               | 4.60                     | 5.30                     |

Approved on behalf of the Board of Directors



**WAYNE FINCH**

Chairman, as Chief Executive Officer  
and Chief Investment Officer



**PETER CRUICKSHANK**

Managing Director and  
Chief Financial Officer

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

**FINANCIAL 15 SPLIT CORP. II**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
FOR THE YEARS ENDED NOVEMBER 30

|                                                                            | 2010                | 2009                |
|----------------------------------------------------------------------------|---------------------|---------------------|
|                                                                            | (\$)                | (\$)                |
| <b>INCOME</b>                                                              |                     |                     |
| Dividends                                                                  |                     |                     |
| (net of foreign withholding taxes-\$21,259; (2009 -\$36,844))              | 2,489,225           | 3,580,117           |
| Interest                                                                   | -                   | 711                 |
|                                                                            | <u>2,489,225</u>    | <u>3,580,828</u>    |
| <b>EXPENSES</b> (note 6)                                                   |                     |                     |
| Management fees                                                            | 630,078             | 633,024             |
| Service fees                                                               | (11,067)            | 19,213              |
| Audit fees                                                                 | 20,077              | 20,001              |
| Directors' fees                                                            | 20,232              | 20,513              |
| Independent Review Committee fees                                          | 3,531               | 3,531               |
| Custodian fees                                                             | 47,456              | 30,994              |
| Legal fees                                                                 | 23,448              | 12,549              |
| Shareholder reporting costs                                                | 13,444              | 18,559              |
| Other operating expenses                                                   | 62,240              | 72,397              |
| Goods and services tax/harmonized sales tax                                | 53,895              | 40,160              |
|                                                                            | <u>863,334</u>      | <u>870,941</u>      |
| <b>Net investment income</b>                                               |                     |                     |
| before distributions on Preferred shares                                   | 1,625,891           | 2,709,887           |
| Distributions on Preferred shares (note 4 and 7)                           | <u>(2,986,331)</u>  | <u>(3,265,649)</u>  |
| <b>Net investment loss for the year</b>                                    | <u>(1,360,440)</u>  | <u>(555,762)</u>    |
| <b>Realized and unrealized gain (loss)</b>                                 |                     |                     |
| <b>on investments and options and transaction costs</b>                    |                     |                     |
| Net realized loss on investments and options                               | (1,831,497)         | (5,275,855)         |
| Change in unrealized appreciation of investments                           | 2,075,782           | 21,544,500          |
| Change in unrealized appreciation (depreciation) of foreign exchange       | 6,808               | (69,276)            |
| Transaction costs on purchase and sale of investments (note 2)             | <u>(25,403)</u>     | <u>(99,646)</u>     |
| <b>Net gain on investments and options for the year</b>                    | <u>225,690</u>      | <u>16,099,723</u>   |
| <b>Increase (decrease) in net assets from operations for the year</b>      | <u>(1,134,750)</u>  | <u>15,543,961</u>   |
| <b>Deficit - Beginning of year</b>                                         | <u>(47,933,338)</u> | <u>(67,246,390)</u> |
| <b>Net allocation on retractions</b>                                       | -                   | 6,207,441           |
| <b>Distributions on Class A shares (note 5 and 7)</b>                      | <u>(2,844,125)</u>  | <u>(2,438,350)</u>  |
| <b>Deficit - End of year</b>                                               | <u>(51,912,213)</u> | <u>(47,933,338)</u> |
| <b>Increase (decrease) in net assets from operations per Class A share</b> | <u>(0.20)</u>       | <u>2.50</u>         |

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

**FINANCIAL 15 SPLIT CORP. II**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
 FOR THE YEARS ENDED NOVEMBER 30

|                                                                 | 2010<br>(\$)              | 2009<br>(\$)             |
|-----------------------------------------------------------------|---------------------------|--------------------------|
| <b>Shareholders' equity - Beginning of year</b>                 | <b>30,142,194</b>         | <b>19,833,168</b>        |
| Increase (decrease) in net assets from operations               | (1,134,750)               | 15,543,961               |
| Class A share redemptions                                       | -                         | (9,004,026)              |
| Net allocations on retractions                                  | -                         | 6,207,441                |
| <b>Distributions on Class A shares</b>                          |                           |                          |
| From net investment income                                      | -                         | -                        |
| From net realized gains                                         | -                         | -                        |
| From return of capital                                          | (2,844,125)               | (2,438,350)              |
|                                                                 | <u>(2,844,125)</u>        | <u>(2,438,350)</u>       |
| <b>Increase (decrease) in shareholders' equity for the year</b> | <b><u>(3,978,875)</u></b> | <b><u>10,309,026</u></b> |
| <b>Shareholders' equity - End of year</b>                       | <b><u>26,163,319</u></b>  | <b><u>30,142,194</u></b> |

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

---

**FINANCIAL 15 SPLIT CORP. II****STATEMENTS OF CASH FLOW**

FOR THE YEARS ENDED NOVEMBER 30

|                                                                                         | 2010<br>(\$)             | 2009<br>(\$)          |
|-----------------------------------------------------------------------------------------|--------------------------|-----------------------|
| <b>Cash flow from Operating Activities</b>                                              |                          |                       |
| Net investment loss for the year                                                        | (1,360,440)              | (555,762)             |
| Proceeds from sale of investments                                                       | 19,579,193               | 34,358,540            |
| Purchase of investments                                                                 | (4,637,472)              | (22,563,718)          |
| Net change in interest, dividends and other receivable balances                         | 8,850                    | 82,349                |
| Net change in fees, other accounts payable and<br>Dividends payable on Preferred shares | (20,632)                 | 3,467                 |
| Change in unrealized (depreciation) of foreign exchange                                 | 6,808                    | (69,276)              |
| Cash flow from operations                                                               | <u>13,576,307</u>        | <u>11,255,600</u>     |
| <b>Cash flow from Financing activities</b>                                              |                          |                       |
| Amount paid on redemption of Class A shares<br>and Preferred shares                     | -                        | (9,357,585)           |
| Distributions on Class A shares                                                         | <u>(3,412,950)</u>       | <u>(1,869,525)</u>    |
| Cash flow from Financing activities                                                     | <u>(3,412,950)</u>       | <u>(11,227,110)</u>   |
| Increase in cash for the year                                                           | 10,163,357               | 28,490                |
| Cash, beginning of year                                                                 | <u>911,563</u>           | <u>883,073</u>        |
| <b>Cash, end of year</b>                                                                | <b><u>11,074,920</u></b> | <b><u>911,563</u></b> |
| <b>Supplemental information</b>                                                         |                          |                       |
| Distributions paid on Preferred shares                                                  | 2,986,331                | 3,294,353             |

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

**FINANCIAL 15 SPLIT CORP. II**  
**STATEMENT OF PORTFOLIO INVESTMENTS**

AS AT NOVEMBER 30, 2010

| No. of shares                         | Description                                                        | Average Cost (\$)<br>(Premiums received) | Fair Value (\$)          |
|---------------------------------------|--------------------------------------------------------------------|------------------------------------------|--------------------------|
| <b>Canadian Common Equities</b>       |                                                                    |                                          |                          |
| 85,000                                | Bank of Montreal                                                   | 4,983,142                                | 5,117,000                |
| 61,100                                | Bank of Nova Scotia                                                | 2,594,500                                | 3,251,742                |
| 71,500                                | Canadian Imperial Bank of Commerce                                 | 5,988,699                                | 5,644,925                |
| 262,150                               | CI Financial Corp.                                                 | 7,935,281                                | 5,541,851                |
| 105,800                               | Great-West Lifeco Inc.                                             | 2,749,132                                | 2,724,350                |
| 237,200                               | Manulife Financial Corporation                                     | 6,460,033                                | 3,382,472                |
| 40,600                                | National Bank of Canada                                            | 1,995,801                                | 2,754,304                |
| 88,200                                | Royal Bank of Canada                                               | 3,599,118                                | 4,846,590                |
| 102,700                               | Sun Life Financial Inc.                                            | 3,993,108                                | 2,842,736                |
| 28,500                                | Toronto-Dominion Bank                                              | 1,734,789                                | 2,126,100                |
|                                       | <b>Total Canadian Common Equities<br/>in Core Holdings (53.0%)</b> | <b><u>42,033,603</u></b>                 | <b><u>38,232,070</u></b> |
| <b>U.S. Common Equities</b>           |                                                                    |                                          |                          |
| 360,457                               | Bank of America Corp.                                              | 16,816,774                               | 4,050,245                |
| 813,100                               | Citigroup Inc.                                                     | 11,555,728                               | 3,499,198                |
| 36,000                                | Goldman Sachs Group Inc.                                           | 6,152,306                                | 5,773,341                |
| 106,500                               | J.P. Morgan Chase & Co.                                            | 4,764,228                                | 4,088,833                |
| 175,500                               | Wells Fargo & Co.                                                  | 5,598,823                                | 4,904,742                |
|                                       | <b>Total U.S. Common Equities<br/>in Core Holdings (30.9%)</b>     | <b><u>44,887,859</u></b>                 | <b><u>22,316,359</u></b> |
| <b>Other Canadian Common Equities</b> |                                                                    |                                          |                          |
| 330,200                               | AGF Management Ltd.                                                | 7,166,740                                | 5,686,044                |
| 112,200                               | TMX Group Inc.                                                     | 3,764,354                                | 3,950,562                |
|                                       | <b>Total Other Canadian Common Equities (13.3%)</b>                | <b><u>10,931,094</u></b>                 | <b><u>9,636,606</u></b>  |
| <b>Other U.S. Common Equities</b>     |                                                                    |                                          |                          |
| 90,500                                | US Bancorp                                                         | 1,947,252                                | 2,208,541                |
|                                       | <b>Total Other U.S. Common Equities (3.1%)</b>                     | <b><u>1,947,252</u></b>                  | <b><u>2,208,541</u></b>  |

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

**FINANCIAL 15 SPLIT CORP. II**  
**STATEMENT OF PORTFOLIO INVESTMENTS (CONTINUED...)**

AS AT NOVEMBER 30, 2010

| No. of shares           | Description                                            | Average Cost (\$)<br>(Premiums received) | Fair<br>Value<br>(\$) |
|-------------------------|--------------------------------------------------------|------------------------------------------|-----------------------|
|                         | <b>Call Options written (100 shares per contract)</b>  |                                          |                       |
| <b>No. of contracts</b> | <b>Canadian call options written</b>                   |                                          |                       |
| (150)                   | Bank of Nova Scotia @ \$56 January 2011                | (6,975)                                  | (7,350)               |
| (100)                   | Bank of Montreal @ \$64 December 2010                  | (5,000)                                  | (1,300)               |
| (100)                   | Bank of Montreal @ \$62 January 2011                   | (9,850)                                  | (10,800)              |
| (200)                   | Canadian Imperial Bank of Commerce @ \$80 January 2011 | (28,800)                                 | (31,600)              |
| (250)                   | Great-West Lifeco Inc. @ \$26 January 2011             | (8,875)                                  | (11,250)              |
| (600)                   | Manulife Financial Corporation @ \$15 January 2011     | (22,800)                                 | (25,200)              |
| (75)                    | National Bank of Canada @ \$68 January 2011            | (6,150)                                  | (13,725)              |
| (250)                   | Royal Bank of Canada @ \$58 December 2010              | (16,500)                                 | (3,500)               |
| (300)                   | Sun Life Financial Inc. @ \$29 December 2010           | (10,050)                                 | (4,200)               |
| (200)                   | Sun Life Financial Inc. @ \$29 January 2011            | (11,200)                                 | (9,000)               |
| (100)                   | Toronto-Dominion Bank @ \$78 December 2010             | (6,500)                                  | (2,300)               |
|                         | <b>Total Canadian call options written (-0.2%)</b>     | <u>(132,700)</u>                         | <u>(120,225)</u>      |
| <b>No. of contracts</b> | <b>U.S. call options written</b>                       |                                          |                       |
| (3,500)                 | Citigroup Inc. @ \$4 December 2010                     | (88,829)                                 | (86,276)              |
|                         | <b>Total U.S. call options (-0.1%)</b>                 | <u>(88,829)</u>                          | <u>(86,276)</u>       |
|                         |                                                        | <u>99,578,279</u>                        | <u>72,187,075</u>     |
|                         | <b>Less adjustment for transaction costs (note 2)</b>  | <u>(119,385)</u>                         |                       |
|                         | <b>Total Investments (100%)</b>                        | <u>99,458,894</u>                        | <u>72,187,075</u>     |

The Statement of Portfolio Investments is at November 30, 2010 and may or may not be indicative of the current portfolio. Due to tax considerations, the level of option premiums outstanding at year end may not be indicative of options outstanding during the year.

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

---

# FINANCIAL 15 SPLIT CORP. II

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

---

### 1. Incorporation

Financial 15 Split II Corp. (the “Company”) is a mutual fund corporation established under the laws of the Province of Ontario on September 3, 2004 that began investment operations on October 15, 2004. The manager and the investment manager of the Company is Quadravest Capital Management Inc. (“Quadravest”). All Preferred shares and Class A shares outstanding on December 1, 2014, the termination date of the Company, will be redeemed by the Company on that date.

### 2. Summary of significant accounting policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), include estimates and assumptions by management that affect the reported amount of assets, liabilities, income and expenses during the reporting years. The following is a summary of the significant accounting policies followed by the Company. Actual results could differ from these estimates.

#### Valuation of investments

In accordance with Accounting Guideline 18, Investment Companies, investments are deemed to be categorized as held for trading, and are required to be recorded at fair value as defined in CICA Handbook-Accounting Section 3855, Financial Instruments-Recognition and Measurement (“Section 3855”) for purposes of determining the Net Assets per unit reflected in the financial statements.

The fair value of investments as at the financial reporting date is determined as follows:

- Shares or other securities for which market quotations are readily available are valued at the closing bid price
- Call options written are valued at closing ask prices as reported on recognized exchanges
- Fixed income investments are based on the average bid quotations from recognized dealers

Section 14.2 of amended National Instrument 81-106 (“NI 81-106”) issued by the Canadian Securities Administrators, that came into force on September 8, 2008, requires an investment fund to calculate its Net Asset Value for the purposes of any purchases or redemption of units based on the fair value of the investment fund’s assets and liabilities (Net Asset Value or NAV).

The fair value of investments for purposes of calculating the bi monthly Net Asset Value used for the purposes of calculating the price paid on any redemptions received is determined as follows:

- Shares or other securities for which market quotations are readily available are valued at the last traded market price
- Call options written are valued at the last traded prices as reported on recognized exchanges
- Fixed income investments are based on the average bid quotations from recognized dealers

---

## FINANCIAL 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

---

In accordance with Section 3.6 (1) 5 of NI 81-106, the Net Asset Value per unit is compared to the Net Assets per unit and the difference is required to be disclosed in the notes to the financial statements. The following table is presented to show the differences between these amounts:

|                   | Net Assets<br>(GAAP NAV) per unit | Difference | Net Asset Value<br>(Published NAV) per unit |
|-------------------|-----------------------------------|------------|---------------------------------------------|
| November 30, 2010 | \$14.60                           | \$0.01     | \$14.61                                     |
| November 30, 2009 | \$15.30                           | \$0.02     | \$15.32                                     |

#### Transaction costs

- Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Company are recognized as an expense in the Statement of Operations and Deficit. The transaction costs for investments held at November 30, 2010 are shown separately on the Statement of Portfolio Investments

#### Investment transactions and income recognition

- Investment transactions are accounted for on the trade date
- Realized gains and losses on investment sales and unrealized appreciation or depreciation in investment values are calculated on the average cost basis
- Written call option income received is deferred and included in investments on the statements of financial position. Realized capital gains or losses are recognized in the statements of operations when options are exercised, expire or are closed out
- Deferred gains and losses on options are recognized in investments and as a component of net unrealized appreciation (depreciation) in the statements of operations
- Dividend income is recognized on the ex-dividend date. Interest income is recognized when earned
- Net realized gains and losses on investments include net realized gains or losses from foreign currency changes

#### Translation of foreign currencies

The fair value of investments and other assets and liabilities in foreign currencies are translated into the Company's functional currency at the rates of exchange prevailing at the yearend date. Purchases and sales of investments, income and expenses are translated at the rates of exchange prevailing on the respective dates of such transactions. Foreign exchange gains (losses) on completed transactions are included in net realized gain (loss) on investments and options and unrealized gains (losses) are included in unrealized appreciation (depreciation) of investments in the Statement of Operations. Realized and unrealized exchange gains (losses) on assets (other than investments) and liabilities are included in net realized gain (loss) on investments and options and unrealized appreciation (depreciation) of foreign exchange respectively.

---

## FINANCIAL 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

---

#### Other Assets and Liabilities

For the purposes of categorization in accordance with Handbook – Accounting Section 3855, income receivable is designated as loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities and dividends payable to shareholders are designated as financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short-term nature.

#### Redeemable Preferred shares

In accordance with their terms, each redeemable Preferred share is valued at the lesser of: (i) \$10.00; and (ii) the Net Assets of the Company divided by the number of Preferred shares outstanding. The Net Assets are equal to the difference between the aggregate value of the assets of the Company and the aggregate value of its liabilities, excluding Preferred shares of the Company.

### 3. Management of Risk of Financial Instruments

Amended CICA Handbook – Accounting Section 3862, Financial Instruments-Disclosures (“Section 3862”) requires disclosure about the inputs to fair value measurements, including the classification with a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

The following table illustrates the classification of the Company’s financial instruments within the fair value hierarchy as at November 30, 2010 and 2009:

#### Financial assets at fair value as at November 30, 2010

|          | Level 1             | Level 2  | Level 3  | Total               |
|----------|---------------------|----------|----------|---------------------|
| Equities | \$72,393,576        | -        | -        | \$72,393,576        |
| Options  | (\$206,501)         | -        | -        | (\$206,501)         |
|          | <u>\$72,187,075</u> | <u>-</u> | <u>-</u> | <u>\$72,187,075</u> |

#### Financial assets at fair value as at November 30, 2009

|          | Level 1             | Level 2  | Level 3  | Total               |
|----------|---------------------|----------|----------|---------------------|
| Equities | \$87,005,854        | -        | -        | \$87,005,854        |
| Options  | (\$326,472)         | -        | -        | (\$326,472)         |
|          | <u>\$86,679,382</u> | <u>-</u> | <u>-</u> | <u>\$86,679,382</u> |

The Company’s investment activities expose it to a variety of financial risks: market risk (including price risk, interest rate risk and currency risk), credit risk and liquidity risk.

**Any sensitivity analysis presented below may differ from actual results and the difference could be material.**

---

## FINANCIAL 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

---

#### Market Price Risk

All securities investments present a risk of loss of capital. The 15 core stock holdings were selected because of their long term history of above average market price appreciation and dividend growth. These Portfolio companies were selected from the financial services indices of the S&P/TSX 60 and S&P 100 and are among the largest financial services companies in North America.

The market price risk is affected by three main components: price movements, interest rate risk and foreign currency movements.

#### Price risk

The Investment Manager manages market price risk by limiting investment in any one Portfolio company to no more than 10% of the net assets of the Company at the time of purchase. In addition, the supplemental covered call writing program which generates an additional stream of income to the portfolio may also help mitigate against market price declines during years in which a particular Portfolio company has a covered call option written against that position.

Since the 15 portfolio companies (10 Canadian and 5 U.S. core holdings) are significant components of their corresponding financial services index, it would be reasonable to expect that the Company's Portfolio will exhibit market price movements that are reflective and generally highly correlated with those particular securities and to a lesser extent with the price movements of the S&P/TSX financial services index and the S&P US financial services index based on the underlying composition of the Portfolio.

A 10% increase/decrease in the Portfolio would currently increase/decrease Net Assets of the Company by \$7,218,708 (November 30, 2009-\$8,667,938).

#### Interest rate risk

The majority of the Company's financial assets and liabilities are non interest bearing. As a result, the Company is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates and considers interest rate risk insignificant (consistent with previous year).

#### Currency risk

Five of the 15 core financial services Companies are US financial services Companies that are listed on the New York stock exchange and trade in US dollars. As at November 30, 2010, 30.7% (November 30, 2009-32.6%) of the Net Assets are invested in US dollar denominated assets which includes U.S. dollar cash. As a result, the Company's Net Assets will be affected by changes in the U.S. dollar relative to the Canadian dollar which is the functional currency of the Company. The Company has not entered into currency hedging contracts. As a result, if the Canadian dollar appreciated/depreciated by 5% against the US dollar, the Net Assets of the Company would currently decrease/increase by approximately \$1,274,281 (November 30, 2009-\$1,418,573).

**FINANCIAL 15 SPLIT CORP. II**  
**NOTES TO FINANCIAL STATEMENTS**  
 FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

**Other risks**

**Credit risk**

Credit risk is defined as the risk that a counterparty will be unable to pay amounts in full when due. All of the Company's transactions are in listed securities and options and are settled and paid for using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment (consistent with previous year). Payment is made on purchase once the securities have been received by the broker.

**Liquidity risk**

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company is exposed to liquidity risk primarily through its monthly and annual retractions of Class A shares and Preferred shares. The Company receives adequate notice for all redemption requests. The Company's Portfolio is invested in highly liquid large capitalization investments that trade on the Toronto Stock Exchange ("TSX") and New York Stock Exchange ("NYSE") (consistent with previous year). All Class A shares and Preferred shares outstanding are redeemable on demand but are scheduled to be redeemed upon termination of the Company on December 1, 2014. All other financial liabilities are payable within three months from the end of the year.

**Concentration risk**

The Company's 15 core holdings are concentrated in the financial services sector and as such will be exposed to the specific factors that affect this sector. An individual Portfolio holding may represent no more than 10% of the Net Asset Value of the Company at the time of purchase (consistent with previous year).

**4. Preferred shares**

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

| <u>Issued and outstanding</u>               | November 30, 2010   | November 30, 2009   |
|---------------------------------------------|---------------------|---------------------|
| 5,688,250 Preferred shares (2009-5,688,250) | <u>\$56,882,500</u> | <u>\$56,882,500</u> |

Preferred share transactions

|                             |           |                  |
|-----------------------------|-----------|------------------|
| Beginning of year           | 5,688,250 | 6,344,350        |
| Redemptions during the year | <u>-</u>  | <u>(656,100)</u> |
| End of year                 | 5,688,250 | 5,688,250        |

Preferred shares were issued at \$10 per share.

Preferred shares are entitled to fixed, cumulative monthly cash dividends of \$0.04375 per Preferred share. All Preferred shares outstanding on December 1, 2014 will be redeemed by the Company on that date. The Preferred shares have been presented as liabilities in the financial statements.

Preferred shares trade under the symbol "FFN.PR.A" on the TSX. Preferred shares trading price on the TSX was \$10.06 as at November 30, 2010 (November 30, 2009-\$9.31). Preferred shares may be surrendered at any time for retraction at specified retraction amounts, but will be retracted only on the last day of each month. Shareholders who concurrently retract a Preferred share

---

## FINANCIAL 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

---

and a Class A share (together, a “unit”) in the month of October in each year will be entitled to receive an amount equal to the Net Asset Value per unit calculated on the last day of October. Preferred shares retracted in any other month will receive a retraction price based on a discounted specified retraction formula. Under the terms of a Recirculation Agreement, the Company may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Preferred shares or Class A shares tendered for retraction.

The Preferred shares rank in priority to the Class A shares with respect to the payment of dividends. Preferred shares rank in priority to the Class A shares upon termination of the Company.

#### 5. Class A shares and Class B shares

##### Authorized

An unlimited number of Class A shares  
1,000 Class B shares

##### Issued and outstanding

|                                           | November 30, 2010   | November 30, 2009   |
|-------------------------------------------|---------------------|---------------------|
| 5,688,250 Class A shares (2009-5,688,250) | \$78,074,532        | \$78,074,532        |
| 1,000 Class B shares                      | <u>\$1,000</u>      | <u>\$1,000</u>      |
|                                           | <u>\$78,075,532</u> | <u>\$78,075,532</u> |
| Class A share transactions                |                     |                     |
| Beginning of year                         | 5,688,250           | 6,344,350           |
| Redemptions during the year               | <u>-</u>            | <u>(656,100)</u>    |
| End of year                               | 5,688,250           | 5,688,250           |

Class A shares were issued at \$15 per share. Class A share distributions are targeted at \$0.10 per month. All Class A shares outstanding on December 1, 2014 will be redeemed by the Company on that date. Class A shares trade under the symbol “FFN” on the TSX. Class A shares trading price on the TSX was \$4.10 as at November 30, 2010 (November 30, 2009-\$6.01). Class A shares may be surrendered at any time for retraction at specified retraction amounts, but will be retracted only on the last day of each month. Shareholders who concurrently retract a Class A share and a Preferred share (together, a “unit”) in the month of October in each year will be entitled to receive an amount equal to the Net Asset Value per unit calculated on the last day of October. Class A shares retracted in any other month will receive a retraction price based on a discounted specified retraction formula. Under the terms of a Recirculation Agreement, the Company may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Preferred shares or Class A shares tendered for retraction.

The Preferred shares rank in priority to the Class A shares with respect to the payment of dividends. Upon the termination of the Company, Class A shareholders will receive an amount equal to the Net Asset Value per unit less \$10 (the redemption value of the Preferred shares).

The holders of Class B shares are not entitled to receive dividends. The Class B shares are retractable at a price of \$1.00 per share. Class B shareholders are entitled to one vote per share. On September 3, 2004, the Company issued 1,000 Class B shares to Quadravest Capital Management Inc., the Company’s investment manager, for cash consideration of \$1,000.

The Deficit in the Statement of Financial Position includes contributed surplus of \$6,837,758 (November 30, 2009-\$6,837,758) in connection with amounts paid on the retractions of Class A shares. Contributed surplus arises when the amount of the retraction allocated to the Class A shares is less than the average cost of capital per share of the Class A shares.

---

# FINANCIAL 15 SPLIT CORP. II

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

---

### 6. Expenses

The Company is responsible for all expenses incurred in connection with the operation and administration of the Company, including, but not limited to, ongoing custodian, transfer agent, legal and audit expenses.

Pursuant to the administration agreement, Quadravest is entitled to an administration fee payable monthly in arrears at an annual rate of 0.10% of the Net Assets of the Company, which includes the outstanding Preferred shares, calculated as at each monthly valuation date and an amount equal to the service fee payable to dealers on the Class A shares at a rate of 0.50% per annum. No service fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A shares in respect of each month in such calendar quarter.

Pursuant to the terms of the investment management agreement, Quadravest is entitled to a base management fee payable in arrears at an annual rate equal to 0.65% of the Net Assets of the Company, which include the outstanding Preferred shares, calculated as at each monthly valuation date. In addition, Quadravest is entitled to receive a performance fee subject to the achievement of certain pre-established total return thresholds. No performance fees were paid in 2010 or 2009.

Total management fees of \$630,078 (November 30, 2009-\$633,024), incurred during the year, include the administration fee and base management fee. No performance fees were paid in 2010 or 2009. Total brokerage commissions paid during the year by the Company for its Portfolio transactions was \$25,403 (November 30, 2009-\$99,646).

### 7. Distributions

The Company's investment objectives are to provide steady monthly distributions to both the Preferred and Class A shareholders while returning the original issue price to each shareholder on the termination date of the Company on December 1, 2014.

Distributions per share were as follows:

|                  | November 30, 2010 | November 30, 2009 |
|------------------|-------------------|-------------------|
| Preferred shares | \$0.525           | \$0.525           |
| Class A shares   | \$0.50            | \$0.40            |

### 8. Capital Management

The Company considers its capital to consist of Class A, Class B and Preferred shares.

The Company's objectives in managing its capital are:

- i) to provide holders of Preferred shares with fixed cumulative preferential monthly cash dividends in an amount of \$0.04375 per Preferred share to yield 5.25% per annum on the original issue price and to return the original issue price to their holders on December 1, 2014; and
- ii) to provide holders of Class A shares with regular monthly cash distribution targeted to be \$0.10 per Class A share to yield 8.0% on the original issue price and return the original issue price to their holders on December 1, 2014.

In order to manage its capital structure, the Company may adjust the amount of dividends paid to shareholders or return capital to shareholders.

---

## FINANCIAL 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

---

#### 9. Income Taxes

The Company is a mutual fund corporation as defined in the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. Also, the Company is generally subject to a tax of 33-1/3% under Part IV of the Act on taxable dividends received in the year. This tax is fully refundable upon payment of sufficient dividends.

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

Temporary differences between the carrying value of assets and liabilities for accounting and income tax purposes give rise to future income tax assets and liabilities. When the market value of a security in the Company exceeds its cost base, a future income tax liability arises. As capital gains taxes payable by the Company are refundable under the provisions of the Income Tax Act (Canada), the future tax liability is offset by these future refundable taxes. If the cost base exceeds the market value of the security, a future income tax asset is generated. A full valuation allowance is taken to offset this asset given the uncertainty that such future assets will ultimately be realized. Future income tax liabilities or assets are calculated using substantively enacted tax rates expected to apply in the period that the temporary differences are expected to reverse.

The Company has estimated accumulated non capital losses for tax purposes of \$5,094,281 (November 30, 2009-\$4,351,907) that are available to lower taxable income in future years if required and expire after the scheduled termination date of the Company on December 1, 2014. The Company also has estimated accumulated capital losses for tax purposes of \$4,682,568 (November 30, 2009-\$2,928,447) which may be used to lower future capital gains if required.

#### 10. Harmonized Sales Taxes

Effective July 1, 2010, goods and services tax ("GST") was replaced by the harmonized sales tax ("HST") in certain provinces and is imposed at higher rates than the GST. Since the applicable HST is being paid by the Company, it has resulted in an overall increase in expenses incurred by the Company since the effective date of implementation.

#### 11. Comparative Financial Statements

Certain 2009 comparative figures have been reclassified from statements previously presented to conform to the presentation of the 2010 financial statements.





---

## **QUADRAVEST CAPITAL MANAGEMENT INC.**

Quadravest Capital Management Inc. was formed in 1997 and is focused on the creation and management of enhanced yield products for retail investors. The investment strategy combines fundamental based equity investing with covered call writing. Guided by four key principles, Quadravest sets attainable investment objectives that allow the team to stay focused on a long-term investment strategy.

The four principles – innovation in financial products, discipline in investment management, solid results for investors, and excellence in client service – form the foundation of Quadravest. Each member of the firm’s tight-knit team is committed to upholding these principles, ensuring a coherence and dedication that is unique to the Company.

Quadravest has raised over \$2.5 billion in initial public offerings.

---

## **BOARD OF DIRECTORS**

Wayne Finch,  
Chairman and  
Chief Investment Officer

Laura Johnson,  
Managing Director and  
Portfolio Manager

Michael W. Sharp  
Blake, Cassels & Graydon LLP

Peter Cruickshank,  
Managing Director and  
Chief Financial Officer

William Thornhill,  
President, William C.  
Thornhill Consulting Inc.

John Steep  
President, S. Factor Consulting Inc.

---

## **CORPORATE DETAILS**

### **Auditors**

PricewaterhouseCoopers LLP  
77 King Street West, P.O. Box 82  
Toronto, Ontario M5K 1G8

### **Transfer Agent**

Computershare  
100 University Avenue  
Toronto, Ontario M5J 2Y1

### **Legal Counsel**

Blake, Cassels & Graydon LLP  
Commerce Court West  
Toronto, Ontario M5L 1A9

### **Custodian**

RBC Dexia Investor Services Trust  
155 Wellington St. West  
Toronto, Ontario M5V 3L3

*FINANCIAL*  *15 SPLIT*

77 King Street West,  
P.O. Box 341, Toronto, ON  
M5K 1K7

Tel: 416.304.4443  
Toll: 877.4QUADRA  
*or* 877.478.2372  
Fax: 416.304.4441

[info@quadrainvest.com](mailto:info@quadrainvest.com)  
[www.quadrainvest.com](http://www.quadrainvest.com)