

**MAY 31**  
**2009**

**FINANCIAL 15 SPLIT CORP. II**  
**SEMI-ANNUAL REPORT**  
**(UNAUDITED)**



**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

### SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

MAY 31, 2009

---

This is the semi-annual Management Report of Fund Performance (MRFP) for the period ended May 31, 2009. This MRFP contains financial highlights but does not contain the complete financial statements of the Company. The semi-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 commons shares, 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 Management Inc.  
Great West Lifeco Inc.  
Manulife Financial Corporation  
National Bank of Canada  
Royal Bank of Canada  
Sun Life Financial Services of Canada  
The Toronto-Dominion Bank

### U.S. issuers

Bank of America Corp.  
Citigroup Inc.  
J.P. Morgan Chase & Co.  
Wells Fargo & Co.

Note: Merrill Lynch & Co., INC (previously a core holding) was acquired by Bank of America on January 1, 2009. Subsequent to the end of the period, the Company added The Goldman Sachs Group as the replacement security for Merrill Lynch & Co. Inc.

The Company may also invest up to 15% of the 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 22, 2009. In addition, Note 3 of the semi-annual financial statements ("Management of Risk") contains disclosure on specific types of risks related to the financial investments held by the Company.

The overall risk environment for all financial assets continues to remain at above average levels as further explained in the Results of the Operation section below. This environment has created a much higher degree of uncertainty as to the outlook for the market prices of the companies held in the portfolio.

---

## **RESULTS OF OPERATIONS**

The six month period ending May 31, 2009 was one of the most tumultuous periods in financial market history.

Global financial and economic conditions worsened in the first quarter of 2009 as business, investor and consumer confidence hit record lows and governments were required to take extraordinary and unprecedented actions to stabilize the financial system and stimulate economic activity.

On the monetary side, the U.S. Federal Reserve decreased rates to near zero levels and central banks around the world followed in a synchronized easing of interest rates. The Bank of Canada also took its benchmark rate down to 0.25% and indicated that it would likely stay that low well into 2010. The Federal Reserve also engaged in a massive program of quantitative monetary easing in an attempt to drive down mid to longer term interest rates to help boost private lending, mortgage financing and small businesses activity.

Governments around the world led by the U.S. engaged in various programs designed to strengthen financial institutions including direct capital injections, backstopping and guaranteeing loans, purchasing toxic assets and taking direct equity stakes in many large financial institutions including Citigroup and Bank of America. In contrast, Canadian Banks were able to improve their capital position without government support evidencing the relative strength of Canadian financial institutions which is mainly attributable to their stronger capital bases and a better and more conservatively regulated financial sector.

In early March, pessimism about the global financial crisis and the global recession appeared to reach extreme levels and broad based stock markets declined to index levels not seen since the 1990s. In early March, most broad based general market indices had declined anywhere from 30 to 45% from their most recent highs. However, the markets after reaching these new depths began to recover as government sponsored initiatives to stabilize the banking system began

to take traction and market participants appeared to conclude that the more extreme potential negative economic outcomes would not come to fruition. From these March lows, markets across the world staged an impressive recovery with some broad based market indices rebounding up to 40% from their March lows. By the end of the Company's reporting period of May 31, the markets had improved significantly as investors became more focused on fundamentals of companies rather than the overall state of the financial system. Critical to this marked change in approach was the confidence inspired by the significant re-capitalization efforts of the major U.S. banks and the view that the financial system was going to improve.

Although, an improved level of stability had entered the financial system and equity markets by the end of the Company's reporting period of May 31, North American economic conditions continue to remain challenging as unemployment rates continue to increase, housing markets remain under pressure and corporate earnings, consumer spending and business spending remain at very low levels.

Against this backdrop, the market prices of the financial services stocks in the portfolio mirrored this activity reaching lows in early March but recovering significantly by the end of May. The net asset value as at May 31 ended \$0.59 higher to \$13.72 per unit over the six month period. Preferred shareholders received all distributions at their fixed rate for a total of \$0.2625 per share. As a result of the net asset value remaining below the \$15 threshold for the entire period, no distributions were made to Class A shareholders.

Although the Canadian financial services companies have been adversely impacted by this worldwide financial crisis, the Canadian banks have on a relative basis performed much better than almost all other banking sectors across the world. The portfolio continues to have an overweight position to Canadian financial services stocks and ten of the 15 core holdings remain in Canadian financial services stocks. The dividend income in the portfolio continues to be supplemented by a limited covered call writing program which provides some additional income to the portfolio.

## DISTRIBUTIONS

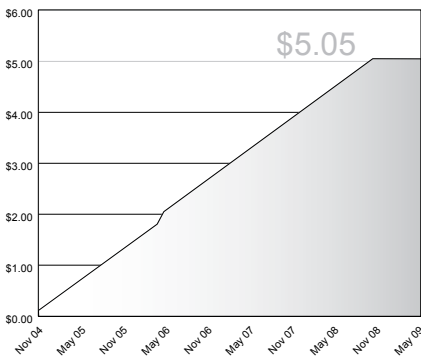
### Class A Shares - Distributions

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. Due to the decline in the net asset value to below \$15 per unit, no monthly distributions were made during the period.

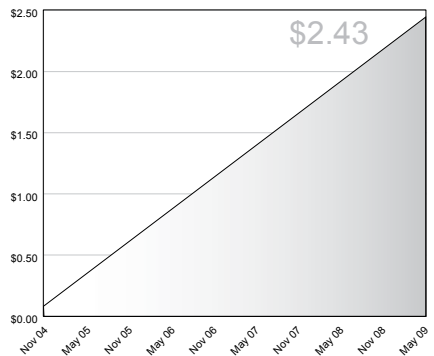
### Preferred Shares - Distributions

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 period were at the fixed rate for a total \$0.2625 per share.

### Cumulative Distributions since inception



### Cumulative Distributions since inception



---

## **RECENT DEVELOPMENTS**

### **Amendment to section 3862-Financial Instrument Disclosure**

In March 2009, the International Accounting Standards Board issued amendments to IFRS 7, Financial Instruments: Disclosures ("IFRS") intended to improve disclosures about fair value and liquidity risk. The Canadian accounting Standards Board announced in its March 25-26 Decision Summary that it will adopt the amendments into Canadian generally accepted accounting principles ("GAAP") section 3862, Financial Instruments-Disclosures ("Section 3862"). The amendments apply to fiscal years ending after September 30, 2009 and will be implemented in the Company's November 30, 2009 annual financial statements. These changes affect disclosure only and will not have any impact on the Company's net asset value.

---

## **RELATED PARTY TRANSACTIONS**

The Investment Manager and Manager earn fees from the Company as described below in the Management Fees section.

---

## **MANAGEMENT FEES**

The Investment Manager is entitled to a base management fee payable monthly in arrears at an annual rate equal to 0.65% of the Company's Net Asset Value calculated as at the last Valuation Date in each month

The Manager is entitled to an administration fee payable monthly in arrears at an annual rate equal to 0.1% of the Company's Net Asset Value calculated as at the last Valuation Date in each month.

Total management fees of \$ 270,941 paid for the period ended May 31, 2009 include the base management fee and the administration fee. The base management fee was used by the Investment Manager to pay costs associated with the managing of the investment portfolio, providing investment analysis and recommendations, making investment decisions, making 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, financial accounting, shareholder reporting and regulatory reporting requirements.

---

## SUMMARY OF INVESTMENT PORTFOLIO

All holdings as at May 31, 2009

Name	Weighting (%)
CI Financial Income Fund	9.5
National Bank of Canada	9.5
Canadian Imperial Bank of Commerce	8.9
Royal Bank of Canada	8.8
Great-West Lifeco Inc.	7.7
Toronto-Dominion Bank	6.3
AGF Management Ltd.	6.2
Sun Life Financial Inc.	6.1
Manulife Financial Corporation	6.0
Bank of Montreal	5.4
Bank of Nova Scotia	5.0
Wells Fargo & Co.	4.8
J.P. Morgan Chase & Co.	4.7
Bank of America Corp.	3.6
TMX Group Inc.	2.8
Citigroup Inc.	1.3
<b>Total long positions as a percentage of net assets</b>	<b>96.6</b>
Other net assets	3.4

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

---

## 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 semi-annual financial statements and previous annual audited financial statements. For May 31, 2009 and November 30, 2008, the Net Assets included in the Net Assets per unit table is from the Company's financial statements and calculated using bid prices while 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 Asset Value (NAV) per unit

	May 31, 2009	2008	Periods ended November 30			
		2007	2006	2005	2004 <sup>(2)</sup>	
Net asset value per unit, beginning of period <sup>(1)</sup>	13.13	23.77	26.67	25.45	23.06	23.73 <sup>(3)</sup>
Increase (decrease) from operations						
Total revenue	0.33	0.84	0.82	0.69	0.68	0.06
Total expenses	(0.06)	(0.22)	(0.35)	(0.36)	(0.46)	(0.04)
Realized gains (losses) for the period	(0.24)	0.17	0.57	2.01	0.43	(0.11)
Unrealized gains (losses) for the period	0.77	(9.78)	(2.15)	0.86	3.46	(0.42)
Total increase (decrease) from operations <sup>(4)</sup>	<u>0.80</u>	<u>(8.99)</u>	<u>(1.11)</u>	<u>3.20</u>	<u>4.11</u>	<u>(0.51)</u>
Distributions <sup>(5)</sup>						
Taxable Dividends	(0.26)	(1.44)	(0.84)	(0.53)	(1.33)	(0.17)
Capital Gains	-	(0.19)	(0.88)	(1.45)	(0.39)	-
Total annual distributions	<u>(0.26)</u>	<u>(1.63)</u>	<u>(1.72)</u>	<u>(1.98)</u>	<u>(1.72)</u>	<u>(0.17)</u>
Net asset value per unit at end of period	13.72	13.13	23.77	26.67	25.45	23.06
Net asset value per Preferred share	10.00	10.00	10.00	10.00	10.00	10.00
Net asset value per Class A share	<u>3.72</u>	<u>3.13</u>	<u>13.77</u>	<u>16.67</u>	<u>15.45</u>	<u>13.06</u>
Net asset value per unit at end of period	13.72	13.13	23.77	26.67	25.45	23.06

- (1) Net asset value 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) Results for the period from October 15, 2004 (inception) to November 30, 2004
- (3) Initial net asset value per unit is after deducting all agents' fees and filing costs in connection with the initial public offering
- (4) 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
- (5) 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

	May 31, 2009	2008	Periods ended November 30			
			2007	2006	2005	2004 <sup>(1)</sup>
Net assets (millions)	\$85.9	\$85.4	\$152.8	\$177.4	\$170.5	\$154.4
Number of units outstanding <sup>(2)</sup>	6,257,350	6,344,350	6,425,850	6,650,100	6,700,000	6,700,000
Base Management expense ratio <sup>(3)</sup>	1.07%	1.15%	1.31%	1.26%	1.27%	1.42%
Management expense ratio including one time initial offering expenses <sup>(4)</sup>	1.07%	1.15%	1.31%	1.26%	1.27%	6.99%
Management expense ratio with performance fee and one time initial offering expenses <sup>(5)</sup>	1.07%	1.15%	1.31%	1.40%	1.90%	6.99%
Portfolio turnover rate <sup>(6)</sup>	4.3%	0.7%	16.10%	22.9%	23.8%	0.0%
Trading expense ratio <sup>(7)</sup>	0.02%	0.02%	0.04%	0.04%	0.06%	0.09%
Closing market price (TSX):						
Preferred shares	\$8.60	\$5.63	\$9.98	\$10.74	\$10.60	\$10.61
Closing market price (TSX):						
Class A shares	\$3.95	\$3.61	\$12.67	\$15.15	\$14.50	\$14.70

(1) Results for the period October 15, 2004 (inception) to November 30, 2004

(2) This information is provided as at May 31 or November 30, as applicable

(3) 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

(4) Share issue expenses, representing all Agents' fees and other offering expenses are one time initial expenses connected with the launch of the Company.

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

(6) 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

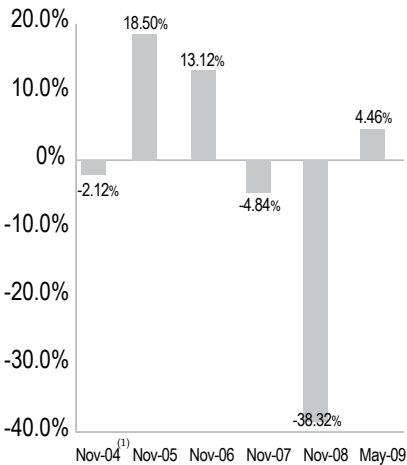
(7) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average net assets during the period.

## PAST PERFORMANCE

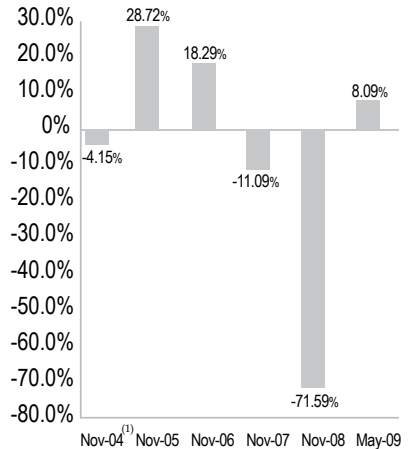
The past performance of 1) the net asset value per unit (1 Preferred share and 1 Class A share); 2) the Preferred share on net asset value basis; and 3) the Class A share on a net asset value basis for the six month period ended May 31, 2009 and for each 12 month period ended November 30 since inception 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.

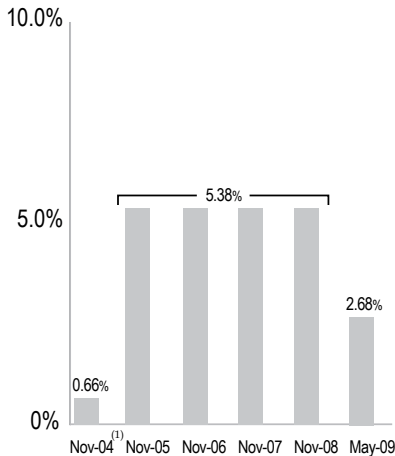
### NET ASSET VALUE



### CLASS A SHARE



### PREFERRED SHARE



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

---

## **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 semi-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's independent auditors have not performed a review of these semi annual financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

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

AS AT MAY 31, 2009 AND NOVEMBER 30, 2008 (UNAUDITED)

	May 31, 2009 (\$)	November 30, 2008 (\$)
<b>ASSETS</b>		
Investments - at fair value (note 2)	82,764,535	82,535,737
Cash	3,177,894	883,073
Interest, dividends and other receivables	266,268	208,825
<b>Total Assets</b>	<b><u>86,208,697</u></b>	<b><u>83,627,635</u></b>
<b>LIABILITIES</b>		
Fees and other accounts payable	72,439	73,402
Dividends payable	273,759	277,565
Preferred shares (note 4)	62,573,500	63,443,500
	<b><u>62,919,698</u></b>	<b><u>63,794,467</u></b>
<b>SHAREHOLDERS' EQUITY</b>		
Class A and Class B shares (note 5)	85,886,568	87,079,558
Retained earnings (deficit)	<u>(62,597,569)</u>	<u>(67,246,390)</u>
	<u>23,288,999</u>	<u>19,833,168</u>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b><u>86,208,697</u></b>	<b><u>83,627,635</u></b>
Number of units (1 Preferred share and 1 Class A share) outstanding		
	6,257,350	6,344,350
Net assets per unit (note 2)	\$13.72	\$13.13
Net assets per Preferred share (note 2)	\$10.00	\$10.00
Net assets per Class A share (note 2)	\$3.72	\$3.13

Approved on behalf of the Board of Directors



**WAYNE FINCH**  
Chairman 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 RETAINED EARNINGS (DEFICIT)**  
FOR THE SIX MONTH PERIOD ENDED MAY 31 (UNAUDITED)

	2009 (\$)	2008 (\$)
<b>INCOME</b>		
Dividends (net of foreign withholding taxes-\$26,427; 2008 - \$86,649)	2,108,259	2,750,249
Interest	711	6,687
	<u>2,108,970</u>	<u>2,756,936</u>
<b>EXPENSES (note 6)</b>		
Management fees	270,941	502,911
Service fees	-	155,475
Audit fees	10,881	9,048
Directors' and Independent Review Committee fees	11,278	11,302
Custodian fees	11,935	14,354
Legal fees	12,549	9,227
Shareholder reporting costs	13,177	11,697
Other operating expenses	40,854	46,689
Goods and services tax	18,332	30,198
	<u>389,947</u>	<u>790,901</u>
<b>Net investment income</b>		
<b>before distributions on Preferred shares</b>	<b>1,719,023</b>	<b>1,966,035</b>
<b>Distributions on Preferred shares (note 4 and 7)</b>	<b>(1,652,761)</b>	<b>(1,685,473)</b>
<b>Net investment income (loss) for the period</b>	<b>66,262</b>	<b>280,562</b>
<b>Realized and unrealized gain (loss)</b>		
<b>on investments and options and transaction costs</b>		
Net realized gain (loss) on investments and options	(1,509,818)	504,565
Change in unrealized appreciation (depreciation) of investments	4,941,289	(22,414,968)
Change in unrealized appreciation (depreciation) of foreign exchange	(68,385)	228,971
Transaction costs on purchase and sale of investments (note 2)	(14,795)	(8,674)
	<u>3,348,291</u>	<u>(21,690,106)</u>
<b>Net gain (loss) on investments and options for the period</b>	<b>3,348,291</b>	<b>(21,690,106)</b>
<b>Increase (decrease) in net assets from operations for the period</b>	<b>3,414,553</b>	<b>(21,409,544)</b>
<b>Retained earnings (deficit) - Beginning of period</b>	<b>(67,246,390)</b>	<b>256,640</b>
<b>Net allocation on retractions</b>	<b>1,234,268</b>	<b>19,956</b>
<b>Distributions on Class A shares (note 5 and 7)</b>	<b>-</b>	<b>(3,852,510)</b>
<b>Retained earnings (deficit) - End of period</b>	<b>(62,597,569)</b>	<b>(24,985,458)</b>
<b>Increase (decrease) in net assets from operations per Class A share</b>	<b>0.54</b>	<b>(3.33)</b>

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

**FINANCIAL 15 SPLIT CORP. II**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
 FOR THE SIX MONTH PERIOD ENDED MAY 31 (UNAUDITED)

	2009 (\$)	2008 (\$)
<b>Shareholders' equity - Beginning of period</b>	<b>19,833,168</b>	<b>88,454,829</b>
Increase (decrease) in net assets from operations for the period	<u>3,414,553</u>	<u>(21,409,544)</u>
Class A share redemptions	41,278	(70,044)
<b>Distributions on Class A shares</b>		
From net investment income	-	(280,562)
From net realized gains	-	(504,565)
From return of capital	<u>-</u>	<u>(3,067,383)</u>
	-	(3,852,510)
<b>Increase (decrease) in net assets for the period</b>	<u><b>3,455,831</b></u>	<u><b>(25,332,098)</b></u>
<b>Shareholders' equity - End of period</b>	<u><b>23,288,999</b></u>	<u><b>63,122,731</b></u>

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

---

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

FOR THE SIX MONTH PERIOD ENDED MAY 31 (UNAUDITED)

	2009	2008
	(\$)	(\$)
<b>Cash flow from Operating Activities</b>		
Net investment income for the period	66,262	280,562
Proceeds from sale of investments	6,241,907	2,037,691
Purchase of investments	(3,059,029)	299,600
Net change in receivable balances	(57,443)	15,049
Net change in payable balances	(4,769)	(41,543)
Change in unrealized (depreciation) of foreign exchange	(63,385)	228,971
Cash flow from operations	<u>3,123,543</u>	<u>2,820,330</u>
<b>Cash flow from Shareholder activities</b>		
Amount paid on redemption of Class A shares and Preferred shares	(828,722)	(130,044)
Distributions on Class A shares	-	(3,852,510)
Cash flow from Shareholder activities	<u>(828,722)</u>	<u>(3,982,554)</u>
Net increase (decrease) in cash for the period	2,294,821	(1,162,224)
Cash, beginning of period	883,073	6,053,552
<b>Cash, end of period</b>	<u><b>3,177,894</b></u>	<u><b>4,891,328</b></u>

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

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

AS AT MAY 31, 2009

No. of shares	Description	Average Cost (\$) (Premiums received)	Market Value (\$)
<b>Canadian Core Common Equities</b>			
105,000	Bank of Montreal	6,511,188	4,597,950
112,000	Bank of Nova Scotia	4,678,252	4,276,160
140,000	Canadian Imperial Bank of Commerce	12,089,029	7,638,400
455,200	CI Financial Income Fund	13,778,904	8,175,392
296,100	Great-West Lifeco Inc.	7,693,931	6,600,069
219,000	Manulife Financial Corporation	7,022,606	5,128,980
158,800	National Bank of Canada	7,806,237	8,125,796
172,200	Royal Bank of Canada	6,851,175	7,525,140
182,700	Sun Life Financial Inc.	7,241,561	5,245,317
97,000	Toronto-Dominion Bank	5,170,415	5,374,770
<b>Total Canadian Common Equities in Core Holdings (75.7%)</b>		<b>78,843,298</b>	<b>62,687,974</b>
<b>U.S. Core Common Equities</b>			
252,457	Bank of America Corp.	15,264,784	3,117,744
300,000	Citigroup Inc.	13,804,712	1,213,044
100,000	J.P. Morgan Chase & Co.	4,630,281	4,042,385
150,000	Wells Fargo & Co.	5,090,747	4,151,965
<b>Total U.S. Common Equities in Core Holdings (15.1%)</b>		<b>38,790,524</b>	<b>12,525,138</b>
<b>Other Equities</b>			
404,700	AGF Management Ltd.	8,924,320	5,317,758
72,700	TMX Group Inc.	2,381,974	2,377,290
<b>Total Canadian Common Equities in Other (9.3%)</b>		<b>11,306,294</b>	<b>7,695,048</b>
<b>Total Common Equities (100.2%)</b>		<b>128,940,116</b>	<b>82,908,160</b>
<b>Call Options written (100 shares per contract)</b>			
<b>Canadian call options written</b>			
(100)	Bank of Montreal, June 2009 @ \$46	(14,800)	(3,700)
(100)	Canadian Imperial Bank of Commerce, June 2009 @ \$64	(11,400)	(1,100)
(200)	Canadian Imperial Bank of Commerce, June 2009 @ \$56	(16,804)	(21,400)
(175)	Manulife Financial Corporation, June 2009 @ \$26	(5,775)	(3,150)
(200)	National Bank of Canada, June 2009 @ \$52	(14,600)	(20,000)
(200)	Royal Bank of Canada, July 2009 @ \$46	(12,600)	(16,000)
(300)	Sun Life Financial Inc., July 2009 @ \$30	(28,200)	(35,400)
(175)	Toronto-Dominion Bank, June 2009 @ \$54	(13,215)	(42,875)
<b>Total Canadian call options written (-0.2%)</b>		<b>(117,394)</b>	<b>(143,625)</b>
		<b>128,822,722</b>	<b>82,764,535</b>
less adjustment for transaction costs (note 2)		(121,839)	
<b>Total Investments (100%)</b>		<b>128,700,883</b>	<b>82,764,535</b>

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

---

# FINANCIAL 15 SPLIT CORP. II

## NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2009 AND 2008 (UNAUDITED)

---

### 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 and began investment operations on October 15, 2004. The manager of the Company is Quadravest Inc. (the “Manager”) and the investment manager is Quadravest Capital Management Inc. (“Quadravest”). All 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.

#### Adoption of New Accounting standards

On December 1, 2007, the Company adopted three new accounting standards that were issued by the Canadian Institute of Chartered Accountants (“CICA”): Section 1535, Capital Disclosures; section 3862, Financial Instruments-Disclosures; and Section 3863, Financial Instruments-Presentation. These standards impact the Company’s disclosure provided but does not affect the Company’s results or financial position.

#### Section 1535-Capital Disclosures

On December 1, 2007, the Company adopted CICA section 1535, “Capital Disclosures” which requires that the Company disclose information about its objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance.

#### Section 3862-Financial Instruments-Disclosures

CICA section 3862, “Financial Instruments-Disclosures” requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Company manages those risks.

#### Section 3863-Financial Instruments-Presentation

CICA section 3863, “Financial Instruments-Recognition and Measurement,” carries forward the presentation requirements of Section 3861 with respect to financial instruments.

#### 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”). The provisions of Section 3855 were applied retroactively without a restatement of prior periods. Accordingly, the opening net assets in the Statement of Changes in Shareholders Equity for the period ended November 30, 2007 have been adjusted.

---

## FINANCIAL 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2009 AND 2008 (UNAUDITED)

---

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
- Listed options are valued at closing bid 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-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 to be based on the fair value of the investment fund’s assets and liabilities (Net Asset Value or NAV). The Company has not changed its methodology in this respect.

The fair value of investments for purposes of calculating the bi monthly net asset value published on the Company’s website and also 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
- Listed options 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

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 a reconciliation between the differences, are required in the notes to the financial statements. The following table is presented to show the differences between the calculations of these amounts:

	Net Assets (GAAP NAV) per unit	Difference	Net Asset Value (Published NAV) per unit
May 31, 2009	\$13.72	\$0.02	\$13.74
May 31, 2008	\$19.83	\$0.03	\$19.86

#### 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 Retained Earnings (Deficit). The transaction costs for investments held at May 31, 2009 is 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.
- Option fees paid or received are 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.

---

## FINANCIAL 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2009 AND 2008 (UNAUDITED)

---

- 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.

#### **Redeemable Preferred shares**

Each redeemable Preferred share is valued for financial statement purposes 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 is equal to the difference between the aggregate value of the assets of the Company and the aggregate value of the liabilities excluding Preferred shares of the Company on a particular date.

#### **Recent Accounting Pronouncements**

The Canadian Accounting Standards Board ("AcSB") has confirmed its plan to adopt all International Financial Reporting Standards, as published by the International Accounting Standards Board, on or by January 1, 2011. In accordance with Canadian GAAP and AcSB's plan, the Company will adopt the International Financial Reporting Standards (IFRS). The Manager has developed a changeover plan to meet the timetable published by the CICA for changeover to IFRS. The key elements of the plan include disclosures of the qualitative impact in the 2009 annual financial statements, the disclosure of the quantitative impact, if any, in the 2010 financial statements and the preparation of the 2012 financial statements in accordance with IFRS with comparatives. The Manager has presently determined that there will be no impact to net asset value per unit from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of additional note disclosures and potentially different presentation of shareholder interests and other items in the financial statements of the Company.

#### **Amendment to Section 3862- Financial Instruments Disclosure**

In March 2009, the International Accounting Standards Board issued amendments to IFRS 7, Financial Instruments: Disclosures ("IFRS 7") intended to improve disclosures about fair value and liquidity risk. The Canadian Accounting Standards Board announced in its March 25-26 Decision Summary that it will adopt the amendments into Canadian generally accepted accounting principles ("GAAP") section 3862, Financial Instruments-Disclosures ("Section 3862"). The amendments apply to fiscal years ending after September 30, 2009, under Canadian GAAP. The new disclosures required by Section 3862 are intended to provide users additional information about how an entity determined fair values and how much of those fair values are derived through estimation rather than objective evidence.

### **3. Management of Financial Risk**

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 SIX MONTH PERIOD ENDED MAY 31, 2009 AND 2008 (UNAUDITED)

---

#### 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 by \$8,276,454.

#### 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.

#### 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 May 31, 2009, 14.6% of the net assets are invested in US dollar denominated assets. As a result, the Company's net asset value will be affected by changes in the US 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 \$626,465.

#### Other risks

##### Credit risks

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. Payment is made on purchase once the securities have been received by the broker.

---

## FINANCIAL 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2009 AND 2008 (UNAUDITED)

---

#### Liquidity risk

The Company pays monthly dividends and is subject to redemption requests from time to time. 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"). As such, any requirement to raise cash beyond the Company's normal operating level can be satisfied through the sales of its Portfolio holdings. The Company receives adequate notice for all redemption requests.

#### 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.

#### 4. Preferred shares

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

<u>Issued and outstanding</u>	May 31, 2009	May 31, 2008
6,257,350 Preferred shares (2008-6,419,850)	<u>\$62,573,500</u>	<u>\$64,198,500</u>

#### Preferred share transactions

Beginning of period	6,344,350	6,425,850
Redemptions during the period	<u>(87,000)</u>	<u>(6,000)</u>
End of period	6,257,350	6,419,850

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. For accounting purposes, the Preferred shares have been presented as liabilities in the financial statements in accordance with Section 3863 of the CICA Handbook.

Preferred shares trade under the symbol "FFN.PR.A" on the TSX. Preferred shares trading price on the TSX was \$8.60 as at May 31, 2009 (May 31, 2008-\$10.25). 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 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 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.

---

## FINANCIAL 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2009 AND 2008 (UNAUDITED)

---

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

##### Authorized

An unlimited number of Class A shares

1,000 Class B shares

<u>Issued and outstanding</u>	May 31, 2009	May 31, 2008
6,257,350 Class A shares (2008 - 6,419,850)	\$85,885,568	\$88,107,189
1,000 Class B shares	\$1,000	\$1,000
	<u>\$85,886,568</u>	<u>\$88,108,189</u>

##### Class A share transactions

Beginning of period	6,344,350	6,425,850
Redemptions during the period	(87,000)	(6,000)
End of period	<u>6,257,350</u>	<u>6,419,850</u>

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 \$3.95 as at May 31, 2009 (May 31, 2008-\$10.70). 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 transactional net asset value per unit 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 transactional 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.

#### 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, the Manager is entitled to an administration fee payable monthly in arrears at an annual rate of 0.10% 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.

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

---

## FINANCIAL 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2009 AND 2008 (UNAUDITED)

---

achievement of certain pre-established total return thresholds.

Total management fees of \$270,941 (2008-\$502,911), incurred during the year, include the administration fee and base management fee. No performance fees were paid in 2009 or 2008.

Total brokerage commissions paid during the year by the Company for its portfolio transactions was \$14,795 (2008-\$8,674).

#### 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:

	May 31, 2009	May 31, 2008
Preferred shares	\$0.2625	\$0.2625
Class A shares	-	\$0.60

#### 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.

#### 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.

#### 10. Subsequent Event

On July 14, 2009, the Company announced the addition of The Goldman Sachs Group Inc. as the core holding replacement security for Merrill Lynch & Co. Inc. which had been acquired by Bank of America on January 1, 2009.







---

## **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  
Royal Trust Tower, 77 King Street West  
11th Floor, Toronto, Ontario M5W 1P9

*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)