

Financial 15 Split Corp

2003 *Annual Report*



QUADRAVEST
CAPITAL MANAGEMENT

Table of Contents

Message to Shareholders	4
Investment Objectives	5
Auditors' Report	6
Financial Statements	7
Notes to Financial Statements	11

Board of Directors

Wayne Finch,
Chairman and
Chief Investment Officer

Peter Cruickshank,
Managing Director and
Chief Financial Officer

Laura Johnson,
Managing Director and
Portfolio Manager

William Thornhill,
Vice Chairman

Michael W. Sharp
Blake, Cassels & Graydon LLP

John Steep
Consultant

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

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



Financial 15 Split Corp

Message to Shareholders

This financial report for Financial 15 Split Corp covers the initial period from November 14 to November 30, 2003. The major investment activity during this brief period was to begin the process of investing the proceeds of the offering in the 15 financial services companies listed on the opposite page.

We would like to take this opportunity to thank investors for their participation in this offering and look forward to achieving the targeted objectives for the Corporation in the years to come.

A handwritten signature in brown ink, appearing to read 'W. Finch', with a long horizontal stroke extending to the right.

Wayne Finch
Chairman and
Chief Investment Officer

Financial 15 Split Corp

Investment Objectives

Financial 15 Split Corp 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
- Royal Bank of Canada
- The Toronto-Dominion Bank
- National Bank of Canada
- Manulife Financial Corporation
- Sun Life Financial Services of Canada Inc.
- Great West Lifeco Inc.
- CI Fund Management Inc.

U.S. issuers

- Bank of America Corp
- Citigroup Inc.
- JP Morgan Chase & Co.
- Bank One Corp.
- Wells Fargo & Co.

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. The Company will limit its holdings of U.S. issuers to ensure that its shares will not be foreign property for Canadian tax purposes. 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:

- a) 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
- b) on or about December 1, 2008(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:

- a) 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
- b) on or about December 1, 2008(the termination date), to pay holders at least the original issue price of those shares (\$15)

Auditors' Report

December 19, 2003

To the Shareholders of Financial 15 Split Corp

We have audited the statement of portfolio investments of **Financial 15 Split Corp** (the Company) as at November 30, 2003 and the statement of financial position as at November 30, 2003 and the statement of operations and retained earnings and changes in shareholders' equity for the period from November 14, 2003 (date of commencement) to November 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2003 and the results of its operations and retained earnings and changes in its shareholders' equity for the period from November 14, 2003 to November 30, 2003, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario

Financial 15 Split Corp

Statements of Financial Position

As at November 30

	2003
Assets	(\$)
Investments - at market value (cost-\$247,802,784)	248,752,833
Cash	6,448,134
Interest, dividends and other receivables	25,800
Total Assets	<u>255,226,767</u>
Liabilities	
Fees and other accounts payable	413,434
Payable in respect of investments purchased	2,431,731
Preferred shares (note 3)	106,000,000
	<u>108,845,165</u>
Shareholders' Equity	
Class A and Class B shares (note 4)	145,781,000
Retained earnings	600,602
	<u>146,381,602</u>
Liabilities & Shareholders' Equity	<u>255,226,767</u>

Approved on behalf of the Board of Directors



Wayne Finch
Chairman and
Chief Investment Officer



Peter Cruickshank
Managing Director and
Chief Financial Officer



Financial 15 Split Corp

Statements of Operations and Retained Earnings

	For the period November 14, 2003 to Nov 30, 2003
Income	
Dividends	25,800
Interest	96,181
	<u>121,981</u>
Expenses (note 5)	
Management fees	83,017
Service fee	32,000
Other operating expenses	81,545
Goods and services tax	11,519
	<u>208,081</u>
Net investment income (loss) for the period	<u>(86,100)</u>
Realized and unrealized gain (loss) on investments and options	
Net realized loss on investments and options (note 6)	(262,029)
Change in unrealized appreciation of investments	950,049
Change in unrealized depreciation of foreign exchange	(1,318)
	<u>686,702</u>
Net gain on investments and options for the period	<u>686,702</u>
Increase in net assets from operations	600,602
Retained earnings - Beginning of period	-
Retained earnings - End of period	<u>600,602</u>

Financial 15 Split Corp

Statements of Changes in Shareholders' Equity

	For the period November 14, 2003 to Nov 30, 2003
Increase in net assets from operations	600,602
Net proceeds from issue of Class A shares (note 4)	145,780,000
Net proceeds from issue of Class B shares (note 4)	1,000
	<hr/> 145,781,000
Increase in net assets for the period	146,381,602
Shareholders' equity - Beginning of period	-
Shareholders' equity - End of period	<hr/> 146,381,602



Financial 15 Split Corp

Statement of Portfolio Investments

At at November 30, 2003

Face Value (\$)/ No. of shares	Description	Average cost/ (Premiums received) (\$)	Market value(\$)
Short term investments			
53,994,189	Canadian Interest return forward contract (note 7)	53,994,189	54,002,324
	Total Short term investments (21.7%)	<u>53,994,189</u>	<u>54,002,324</u>
Canadian equities			
186,400	Bank of Montreal	9,631,195	9,959,352
165,000	Bank of Nova Scotia	10,623,594	10,574,850
315,400	Canadian Imperial Bank of Commerce	19,738,303	19,889,124
258,000	C.I. Fund Management Inc.	4,048,231	4,060,920
397,100	Great West Lifeco Inc.	16,505,462	16,876,750
415,000	Manulife Financial Corp.	16,662,387	17,201,750
117,000	National Bank of Canada	4,877,206	4,785,300
212,400	Royal Bank of Canada	13,581,565	13,105,080
485,200	Sun Life Financial Inc.	15,421,355	15,327,468
320,000	Toronto Dominion Bank	13,388,239	13,104,000
	Total Canadian Equities (50.2%)	<u>124,477,535</u>	<u>124,884,594</u>
Foreign equities			
120,000	Bank of America	11,662,552	11,766,174
290,000	Bank One Corp.	16,200,322	16,345,461
270,000	Citigroup Inc.	16,313,553	16,509,769
255,000	JP Morgan Chase & Co.	11,704,823	11,720,937
185,000	Wells Fargo Company	13,664,839	13,786,803
	Total Foreign Equities (28.2%)	<u>69,546,089</u>	<u>70,129,145</u>
	Total Equities (78.4%)	<u>194,023,623</u>	<u>195,013,739</u>
Call Options written (100 shares per contract)			
Foreign call options written			
(500)	Bank One Corp January 2003 @\$42.50	(102,246)	(110,491)
(500)	Citigroup Inc. December 2003 @\$45	(112,782)	(152,738)
	Total Foreign call options written (-0.1%)	<u>(215,028)</u>	<u>(263,230)</u>
	Total Investments (100%)	<u>247,802,784</u>	<u>248,752,833</u>

The Statement of Portfolio Investments is at November 30, 2003 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.

Financial 15 Split Corp

Notes to Financial Statements

November 30, 2003

1. Incorporation

Financial 15 Split Corp (the "Company") is a mutual fund corporation established under the laws of the Province of Ontario on September 26, 2003 and began investment operations on November 14, 2003. 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, 2008, 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, include estimates and assumptions by management that affect the reported amount of assets, liabilities, income and expenses during the reporting periods. The following is a summary of the significant accounting policies followed by the Company. Actual results could differ from these estimates.

Valuation of investments

Investments are recorded in the financial statements at their market values at the end of the period, determined as follows:

- Shares or other securities for which market quotations are readily available are valued at the closing sale price or, if there is no sale price, the average of the closing bid and ask prices. Shares or other securities for which market quotations are not readily available are valued at fair market values as determined by the Manager.
- Listed options are valued at market values as reported on recognized exchanges. Over the counter options are valued using an appropriate valuation model.

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.
- Deferred gains and losses on options are recognized in investments and as a component of net unrealized appreciation (depreciation) in the value of investments in shareholders' equity.
- 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.

Financial 15 Split Corp

Notes to Financial Statements

November 30, 2003

3. Preferred shares

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

Issued and outstanding	November 30, 2003
10,600,000 Preferred shares	<u>\$106,000,000</u>

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, 2008 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 3860 of the CICA Handbook.

Preferred shares trade under the symbol "FTN.PR.A" on the Toronto Stock Exchange (TSX). Preferred shares trading price on the TSX was \$10.72 as at November 30, 2003. 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. The net asset value per unit as at November 30, 2003 was \$23.81. 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 and the Class A shares rank in priority to the Class B shares with respect to the payment of dividends. Preferred shares rank in priority to the Class A shares upon termination of the Company.

4. 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>	November 30, 2003
10,600,000 Class A shares	\$145,780,000
1,000 Class B shares	<u>\$1,000</u>
	<u>\$145,781,000</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, 2008 will be redeemed by the Company on that date.

Financial 15 Split Corp

Notes to Financial Statements

November 30, 2003

Class A shares trade under the symbol "FTN" on the Toronto Stock Exchange (TSX). Class A shares trading price on the TSX was \$14.80 as at November 30, 2003. 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 an 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 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. The net asset value per unit as at November 30, 2003 was \$23.81. 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 and the Class A shares rank in priority to the Class B 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).

On November 14, 2003, the Company issued 10,600,000 Class A shares for a gross proceeds of \$159,000,000. Issue costs of \$12,720,000 and filing fees of \$500,000 were incurred in connection with this offering.

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 26, 2003, the Company issued 1,000 Class B shares to Quadravest Capital Management Inc., the Company's investment manager, for cash consideration of \$1,000.

5. 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 net assets of the Fund 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 net assets of the Company 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.

The Manager also pays the service fee to each dealer whose clients hold Class A Shares. The service fee is calculated and paid at the end of each calendar quarter and is equal to 0.50% annually of the value of the Class A Shares held by clients of the dealer. Total management fees of \$83,017 incurred during the period include the administration fee and base management fee.

Financial 15 Split Corp

Notes to Financial Statements

November 30, 2003

6. Net realized gain on investments and options

The net realized gain on sale of investments and options (excluding short-term notes) was as follows:

	2003
Proceeds on sale of investments and options	4,783,983
Less cost of investments sold:	
Investments at average cost	
Beginning of period	-
Cost of investments purchased	252,533,707
Investments at average cost - End of period	(247,802,784)
Investments sold during the period	<u>4,730,923</u>
	53,060
Net realized gain (loss) on foreign exchange	(315,089)
Net realized gain (loss) on investments and options	<u>(262,029)</u>

7. Canadian Interest Return Forward Contract

The Canadian interest return forward contract was entered into with a Canadian financial institution (the "Counterparty") with an AA credit rating to provide a specified return of 2.75% (annualized) to the maturity date of December 12, 2003. The names of the securities purchased and the number of shares of each security which have been pledged to the counterparty within this agreement as at November 30, 2003 are as follows: Bank of Montreal-187,200; Bank of Nova Scotia-140,630; Manulife Financial-72,480; National Bank-332,230; Royal Bank-111,550; Sun Life-155,810; TD Bank-143,300. The total cost of the forward contract is \$53,994,189 and the market value of the forward contract is \$54,002,324 as at November 30, 2003. At the maturity date, the Company will receive \$54,047,365 in exchange for delivery of the pledged shares to the Counterparty.

8. 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.

Financial 15 Split Corp

Notes to Financial Statements

November 30, 2003

9. Financial instruments and risk management

The fair values of the Company's assets and liabilities are affected by changes in interest rates and equity markets. The Company manages these risks through the use of various risk limits and trading strategies.

10. Statement of portfolio transactions

Additional unaudited information concerning the portfolio transactions for the Company for the period ended November 30, 2003 can be obtained without charge by writing to Quadravest Inc. at 77 King Street West, P.O. Box 341, Toronto, Ontario M5K 1K7.



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. 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 Quadravest.

Quadravest's investment strategy combines equity investments with covered call writing. Quadravest has completed initial public offerings for eight products in excess of \$1 billion.



QUADRAVEST
CAPITAL MANAGEMENT

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@quadravest.com
www.quadravest.com