

*May 31  
2004*

# **Financial 15 Split Corp**

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## ***Semi-annual Report***



**QUADRAVEST**  
CAPITAL MANAGEMENT



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## 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

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## 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  
11<sup>th</sup> Floor, Toronto, Ontario M5W 1P9



# Financial 15 Split Corp

## Message to Shareholders

The Corporation achieved its target distribution objectives for both classes of shares during the first full 6 month period while also increasing the net asset value per unit by \$1.27 to \$25.20 (after all distributions paid) as at May 31, 2004.

On January 14, 2004, a core holding, JP Morgan Chase & Co., announced its intention to acquire Bank One Corp. at a premium of 14% above the January 14 closing price. Subsequent trading activity in both stocks, which were both among the 15 stocks held in the portfolio, led to further positive market gains for both stocks. As a result of the anticipated closing of this transaction, the Financial 15 investment portfolio was rebalanced during the period and Merrill Lynch and Co. was selected as the substitute security for Bank One Corp.

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

A handwritten signature in brown ink, appearing to read 'Wayne Finch', with a stylized flourish 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 Class A 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)

# Financial 15 Split Corp

## Ten Largest Holdings

(common equity)

as at May 31, 2004

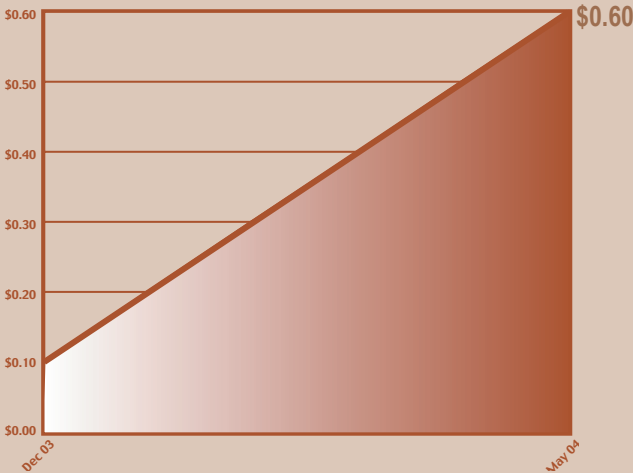
- |   |                               |
|---|-------------------------------|
| 1. Canadian Imperial Bank of Commerce         | 6. Great-West Lifeco Inc.     |
| 2. Manulife Financial Corporation             | 7. The Bank of Nova Scotia    |
| 3. Sun Life Financial Services of Canada Inc. | 8. Bank of America Corp.      |
| 4. Bank of Montreal                           | 9. Royal Bank of Canada       |
| 5. CI Fund Management Inc.                    | 10. The Toronto-Dominion Bank |

*Note: Holdings are as at May 31, 2004 and may at any time be materially different.*

## Class A Shares – Distributions

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. Distributions paid during the six months were at the targeted rate for a total \$0.60 per share.

### Cumulative Distributions since inception

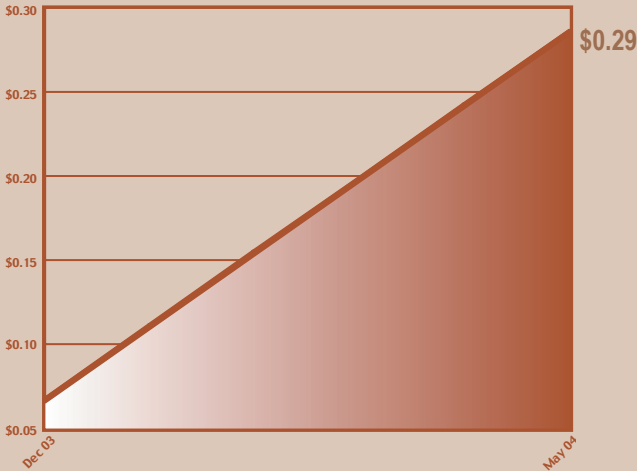


## Preferred Shares – Distributions

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 six months were at the fixed rate for a total \$0.29 per share.

*Note: The initial distribution was for the period November 14, 2003 to December 31, 2003.*

### Cumulative Distributions since inception





# Financial 15 Split Corp

## Statements of Financial Position

As at May 31, 2004 (unaudited) and November 30, 2003 (audited)

	May 31, 2004	November 30, 2003
<b>Assets</b>		(\$)
Investments - at market value (cost-\$240,367,155; 2003-\$247,802,784)	261,190,534	248,752,833
Cash	14,835,391	6,448,134
Interest, dividends and other receivables	556,721	25,800
<b>Total Assets</b>	<b><u>276,582,646</u></b>	<b><u>255,226,767</u></b>
<b>Liabilities</b>		
Fees and other accounts payable	340,738	413,434
Payable in respect of investments purchased	-	2,431,731
Distributions payable	1,566,875	-
Preferred shares (note 3)	109,000,000	106,000,000
	<u>110,907,613</u>	<u>108,845,165</u>
<b>Shareholders' Equity</b>		
Class A and Class B shares (note 4)	149,921,000	145,781,000
Retained earnings	15,754,033	600,602
	<u>165,675,033</u>	<u>146,381,602</u>
<b>Liabilities &amp; Shareholders' Equity</b>	<b><u>276,582,646</u></b>	<b><u>255,226,767</u></b>

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 six month period ending May 31 (unaudited)

	May 31, 2004
<b>Income</b>	
Dividends (net of withholding taxes of \$172,681)	3,652,507
Interest	86,539
	<u>3,739,046</u>
<b>Expenses</b> (note 5)	
Management fees	1,041,585
Service fee	289,444
Other operating expenses	336,227
Goods and services tax	96,447
	<u>1,763,703</u>
<b>Net investment income (loss) for the period</b>	<u><b>1,975,343</b></u>
<b>Realized and unrealized gain (loss) on investments and options</b>	
Net realized loss on investments and options (note 6)	2,800,799
Change in unrealized appreciation of investments	19,881,465
Change in unrealized depreciation of foreign exchange	157,039
	<u>22,839,303</u>
<b>Net gain on investments and options for the period</b>	<u><b>22,839,303</b></u>
<b>Increase in net assets from operations before distributions</b>	<b>24,814,646</b>
<b>Distributions on Preferred shares</b> (note 8)	<b>(3,121,215)</b>
<b>Increase (decrease) in net assets from operations</b>	<b>21,693,431</b>
<b>Retained earnings - Beginning of period</b>	<b>600,602</b>
<b>Distributions on Class A shares</b> (note 8)	<b>(6,540,000)</b>
<b>Retained earnings - End of period</b>	<u><b>15,754,033</b></u>

# Financial 15 Split Corp

## Statements of Changes in Shareholders' Equity

For the six month period ending May 31 (unaudited)

	May 31, 2004
<b>Increase in net assets from operations</b>	21,693,431
Net proceeds from issue of Class A shares (note 4)	4,140,000
Net proceeds from issue of Class B shares (note 4)	-
<b>Distributions on Class A shares</b>	<b>(6,540,000)</b>
<b>Increase in net assets for the period</b>	<b>19,293,431</b>
<b>Shareholders' equity - Beginning of period</b>	<b>146,381,602</b>
<b>Shareholders' equity - End of period</b>	<b><u>165,675,033</u></b>

# Financial 15 Split Corp

## Statement of Portfolio Investments

As at May 31, 2004 (unaudited)

Face Value (\$)/ No. of shares	Description	Average cost/ (Premiums received) (\$)	Market value(\$)
<b>Canadian equities</b>			
383,300	Bank of Montreal	20,389,701	20,598,542
530,000	Bank of Nova Scotia	17,254,594	18,126,000
360,400	Canadian Imperial Bank of Commerce	22,629,446	23,552,140
1,156,700	CI Fund Management Inc.	17,075,806	19,016,148
385,000	Great West Lifeco Inc.	16,367,722	18,660,950
436,200	Manulife Financial Corp.	17,672,287	23,149,134
287,000	National Bank of Canada	12,023,115	12,610,780
255,500	Royal Bank of Canada	16,129,228	15,089,830
575,100	Sun Life Financial Inc.	18,502,553	21,278,700
320,000	Toronto-Dominion Bank	13,388,239	14,528,000
	<b>Total Canadian Equities (71.4%)</b>	<b><u>171,432,690</u></b>	<b><u>186,610,224</u></b>
<b>Foreign Equities</b>			
154,424	Bank of America Corp.	15,560,322	17,497,808
210,000	Bank One Corp.	11,769,553	13,868,330
170,000	Citigroup Inc.	10,465,571	10,758,672
215,000	JP Morgan Chase & Co.	9,899,340	10,796,156
138,800	Merrill Lynch & Co.	11,300,209	10,746,051
145,000	Wells Fargo Company	10,712,029	11,621,345
	<b>Total Foreign Equities (28.9%)</b>	<b><u>69,707,024</u></b>	<b><u>75,288,362</u></b>
	<b>Total Equities (100.3%)</b>	<b><u>241,139,714</u></b>	<b><u>261,898,586</u></b>
<b>Call Options written (100 shares per contract)</b>			
<b>Canadian call options written</b>			
(800)	Bank of Montreal, July 2004 @ \$52	(137,600)	(168,000)
(1,200)	Bank of Nova Scotia, July 2004 @ \$33.75	(66,600)	(102,000)
(900)	Canadian Imperial Bank of Commerce, July 2004 @ \$67.50	(44,100)	(45,000)
(1,000)	National Bank of Canada, July 2004 @ \$44	(67,000)	(77,500)
(1,000)	Royal Bank of Canada, July 2004 @ \$62	(31,500)	(30,000)
(800)	Toronto-Dominion Bank, July 2004 @ \$45	(76,000)	(92,000)
	<b>Total Canadian call options written (-0.2%)</b>	<b><u>(422,800)</u></b>	<b><u>(514,500)</u></b>
<b>Foreign call options written</b>			
(400)	Bank of America Corp., June 2004 @ \$85	(29,561)	(13,630)
(500)	Bank One Corp., August 2004 @ \$50	(76,694)	(85,190)
(500)	Citigroup, June 2004 @ \$50	(73,550)	(3,408)
(500)	JP Morgan Chase & Co., June 2004 @ \$40	(38,768)	(3,408)
(300)	Merrill Lynch & Co., July 2004 @ \$60	(32,191)	(26,579)
(400)	Merrill Lynch & Co., June 2004 @ \$60	(39,720)	(8,178)
(400)	Wells Fargo Company, July 2004 @ \$60	(59,276)	(53,159)
	<b>Total Foreign call options written (-0.1%)</b>	<b><u>(349,759)</u></b>	<b><u>(193,553)</u></b>
	<b>Total Investments (100%)</b>	<b><u>240,367,155</u></b>	<b><u>261,190,534</u></b>

# Financial 15 Split Corp

## Notes to Financial Statements

For the six months ended May 31, 2004 (unaudited)

### 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

For the six months ended May 31, 2004 (unaudited)

### 3. Preferred shares

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

Issued and outstanding	May 31, 2004
10,900,000 Preferred shares	<u>\$109,000,000</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 \$10.55 as at May 31, 2004. 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 May 31, 2004 was \$25.20. 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>	May 31, 2004
10,900,000 Class A shares	149,920,000
1,000 Class B shares	1,000
	<u>149,921,000</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

For the six months ended May 31, 2004 (unaudited)

Class A shares trade under the symbol "FTN" on the Toronto Stock Exchange (TSX). Class A shares trading price on the TSX was \$10.55 as at May 31, 2004. 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 May 31, 2004 was \$25.20. 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. An additional 300,000 Class A shares were issued on December 12, 2003 for net proceeds of \$4,140,000.

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 \$1,041,585 incurred during the period include the administration fee and base management fee.

# Financial 15 Split Corp

## Notes to Financial Statements

For the six months ended May 31, 2004 (unaudited)

### 5. Expenses (continued)

The management expense ratio is calculated as being the total expenses incurred by the Company, including GST, as a percentage of the weighted average of shareholder's equity and the Preferred shares of the Company, and is expressed on an annualized basis. The management expense ratio for the Company was 1.29% of average net assets for the period.

### 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:

	May 31, 2004
Proceeds on sale of investments and options	99,064,030
Less cost of investments sold:	
Investments at average cost	
Beginning of period	247,802,784
Cost of investments purchased	88,907,186
Investments at average cost - End of period	(240,367,155)
Investments sold during the period	<u>96,342,815</u>
	2,721,215
Net realized gain (loss) on foreign exchange	79,584
Net realized gain (loss) on investments and options	<u><u>2,800,799</u></u>

### 7. Results from Operations

The results from operations per Class A share before payment of Class A share distributions were as follows:

May 31, 2004  
\$1.99

based on average number of Class A shares outstanding during the period.

### 8. 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, 2008.

Distributions per share were as follows:

	May 31, 2004
Preferred shares	\$0.286
Class A shares	\$0.60

# Financial 15 Split Corp

## Notes to Financial Statements

For the six months ended May 31, 2004 (unaudited)

### 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. 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.

### 11. Statement of portfolio transactions

Additional unaudited information concerning the portfolio transactions for the Company for the period ended May 31, 2004 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 ten products in excess of \$1 billion.





**QUADRAVEST**  
CAPITAL MANAGEMENT

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