

**Dividend 15 Split Corp**

**2004 *Annual Report***

**QUADRAVEST**  
CAPITAL MANAGEMENT





# Table of Contents

Message to Shareholders.....4  
Investment Objectives .....5  
Distributions.....6  
Auditors' Report.....8  
Financial Statements .....9  
Notes to Financial Statements ..... 14

---

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

# Dividend 15 Split Corp

## Message to Shareholders

The Corporation achieved its distribution objectives for both classes of shares for the initial period from March 16, 2004 to November 30, 2004 while also increasing the net asset value by \$0.79 per unit to \$24.53 (after all distributions paid) as at November 30, 2004.

The core portfolio remains invested in the 15 selected Canadian large capitalization companies which rank among the highest dividend yielding stocks on the TSX. The 15 stocks include companies from the financial services, utilities, telecommunications, media and resource sectors.

As at November 30, 2004, the Corporation's portfolio consisted of the 15 selected stocks as well as investments in Manulife Financial Corp, Sun Life Financial Inc. and CI Fund Management Inc. which were selected as part of the 15% allocation to other equity issuers.

These 18 stocks comprised approximately 96% of the portfolio with the remaining 4% of the assets were held in the form of cash and other current assets. The portfolio remains well diversified with most holdings in the 4 to 8% range. The dividend income in the portfolio continues to be supplemented by a limited covered call writing program which provides additional income to the portfolio while also providing some downside protection to the portfolio.

The financial services and utility stocks in the portfolio have continued to benefit from relatively low interest rates while the resource stocks have seen dramatic increases in earnings as a result of increasing global economic growth which has fuelled higher commodity prices. These trends are likely to continue into 2005.

We would like to thank investors for their participation in this offering and look forward to achieving the objectives of the Corporation.



**Wayne Finch**  
Chairman and  
Chief Investment Officer

# Dividend 15 Split Corp

## Investment Objectives

Dividend 15 Split Corp invests in a portfolio of dividend yielding common shares, which will include each of the 15 Canadian companies listed below:

- Bank of Montreal
- The Bank of Nova Scotia
- BCE Inc.
- Brascan Corporation
- Canadian Imperial Bank of Commerce
- Dofasco Inc.
- Enbridge Inc.
- National Bank of Canada
- Noranda Inc.
- Royal Bank of Canada
- TELUS Corporation
- The Thomson Corporation
- The Toronto-Dominion Bank
- TransAlta Corporation
- TransCanada Corporation

The Company may also invest up to 15% of the Net Asset Value in equity securities of issuers other than the 15 companies listed above. The Company will be managed in a manner to ensure that it remains as Canadian property for registered plans. 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 of 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, 2009 (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 with regular monthly cash dividends initially targeted to be \$0.10 per Class A shares to yield 8% per annum on the original issue price; and
- b) on or about December 1, 2009 (the termination date), to pay holders at least the original issue price (\$15) of those shares.



# Dividend 15 Split Corp

## Ten Largest Holdings

(common equity)

as at November 30, 2004

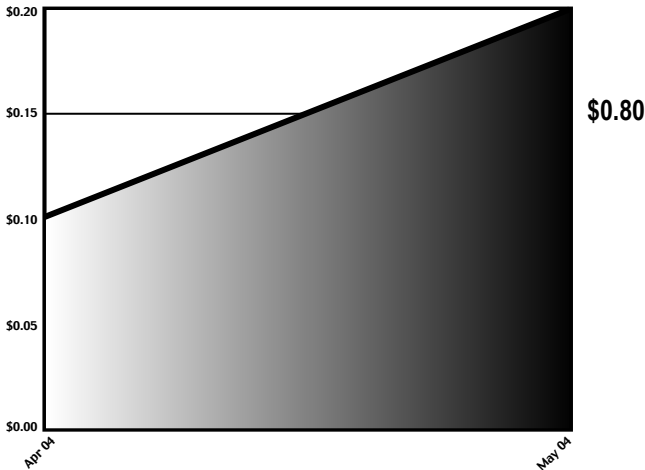
- |                                       |                            |
|---------------------------------------|----------------------------|
| 1. Canadian Imperial Bank of Commerce | 6. TELUS Corporation       |
| 2. BCE Inc.                           | 7. National Bank of Canada |
| 3. Bank of Montreal                   | 8. Toronto-Dominion Bank   |
| 4. TransAlta Corporation              | 9. The Thomson Corporation |
| 5. Brascan Corporation                | 10. Royal Bank of Canada   |

*Note: Holdings are as at November 30, 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 since inception on March 16, 2004 to November 30, 2004 include 8 distributions at the targeted rate for a total of \$0.80 per share.

### Cumulative Distributions since inception

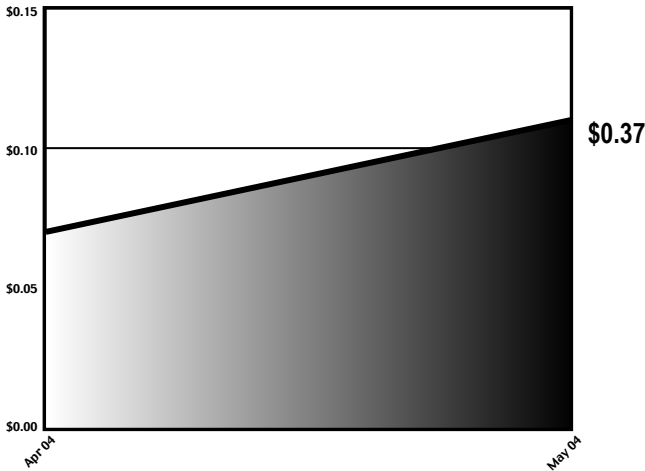


# Preferred Shares – Distributions

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 since inception on March 16, 2004 to November 30, 2004 include 8 distributions at the fixed rate for a total of \$0.37 per share.

*Note: The initial distribution was for the period March 16, 2004 to April 30, 2004.*

## Cumulative Distributions since inception



# Auditors' Report

December 20, 2004

## To the Shareholders of Dividend 15 Split Corp

We have audited the statement of portfolio investments of **Dividend 15 Split Corp** (the Company) and the statement of financial position as at November 30, 2004 and the statements of operations and retained earnings, changes in shareholders' equity and cash flow for the period from March 16, 2004 (date of commencement) to November 30, 2004. 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, 2004 and the results of its operations and cash flow for the period from March 16, 2004 to November 30, 2004 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**  
Toronto, Ontario

# Dividend 15 Split Corp

## Statement of Financial Position

As at November 30, 2004

<b>Assets</b>	(\$)
Investments - at market value (cost-\$185,668,248)	198,543,964
Cash	8,437,694
Interest, dividends and other receivables	537,894
Receivable in respect of investments sold	30,562
<b>Total Assets</b>	<b><u>207,550,114</u></b>
<b>Liabilities</b>	
Fees and other accounts payable	270,920
Capital tax payable	9,000
Distributions Payable	1,207,500
Preferred shares (note 3)	84,000,000
	<u>85,487,420</u>
<b>Shareholders' Equity</b>	
Class A and Class B shares (note 4)	115,421,000
Retained earnings	6,641,694
	<u>122,062,694</u>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b><u>207,550,114</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

# Dividend 15 Split Corp

## Statements of Operations and Retained Earnings

For the period March 16, 2004 to November 30, 2004

	(\$)
<b>Income</b>	
Dividends	3,720,664
Interest	70,715
	<u>3,791,379</u>
<b>Expenses</b> (note 5)	
Management fees	1,071,009
Service fees	410,417
Other operating expenses	181,795
Capital tax	9,000
Goods and services tax	87,697
	<u>1,759,918</u>
<b>Net investment income (loss) before distributions on Preferred shares</b>	<b>2,031,461</b>
<b>Distributions on Preferred shares</b> (notes 3 and 7)	<b>(3,116,232)</b>
<b>Net investment (loss) for the period</b>	<b>(1,084,768)</b>
<b>Realized and unrealized gain (loss) on investments and options</b>	
Net realized gain on investments and options (note 6)	1,600,244
Change in unrealized appreciation of investments	12,875,716
Change in unrealized depreciation of foreign exchange	(29,495)
	<u>14,446,465</u>
<b>Net gain on investments and options for the period</b>	<b>14,446,465</b>
<b>Increase in net assets from operations for the period</b>	<b>13,361,694</b>
<b>Retained earnings - Beginning of period</b>	<b>-</b>
<b>Distributions on Class A shares</b> (notes 4 and 7)	<b>(6,720,000)</b>
<b>Retained earnings - End of period</b>	<b>6,641,694</b>
<b>Increase in net assets from operations per Class A share</b>	<b>1.60</b>

# Dividend 15 Split Corp

## Statement of Changes in Shareholders' Equity

For the period March 16, 2004 to November 30, 2004

	(\$)
<b>Increase in net assets from operations</b>	13,361,694
Net proceeds from issue of Class A shares (note 4)	115,420,000
Net proceeds from issue of Class B shares (note 4)	<u>1,000</u>
	115,421,000
<b>Distributions on Class A shares (note 7)</b>	<b>(6,720,000)</b>
<b>Increase in net assets for the period</b>	<b>122,062,694</b>
<b>Shareholders' equity - Beginning of period</b>	<b>-</b>
<b>Shareholders' equity - End of period</b>	<b><u>122,062,694</u></b>

# Dividend 15 Split Corp

## Statement of Cash Flow

For the period March 16, 2004 to November 30, 2004

	(\$)
<b>Increase in net assets from operations for the period</b>	13,361,694
<b>Adjustments to reconcile net cash provided by (used) in operations</b>	
Net realized loss (gain) on investments and options	(1,604,088)
Net change in unrealized gain on investments and options	(12,875,716)
Net change in receivable balances	(568,456)
Net change in payable balances	1,487,420
Purchase of investments	(197,680,984)
Proceeds from sale of investments and options	13,616,824
<b>Cash flow from Shareholder activities</b>	
Net proceeds from issue of shares	199,421,000
Distributions on Class A shares	(6,720,000)
Net increase (decrease) in cash	8,437,694
Cash, beginning of period	0
<b>Cash, end of period</b>	<b>8,437,694</b>

# Dividend 15 Split Corp

## Statement of Portfolio Investments

As at November 30, 2004

No. of shares	Description	Average cost/ (Premiums received) (\$)	Market value(\$)
<b>Canadian Equities</b>			
250,000	Bank of Montreal	13,348,665	13,777,500
246,600	Bank of Nova Scotia	8,725,693	9,222,840
550,000	BCE Inc.	15,301,853	15,867,500
284,800	Brascan Corp.	9,432,242	12,092,608
255,000	Canadian Imperial Bank of Commerce	17,535,405	18,309,000
509,800	CI Fund Management Inc.	8,090,039	8,309,740
175,700	Dofasco Inc.	6,099,110	7,607,810
165,700	Enbridge Inc.	8,551,718	9,527,750
185,000	Manulife Financial Corp.	9,072,054	9,851,250
247,400	National Bank of Canada	11,064,234	11,541,210
405,800	Noranda Inc.	8,890,672	8,582,670
170,100	Royal Bank of Canada	10,614,796	10,614,240
205,200	Sun Life Financial Inc.	7,274,769	7,826,328
150,000	Telus Corporation	3,666,000	4,882,500
220,000	Telus Corporation Non Voting	4,878,950	6,694,600
262,600	Thomson Corp.	10,979,926	10,808,616
233,000	Toronto-Dominion Bank	10,767,968	11,114,100
738,000	Transalta Corporation	12,716,212	12,944,520
306,900	TransCanada Corporation	8,751,504	9,016,722
	<b>Total Equities (100.0%)</b>	<b><u>185,761,809</u></b>	<b><u>198,591,504</u></b>
<b>No. of Call Options written (100 shares per contract)</b>			
<b>contracts Canadian call options written</b>			
(400)	Bank of Montreal, December 2004 @ \$58	(30,800)	(1,800)
(400)	Bank of Nova Scotia, December 2004 @ \$38	(14,800)	(8,000)
(400)	Cdn Imperial Bank of Commerce, December 2004 @ \$74	(17,400)	(6,000)
(500)	Dofasco Inc., December 2004 @ \$44	(26,500)	(27,500)
(212)	TransCanada Corporation, January 2005 @ \$30	(4,062)	(4,240)
	<b>Total call options written (-0.0%)</b>	<b><u>(93,562)</u></b>	<b><u>(47,540)</u></b>
	<b>Total Investments (100%)</b>	<b><u>185,668,248</u></b>	<b><u>198,543,964</u></b>

The Statement of Portfolio Investments is at November 30, 2004 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.



# Dividend 15 Split Corp

## Notes to Financial Statements

For the period ended November 30, 2004

### 1. Incorporation

Dividend 15 Split Corp (the "Company") is a mutual fund corporation established under the laws of the Province of Ontario on January 9, 2004 and began investment operations on March 16, 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, 2009, 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.

# Dividend 15 Split Corp

## Notes to Financial Statements

For the period ended November 30, 2004

### 3. Preferred shares

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

Issued and outstanding	November 30, 2004
8,400,000 Preferred shares	<u>84,000,000</u>

A total of 8,400,000 Preferred shares were issued at \$10 per share for total proceeds of \$84,000,000. Preferred shares are entitled to fixed, cumulative monthly cash dividends of \$0.04375 per Preferred share. All Preferred shares outstanding on December 1, 2009 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 "DFN.PR.A" on the Toronto Stock Exchange (TSX). Preferred shares trading price on the TSX was \$10.68 as at November 30, 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 August in each year will be entitled to receive an amount equal to the net asset value per unit on the last day of August. 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, 2004 was \$24.53. 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, 2004
8,400,000 Class A shares	115,420,000
1,000 Class B shares	<u>1,000</u>
	<u>115,421,000</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, 2009 will be redeemed by the Company on that date.

# Dividend 15 Split Corp

## Notes to Financial Statements

For the period ended November 30, 2004

Class A shares trade under the symbol "DFN" on the Toronto Stock Exchange (TSX). Class A shares trading price on the TSX was \$13.77 as at November 30, 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 August in each year will be entitled to receive an amount equal to the net asset value per unit on the last day of August. 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, 2004 was \$24.53. 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 March 16, 2004, the Company issued 8,000,000 Class A shares for a gross proceeds of \$120,000,000. An additional 400,000 Class A shares were issued on April 6, 2004 for gross proceeds of \$6,000,000. Issue costs and filing costs totalling \$10,580,000 were incurred in connection with this offering. All issue related costs have been deducted from the gross proceeds resulting in net proceeds of \$115,420,000.

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 March 16, 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. Issue costs of \$10,080,000 and filing fees of \$500,000 were incurred in connection with this offering.

### 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 which include the outstanding Preferred shares, calculated as at each monthly valuation date. In addition, Quadravest is entitled to receive a performance fee subject to the achievement of certain pre-established total return thresholds.

The Manager 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 \$1,071,009 incurred during the period include the administration fee and base management fee.

# Dividend 15 Split Corp

## Notes to Financial Statements

For the period ended November 30, 2004

### 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 shareholders equity and the Preferred shares of the Company, and is expressed on an annualized basis. The management expense ratio for the Company was 1.25% 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:

	November 30, 2004
Proceeds on sale of investments and options	13,616,824
Less cost of investments sold:	
Investments at average cost	
Beginning of period	-
Cost of investments purchased	197,680,984
Investments at average cost - End of period	(185,668,248)
Investments sold during the period	<u>12,012,736</u>
	1,604,088
Net realized gain (loss) on foreign exchange	(3,844)
Net realized gain (loss) on investments and options	<u><u>1,600,244</u></u>

### 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, 2009.

Distributions per share were as follows:

	November 30, 2004
Preferred shares	\$0.371
Class A shares	\$0.80

# **Dividend 15 Split Corp**

## **Notes to Financial Statements**

For the period ended November 30, 2004

### **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.

### **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, 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 twelve products in excess of \$1.8 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@quadrainvest.com](mailto:info@quadrainvest.com)  
[www.quadrainvest.com](http://www.quadrainvest.com)