

**MAY 31**  
**2008**

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



**Dividend 15**

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.

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**DIVIDEND 15 SPLIT CORP. II**  
**SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**  
MAY 31, 2008

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This is the semi-annual Management Report of Fund Performance (MRFP) for the period ended May 31, 2008. 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.dividend15.com](http://www.dividend15.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.dividend15.com](http://www.dividend15.com) or [www.sedar.com](http://www.sedar.com).

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**INVESTMENT OBJECTIVES AND STRATEGIES**

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

Bank of Montreal	Royal Bank
Bank of Nova Scotia	Sun Life Financial
BCE Inc.	TELUS Corporation
CIBC	Thomson Corporation
CI Financial	Toronto-Dominion Bank
Enbridge Inc.	TransAlta Corporation
Manulife Financial	TransCanada Corp.
National Bank of Canada	

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. 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 of the portfolio.

The Company offers two types of shares:

### **Preferred Shares**

1. To provide holders of the Preferred Shares 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 (termination date), to pay the holders of the Preferred Shares the original issue price of those shares.

### **Class A Shares**

1. To provide holders of the Class A Shares with 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; and
2. On or about December 1, 2014 (termination date), to pay the holders of Class A Shares at least the original issue price of those shares.

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## **RISK**

The risks of investing in the Company remain as discussed in the Annual Information form dated February 21, 2008. 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.

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## **RESULTS OF OPERATIONS**

Overall financial markets continue to be adversely impacted by the confluence of record high commodity prices and the continuing credit related problems originating from the US sub prime lending market. These conditions have caused economic growth to slow considerably in both Canada and the United States while at the same time high commodity prices are beginning to lead to a marked increase in inflationary pressures. In particular, the dramatic increase in oil prices has become a large obstacle for economic recovery.

Through this difficult environment, the core holdings in the portfolio have been negatively impacted. The Company met its distribution objectives during the period, but the net asset value per unit declined to \$21.01 as at May 31, 2008. As at May 31, 2008, the Company's portfolio remained primarily invested in the 15 Canadian core holdings as per the prospectus. 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.

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## **RECENT DEVELOPMENTS**

### **Adoption of new accounting standards:**

On December 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3862, "Financial Instruments – Disclosures" of the CICA Handbook – Accounting ("Section 3862") and Section 3863, "Financial Instruments – Presentation" ("Section 3863"). These sections establish standards for the comprehensive disclosure and presentation requirements for financial instruments. The standards include new requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks (see Note 3 of the semi-annual financial statements).

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## **RELATED PARTY TRANSACTIONS**

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

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## **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 \$449,657 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.

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**SUMMARY OF INVESTMENT PORTFOLIO**  
All holdings as at May 31, 2008

Name	Weighting (%)
BCE Inc.	9.3
TransAlta Corporation	8.7
CI Financial Income Fund	8.0
Canadian Imperial Bank of Commerce	6.5
TransCanada Corp.	6.0
Sun Life Financial Inc.	5.8
AGF Management Ltd.	5.8
Toronto-Dominion Bank	5.7
Manulife Financial Corporation	5.6
National Bank of Canada	5.6
Royal Bank of Canada	5.5
Enbridge Inc.	5.4
Thomson Reuters Corporation	5.3
Bank of Montreal	4.4
TSX Group Inc.	4.1
Telus Corporation	3.6
Bank of Nova Scotia	3.2
<b>Total long positions as a percentage of net assets</b>	<b>98.5</b>
Other net assets	1.5

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, 2008 and November 30, 2007, 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, 2008	Periods ended November 30	
		2007	2006 <sup>(2)</sup>
Net asset value per unit, beginning of the period <sup>(1)</sup>	23.34	23.49	23.68 <sup>(3)</sup>
Increase (decrease) from operations			
Total revenue	0.43	0.76	0.02
Total expenses	(0.12)	(0.31)	(0.02)
Realized gains for the period	0.04	0.33	-
Unrealized gains (losses) for the period	(1.81)	0.80	(0.20)
Total increase (decrease) from operations <sup>(4)</sup>	<u>(1.47)</u>	<u>1.58</u>	<u>(0.20)</u>
Distributions <sup>(5)</sup>			
Taxable Dividends	(0.82)	(1.42)	-
Capital Gains	(0.04)	(0.30)	-
Total annual distributions	<u>(0.86)</u>	<u>(1.72)</u>	<u>-</u>
Net asset value per unit at end of period	21.01	23.34	23.49
Net asset value per Preferred share	10.00	10.00	10.00
Net asset value per Class A share	<u>11.01</u>	<u>13.34</u>	<u>13.49</u>
Net asset value per unit at end of period	21.01	23.34	23.49

- (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) Initial period was from November 16, 2006 to November 30, 2006
- (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 decrease from operations is calculated based on the weighted average number of units outstanding during the period
- (5) Distributions are 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, 2008	Periods ended November 30	
		2007	2006 <sup>(1)</sup>
Net assets (millions)	\$117.6	\$130.7	\$122.2
Number of units outstanding <sup>(2)</sup>	5,590,000	5,590,000	5,200,000
Base Management expense ratio <sup>(4)</sup>	1.17%	1.26%	N/A <sup>(3)</sup>
Management expense ratio including one time initial offering expenses <sup>(5)</sup>	1.17%	1.26%	N/A <sup>(3)</sup>
Portfolio turnover rate <sup>(6)</sup>	1.17%	48.1%	0.00%
Trading expense ratio <sup>(7)</sup>	0.0%	0.06%	0.07%
Closing market price (TSX):			
Preferred shares	\$10.15	\$10.02	\$10.88
Closing market price (TSX):			
Class A shares	\$11.00	\$12.70	\$15.52

<sup>(1)</sup> Results for the period November 16, 2006 (inception) to November 30, 2006

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

<sup>(3)</sup> The Company had only been in operation for 14 days and as such, management does not believe that annualizing the expenses for such a brief period of time will be representative of an entire year

<sup>(4)</sup> 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

<sup>(5)</sup> Share issue expenses, representing all Agents' fees and other offering expenses are one time initial expenses connected with the launch of the Company

<sup>(6)</sup> 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

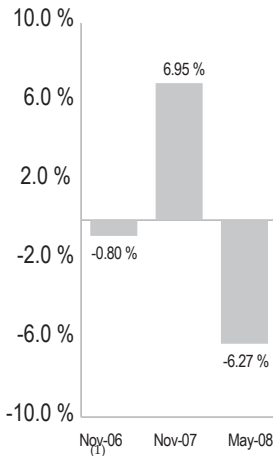
<sup>(7)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average net assets during the period.

## PAST PERFORMANCE

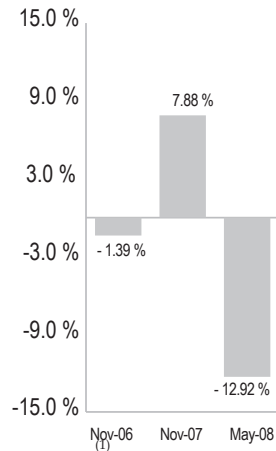
The past performance of 1) the net asset value per unit (1 Preferred share and 1 Class A share); 2) the Preferred share on net asset value basis; and 3) the Class A share on a net asset value basis for the six month period ended May 31 and for each 12 month period ended November 30 since inception are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

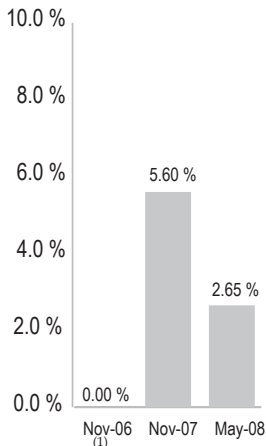
### NET ASSET VALUE



### CLASS A SHARE



### PREFERRED SHARE



<sup>(1)</sup> Based on initial period from November 16, 2006 to November 30, 2006

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## **DIVIDEND 15 SPLIT CORP. II**

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

The financial statements of Dividend 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.

**DIVIDEND 15 SPLIT CORP. II**  
**STATEMENT OF FINANCIAL POSITION**

AS AT MAY 31, 2008 AND NOVEMBER 30, 2007 (UNAUDITED)

	May 31, 2008 (\$)	November 30, 2007 (\$)
<b>ASSETS</b>		
Investments - at fair value (note 2)	115,711,361	125,966,148
Cash	2,386,216	5,163,983
Interest, dividends and other receivables	284,432	329,771
<b>Total Assets</b>	<b><u>118,382,009</u></b>	<b><u>131,459,902</u></b>
<b>LIABILITIES</b>		
Fees and other accounts payable	148,919	203,189
Dividends payable	803,563	803,563
Preferred shares (note 4)	55,900,000	55,900,000
	<b><u>56,852,482</u></b>	<b><u>56,906,752</u></b>
<b>SHAREHOLDERS' EQUITY</b>		
Class A and Class B shares (note 5)	76,703,504	76,703,504
Deficit	(15,173,977)	(2,150,354)
	<b><u>61,529,527</u></b>	<b><u>74,553,150</u></b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b><u>118,382,009</u></b>	<b><u>131,459,902</u></b>

Number of units (1 Preferred share and 1 Class A share) outstanding	5,590,000	5,590,000
Net asset value per unit (GAAP)(note 2)	\$21.01	\$23.34
Net asset value per Preferred share (GAAP)(note 2)	\$10.00	\$10.00
Net asset value per Class A share (GAAP)(note 2)	\$11.01	\$13.34
Net asset value per unit (Transactional)(note 2)	\$21.04	\$23.38

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.

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**DIVIDEND 15 SPLIT CORP. II****STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)**

FOR THE SIX MONTH PERIOD ENDED MAY 31 (UNAUDITED)

	2008	2007
	(\$)	(\$)
<b>INCOME</b>		
Dividends	2,386,697	1,888,401
Interest	5,239	37,203
	<u>2,391,936</u>	<u>1,925,604</u>
<b>EXPENSES (note 6)</b>		
Management fees	449,657	516,930
Service fees	119,922	218,780
Audit fees	9,048	8,500
Directors' fees	11,302	9,558
Custodian fees	13,339	28,375
Legal fees	8,958	9,976
Shareholder reporting costs	9,953	16,633
Other operating expenses	42,857	52,589
Goods and services tax	27,255	38,908
	<u>692,291</u>	<u>900,249</u>
<b>Net investment income</b>		
<b>before distributions on Preferred shares</b>	<b>1,699,645</b>	<b>1,025,355</b>
<b>Distributions on Preferred shares (note 4 and 7)</b>	<u><b>(1,467,375)</b></u>	<u><b>(1,584,653)</b></u>
<b>Net investment income (loss) for the period</b>	<u><b>232,270</b></u>	<u><b>(559,298)</b></u>
<b>Realized and unrealized gain (loss)</b>		
<b>on investments and options and transaction costs</b>		
Net realized gain on investments and options	198,304	1,183,036
Change in unrealized appreciation (depreciation) of investments	(10,094,905)	12,147,839
Transaction costs on purchase and sale of investments (note 2)	<u>(5,292)</u>	<u>(65,594)</u>
<b>Net gain (loss) on investments and options for the period</b>	<b>(9,901,893)</b>	<b>13,265,281</b>
<b>Increase (decrease) in net assets from operations for the period</b>	<b>(9,669,623)</b>	<b>12,705,983</b>
<b>Deficit - Beginning of period</b>	<b>(2,150,354)</b>	<b>(999,210)</b>
<b>Transitional adjustment for new accounting policy (note 2)</b>	<b>-</b>	<b>(120,746)</b>
<b>Distributions on Class A shares (note 5 and 7)</b>	<u><b>(3,354,000)</b></u>	<u><b>(3,354,000)</b></u>
<b>Retained earnings (deficit) - End of period</b>	<u><b>(15,173,977)</b></u>	<u><b>8,232,027</b></u>
<b>Increase (decrease) in net assets from operations</b>		
<b>per Class A share</b>	<b>(1.73)</b>	<b>2.27</b>

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

**DIVIDEND 15 SPLIT CORP. II**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

FOR THE SIX MONTH PERIOD ENDED MAY 31 (UNAUDITED)

	2008 (\$)	2007 (\$)
<b>Shareholders' equity - Beginning of period</b>	<b>74,553,150</b>	<b>70,161,790</b>
Transitional adjustment on adopting new accounting pronouncement (note 2)	-	(120,746)
Adjusted Shareholders' equity - Beginning of period	<u>74,553,150</u>	<u>70,041,044</u>
Increase (decrease) in net assets from operations for the period	(9,669,623)	12,705,983
Gross proceeds from issue of Class A shares	-	5,850,000
Agents' fees and filing costs in connection with the initial public offering	-	(468,000)
Net proceeds from issue of Class A shares (note 5)	<u>-</u>	<u>5,382,000</u>
<b>Distributions on Class A shares</b>		
From net income	(232,270)	-
From net realized gains	(198,304)	(623,738)
From return of capital	<u>(2,923,426)</u>	<u>(2,730,262)</u>
	<u>(3,354,000)</u>	<u>(3,354,000)</u>
<b>Increase (decrease) in net assets for the period</b>	<b><u>(13,023,623)</u></b>	<b><u>14,733,983</u></b>
<b>Shareholders' equity - End of period</b>	<b><u>61,529,527</u></b>	<b><u>84,775,027</u></b>

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

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

FOR THE SIX MONTH PERIOD ENDED MAY 31 (UNAUDITED)

	2008	2007
	(\$)	(\$)
<b>Cash flow from Operating activities</b>		
Net investment income (loss) for the period	232,270	(559,298)
Proceeds from sale of investments	1,079,811	53,490,861
Purchase of investments	(726,917)	(53,733,109)
Net change in receivable balances	45,339	(215,238)
Net change in payable balances	(54,270)	(2,425,979)
Cash flow from operations	<u>576,233</u>	<u>(3,442,763)</u>
<b>Cash flow from Shareholder activities</b>		
Gross proceeds from the issue of Class A shares and Preferred shares	-	9,750,000
Agents' fee and filing costs in connection with the initial public offering	-	(468,000)
Distributions on Class A shares	<u>(3,354,000)</u>	<u>(3,354,000)</u>
Cash flow from Shareholder activities	<u>(3,354,000)</u>	<u>5,928,000</u>
Net increase (decrease) in cash for the period	<u>(2,777,767)</u>	<u>2,485,237</u>
Cash, beginning of period	<u>5,163,983</u>	<u>9,840,975</u>
<b>Cash, end of period</b>	<u><b>2,386,216</b></u>	<u><b>12,326,212</b></u>

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

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

AS AT MAY 31, 2008

No. of shares	Description	Average Cost (\$) (Premiums received)	Market Value (\$)
<b>Canadian Common Equities</b>			
106,200	Bank of Montreal	7,451,421	5,178,312
79,000	Bank of Nova Scotia	4,108,517	3,923,930
312,500	BCE Inc.	9,321,161	10,943,750
109,000	Canadian Imperial Bank of Commerce	10,352,883	7,608,200
397,000	CI Financial Income Fund	10,651,451	9,428,750
143,000	Enbridge Inc.	5,525,082	6,324,890
170,000	Manulife Financial Corporation	6,630,165	6,522,900
120,000	National Bank of Canada	7,811,884	6,518,400
126,600	Royal Bank of Canada	6,970,239	6,424,950
146,400	Sun Life Financial Inc.	7,205,123	6,771,000
94,500	Telus Corporation	5,307,043	4,386,690
173,100	Thomson Reuters Corporation	8,338,961	6,257,565
93,800	Toronto-Dominion Bank	6,379,140	6,713,266
282,400	TransAlta Corporation	6,931,172	10,169,224
181,300	TransCanada Corp.	6,928,417	7,088,830
<b>Total Core Portfolio Equities (90.1%)</b>		<b>109,912,659</b>	<b>104,260,657</b>
<b>Other Canadian Equity Holdings</b>			
298,900	AGF Management Ltd.	7,922,698	6,758,129
107,500	TSX Group Inc.	4,724,887	4,795,575
<b>Total Canadian Common Equities in Other (10.0%)</b>		<b>12,647,585</b>	<b>11,553,704</b>
<b>Total Canadian Common Equities</b>		<b>122,560,244</b>	<b>115,814,361</b>
<b>Call Options written(100 shares per contract)</b>			
<b>Canadian call options written</b>			
(200)	Bank of Montreal, June 2008 @ \$52	(20,600)	(3,000)
(100)	Bank of Nova Scotia, June 2008 @ \$50	(7,300)	(8,500)
(100)	Canadian Imperial Bank of Commerce, July 2008 @ \$74	(8,300)	(8,000)
(200)	Manulife Financial Corporation, July 2008 @ \$40	(12,600)	(12,000)
(300)	National Bank of Canada, July 2008 @ \$56	(17,400)	(28,500)
(100)	Royal Bank of Canada, June 2008 @ \$50	(8,000)	(15,500)
(200)	Sun Life Financial Inc., June 2008 @ \$52	(8,000)	(1,500)
(100)	Toronto-Dominion Bank, June 2008 @ \$70	(8,300)	(26,000)
<b>Total Canadian call options written (-0.1%)</b>		<b>(90,500)</b>	<b>(103,000)</b>
		<b>122,469,744</b>	<b>115,711,361</b>
<b>less adjustment for transaction costs (note 2)</b>		<b>(54,224)</b>	
<b>Total Investments (100%)</b>		<b>122,415,520</b>	<b>115,711,361</b>

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

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# DIVIDEND 15 SPLIT CORP. II

## NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 AND 2007 (UNAUDITED)

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### 1. Incorporation

Dividend 15 Split Corp. II (the "Company") is a mutual fund corporation established under the laws of the Province of Ontario on September 28, 2007 and began investment operations on November 16, 2007. 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 periods. 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 the Canadian Institute of Chartered Accountants ("CICA") Section 3862, "Financial Instruments - Disclosures" of the CICA Handbook - Accounting ("Section 3862") and Section 3863, "Financial Instruments - Presentation" ("Section 3863"). These sections establish standards for the comprehensive disclosure and presentation requirements for financial instruments. The standards include new requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks.

#### Valuation of investments

Investments are categorized as held for trading in accordance with Section 3855. "Financial Instruments - Recognition and Measurement".

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 bid price.
- Listed options are valued at closing bid prices as reported on recognized exchanges. Over the counter options are valued using an appropriate valuation model.

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## DIVIDEND 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 AND 2007 (UNAUDITED)

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#### 2. Summary of significant accounting policies (continued)

National Instrument 81-106, section 14.2, issued by the Canadian Securities Administrators (“CSA”) in 2005, requires the net asset value of an investment fund to be calculated in accordance with Canadian GAAP. The CSA has granted relief to investment funds from complying on a temporary basis with Section 3855, for the purposes of calculating and reporting net asset value (other than for financial reporting purposes) until September 30, 2008, to permit further review of the impact this pronouncement has on the redemption price of an investment fund (“Transactional”). Depending on the outcome of this review, the method by which net asset value is calculated as governed by Section 3855 may result in a change to the Transactional NAV on such date. In accordance with the relief granted by the CSA, a reconciliation of the net asset value calculated in accordance with Section 3855 of an investment fund (GAAP NAV) is required to be disclosed. The Company has applied this change on a prospective basis. The reconciliation of the Company’s Transactional NAV (ie. based on last traded price of portfolio securities) and the GAAP NAV (ie. based on last bid price of portfolio securities) is presented in the following table:

	GAAP NAV	Difference	Transactional NAV
May 31, 2008	\$117,429,527	\$164,195	\$117,593,722

	GAAP NAV per unit	Difference	Transactional NAV per unit
May 31, 2008	\$21.01	\$0.03	\$21.04

#### Transaction costs

- Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Company are recognized as an expense in the Statement of Operations and Deficit. Prior to December 1, 2006, the Company’s policy had been to add these expenses to the costs of securities purchased or deducted from the proceeds of sale. The transaction costs for investments held at May 31, 2008 is shown separately on the Statement of Portfolio Investments. Effective December 1, 2006, the Company adopted the new accounting policy retroactively, without restatement of prior periods. The adoption of the policy does not impact the Transactional NAV or the GAAP NAV.

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## DIVIDEND 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 AND 2007 (UNAUDITED)

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#### 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.
- 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.

### 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.**

#### 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 S&P/TSX 60 index and are among the largest companies in Canada.

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 periods in which a particular Portfolio company has a covered call option written against that position.

Since the 15 Portfolio companies are significant components of the S&P/TSX 60, 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 TSX 60 index based on the underlying composition of the Portfolio.

A 1% increase/decrease in the portfolio would currently increase/decrease net assets by \$1,158,144.

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## **DIVIDEND 15 SPLIT CORP. II**

### **NOTES TO FINANCIAL STATEMENTS**

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 AND 2007 (UNAUDITED)

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#### **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**

All Portfolio holdings and other net assets are denominated in Canadian dollars and therefore there is no currency risk.

#### **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.

##### **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 TSX. As such, any requirement to raise cash beyond the Company's normal operating level can easily be satisfied through the sales of its portfolio holdings. The Company receives adequate notice for all redemption requests. The Company considers liquidity risk as low.

##### **Concentration risk**

The Company's 15 core holdings are concentrated in the S&P/TSX 60 index and as such will be exposed to some of the specific factors that affect this index. An individual Portfolio holding may represent no more than 10% of the net asset value of the Company at the time of purchase.

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## DIVIDEND 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 AND 2007 (UNAUDITED)

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#### 4. Preferred shares

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

<u>Issued and outstanding</u>	<u>May 31, 2008</u>	<u>May 31, 2007</u>
5,590,000 Preferred shares (2007 - 5,590,000)	\$55,900,000	\$55,900,000

#### Preferred share transactions

Beginning of period	<u>5,590,000</u>	<u>5,200,000</u>
Issued during the period	-	390,000
End of period	5,590,000	5,590,000

On November 16, 2007, 5,200,000 Preferred shares were issued at \$10 per share. An additional 390,000 Preferred shares were issued at \$10 per share on December 7, 2007.

Preferred shares are entitled to 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 3861 of the CICA Handbook.

Preferred shares trade under the symbol "DF.PR.A" on the Toronto Stock Exchange (TSX). Preferred shares trading price on the TSX was \$10.15 as at May 31, 2008 (2007- \$10.35). 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 transactional 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. Under the terms of a Recirculation Agreement, the Company may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Preferred shares or Class A shares tendered for retraction.

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

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

##### Authorized

An unlimited number of Class A shares

1,000 Class B shares

<u>Issued and outstanding</u>	<u>May 31, 2008</u>	<u>May 31, 2007</u>
5,590,000 Class A shares	<u>\$76,702,504</u>	<u>\$76,542,000</u>
1,000 Class B shares	<u>\$1,000</u>	<u>\$1,000</u>
	\$76,703,504	\$76,543,000

##### Class A share transactions

Beginning of period	<u>5,590,000</u>	<u>5,200,000</u>
Issued during the period	-	390,000
End of period	5,590,000	5,590,000

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## DIVIDEND 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 AND 2007 (UNAUDITED)

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Class A shares were issued at \$15 per share. Class A distributions are targeted at \$0.10 per month per share. 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 "DF" on the Toronto Stock Exchange (TSX). Class A shares trading price on the TSX was \$11.00 as at May 31, 2008 (2007 - \$15.00). 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 August in each year will be entitled to receive an amount equal to the transactional 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. 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).

On November 16, 2007, the Company issued 5,200,000 Class A shares for gross proceeds of \$78,000,000. Agents' fees of \$6,240,000 and filing costs of \$600,000 were incurred in connection with this offering. On December 7, 2007, the Company issued an additional 390,000 Class A shares for gross proceeds of \$5,850,000. Agents' fees of \$468,000 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 November 16, 2007, the Company issued \$1,000 Class B shares to Dividend 15 Split Corp. II Holding Trust 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 includes 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.

Total management fees of \$449,657 (2007 - \$516,930) incurred during the period include the administration fee and base management fee. No performance fees were paid in 2008 or 2007.

The brokerage commissions paid during the period by the Company for its portfolio transactions were \$5,292 (2007 - \$65,594).

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## DIVIDEND 15 SPLIT CORP. II

### NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2008 AND 2007 (UNAUDITED)

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#### 7. Distributions

The Company's investment objectives are to provide floating 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, 2008	May 31, 2007
Preferred shares	\$0.2625	\$0.2835
Class A shares	\$0.60	\$0.60

#### 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. Comparative Financial Statements

Certain 2007 comparative figures have been reclassified from statements previously presented to conform to the presentation of the 2008 financial statements.

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## **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.

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## **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.

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## **CORPORATE DETAILS**

### **Auditors**

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77 King Street West, P.O. Box 82  
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### **Transfer Agent**

Computershare  
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Toronto, Ontario M5J 2Y1

### **Legal Counsel**

Blake, Cassels & Graydon LLP  
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Toronto, Ontario M5L 1A9

### **Custodian**

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Royal Trust Tower, 77 King Street West  
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# Dividend 15

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