

**MAY 31  
2009**

**TDb SPLIT CORP.**  
**SEMI-ANNUAL REPORT**  
**(UNAUDITED)**



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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**TDb SPLIT CORP.****SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE****MAY 31, 2009**

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This is the semi-annual Management Report of Fund Performance (MRFP) for the period ended May 31, 2009. This MRFP contains financial highlights but does not contain the complete financial statements of the Company. The semi-annual financial statements and accompanying notes are attached to this report.

Investors may also obtain a copy of the Company's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure by visiting our website at [www.tdbsplit.com](http://www.tdbsplit.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.tdbsplit.com](http://www.tdbsplit.com) or [www.sedar.com](http://www.sedar.com).

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**INVESTMENT OBJECTIVES AND STRATEGIES**

TDb Split Corp. invests primarily in common shares of the Toronto-Dominion Bank.

The Company offers two types of shares:

**Priority Equity Shares**

The investment objectives with respect to the Priority Equity Shares are as follows:

1. To provide holders of Priority Equity Shares with fixed cumulative preferential monthly cash dividends in an amount of \$0.04375 per Priority Equity Share to yield 5.25% per annum on the original issue price and
2. On or about December 1, 2014 (the termination date) to pay holders the original issue price (\$10) of those shares.

**Class A Shares**

The investment objectives with respect to the Class A shares are as follows:

1. To provide holders with regular monthly cash distributions targeted to be \$0.05 per Class A Share to yield 6.0% per annum on the original issue price; and
2. On or about December 1, 2014 (the termination date) to pay holders the original issue price (\$10) of those shares.

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**RISK**

The risks of investing in the Company remain as discussed in the Annual Information form dated February 22, 2009. In addition, Note 3 of the semi-annual financial statements ("Management of Risk") contains disclosure on specific types of risks related to the financial investments held by the Company.

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

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## RESULTS OF OPERATIONS

As discussed in the November 30, 2008 annual report, the significant decline in TD Bank common stock from \$69.03 at the inception of the Company on August 7, 2007 to \$45.00 as at November 30, 2008 required the Company to implement the Priority Equity Protection Plan in November 2008. TD Bank common stock hit a low of \$32.37 on February 20, 2009 (a decline of 53.1% since the inception date of the Company) which required the Company to further reduce the Company's holding of TD Bank Financial common stock and use the proceeds to increase fixed income instruments held under the Priority Equity Protection Plan as required under the prospectus. The objective of the Priority Equity Protection Plan is to provide repayment of the original \$10 par value of the Priority Equity shares.

As at May 31, 2009, the net asset value of the Company was \$11.35 per unit (a unit consisting of one Priority Equity share and one Class A share). As a result of the cumulative liquidation of a portion of the TD Bank common shares to facilitate the requirements of the Priority Equity Portfolio Protection Plan, the Company had 62.8% in TD Bank Financial common stock and the remaining 37.2% in fixed income securities (plus cash) as at May 31, 2009. The fixed income securities held in the Priority Equity Protection Plan consist of Canadian provincial government backed strip bonds. These fixed income instruments entitle TDb Split to receive a fixed payment on maturity as the effective interest component continues to compound until the final payment on maturity.

The original investment objectives of the Company were based on the assumptions that dividends received would be from a fully invested position in common shares of TD Bank and that there would be an active covered call writing program which would supplement those dividends in order to achieve the distribution objectives for both classes of shares. As mentioned above, TDb Split has had to reduce its exposure to the underlying common shares and implement the Priority Equity Protection Plan. This has reduced the Company's ability to generate dividend income and covered call writing income since the exposure to TD common shares has been lowered. As a result of the decline in the net asset value below \$12.50, the Company was required to suspend dividend payments to the Class A shares for the entire period.

On March 2, 2009, the Company announced the acceptance of a Normal Course Issuer bid that could allow the Company to purchase, from time to time, up to 10% of the public float of the shares. The Company plans on utilizing this only in situations where the combined trading prices of the Priority Equity shares and Class A shares are at an excessive discount to net asset value of the Company.

The portfolio is continually rebalanced and adjusted based on the market price of TD bank common shares. The Company may buy or sell additional shares of TD Bank, write covered call options, and /or increase or decrease fixed income securities in the Priority Equity Protection Plan based on market conditions and provided that the Company remains in compliance with the Priority Equity Protection Plan.

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## DISTRIBUTIONS

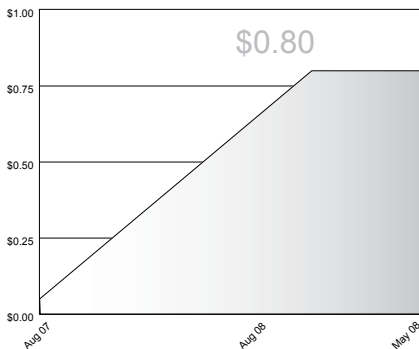
### Class A Shares - Distributions

Class A shareholders are entitled to receive regular monthly cash dividends initially targeted to be \$0.05 per Class A Share to yield 6% per annum on the original issue price. Due to the decline in the net asset value to below \$12.50 per unit, no monthly distributions were made during the period.

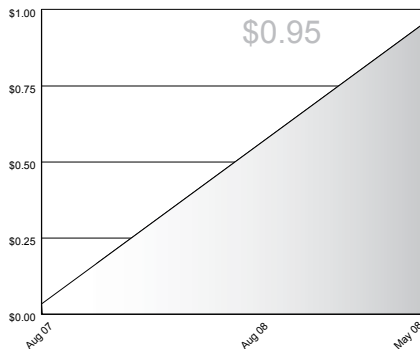
### Priority Equity Shares - Distributions

Priority Equity shareholders are entitled to receive regular monthly cash dividends in the amount of \$0.04375 per Priority Equity Share to yield 5.25% per annum on the original issue price. Dividends paid during the period were paid at the targeted rate for a total of \$0.2625 per share.

### Cumulative Distributions since inception



### Cumulative Distributions since inception



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## RECENT DEVELOPMENTS

### Amendment to section 3862-Financial Instrument Disclosure

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

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## RELATED PARTY TRANSACTIONS

The Investment Manager and 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 0.55% 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 \$55,162 paid for the initial period ended May 31, 2009 include the base management fee and the administration fee. The base management fee was used by the Investment Manager to pay costs for 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 all regulatory reporting requirements.

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## SUMMARY OF INVESTMENT PORTFOLIO

All holdings as at May 31, 2009

Name	Weighting (%)
Toronto-Dominion Bank	62.8
Priority Equity Portfolio Protection Plan securities	21.9
<b>Total long positions as a percentage of net assets</b>	<b>84.7</b>
Other net assets	15.3

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

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## FINANCIAL HIGHLIGHTS

The following tables show selected financial information about the Company and are intended to help you understand the Company's financial performance. This information is derived from the Company's semi-annual financial statements and previous annual audited financial statements. For May 31, 2009 and November 30, 2008, the Net Assets included in the Net Assets per unit table is from the Company's financial statements and calculated using bid prices while the Net Asset Value included in the Ratios/Supplemental data Table is for Transactional pricing purposes and calculated using closing prices (see Note 2 in the financial statements).

## The Company's Net Asset Value (NAV) per unit

	May 31, 2009	Periods ended November 30	
		2008 <sup>(2)</sup>	2007
Net asset value per unit, beginning of the period <sup>(1)</sup>	11.35	19.77	18.80 <sup>(3)</sup>
Increase (decrease) from operations			
Total revenue	0.22	0.61	0.15
Total expenses	(0.08)	(0.21)	(0.08)
Realized gains for the period	(4.82)	(1.72)	0.14
Unrealized gains (losses) for the period	4.92	(5.97)	1.03
Total increase (decrease) from operations <sup>(4)</sup>	<u>0.24</u>	<u>(7.29)</u>	<u>1.24</u>
Distributions <sup>(5)</sup>			
Taxable Dividends	(0.26)	(1.13)	(0.20)
Capital Gains	-	-	(0.17)
Total annual distributions	<u>(0.26)</u>	<u>(1.13)</u>	<u>(0.37)</u>
Net asset value per unit at end of period	11.35	11.35	19.77
Net asset value per Priority Equity share	10.00	10.00	10.00
Net asset value per Class A share	<u>1.35</u>	<u>1.35</u>	<u>9.77</u>
Net asset value per unit at end of period	11.35	11.35	19.77

(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 Priority Equity shares of the Company on that date divided by the number of units then outstanding

(2) Initial period was from August 7, 2007 to November 30, 2007

(3) Initial net asset value per unit is after deducting all agents' fees and filing costs in connection with the initial public offering

(4) Total increase from operations is calculated based on the weighted average number of units outstanding during the period

(5) Distributions are to Priority Equity shares and Class A shares are based on the number of Priority Equity shares and Class A shares outstanding on the record date for each distribution and were paid in cash. Characterization of distributions is based on the tax treatment that is received by investors.

## RATIOS AND SUPPLEMENTAL DATA

	May 31, 2009	Periods ended November 30	
		2008	2007 <sup>(1)</sup>
Net assets (millions)	\$19.2	\$20.2	\$34.6
Number of units outstanding <sup>(2)</sup>	1,691,760	1,750,000	1,750,000
Base Management expense ratio <sup>(3)</sup>	1.54%	1.25%	1.33%
Management expense ratio including one time initial offering expenses <sup>(4)</sup>	1.54%	1.25%	6.86%
Portfolio turnover rate <sup>(5)</sup>	53.2%	13.2%	21.0%
Trading expense ratio <sup>(6)</sup>	0.10%	0.03%	0.08%
Closing market price (TSX):			
Priority Equity shares	\$8.55	\$6.75	\$10.15
Closing market price (TSX):			
Class A shares	\$2.19	\$4.39	\$8.25

(1) Results for the period August 7, 2007 (inception) to November 30, 2007

(2) This information is provided as at November 30,

(3) A separate base management expense ratio has been presented to reflect the normal operating expenses of the Company excluding the one time initial offering expenses and performance fees. Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of average net assets during the period

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

(5) 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

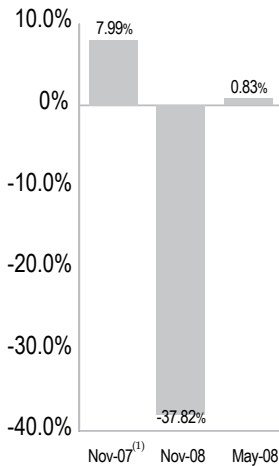
(6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## PAST PERFORMANCE

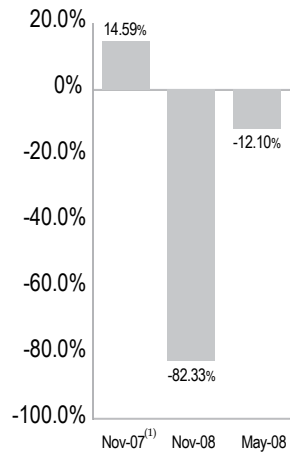
The past performance of 1) the net asset value per unit (1 Priority Equity share and 1 Class A share); 2) the Priority Equity share on net asset value basis; and 3) the Class A share on a net asset value basis for the six month period ended May 31, 2009 and for each 12 month period ended November 30 since inception are presented in the bar charts below. Each bar in the chart reflects the change in percentage terms of how a Unit, a Priority Equity 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.

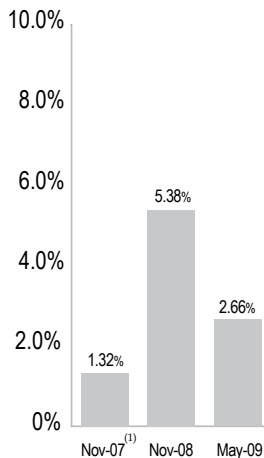
### NET ASSET VALUE



### CLASS A SHARE



### PRIORITY EQUITY SHARE



<sup>(1)</sup> Based on initial period from August 7, 2007 to November 30, 2007

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**TDb SPLIT CORP.****MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The financial statements of TDb Split Corp. (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.

**TDB SPLIT CORP.****STATEMENT OF FINANCIAL POSITION**

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

	May 31, 2009 (\$)	November 30, 2008 (\$)
<b>ASSETS</b>		
Investments - at fair value (note 2)	16,213,380	19,088,273
Cash	3,123,707	101,376
Receivable in respect of investments sold	-	873,398
<b>Total Assets</b>	<b>19,337,087</b>	<b>20,063,047</b>
<b>LIABILITIES</b>		
Fees and other accounts payable	59,376	38,006
Dividends payable	74,015	164,063
Priority Equity shares (note 4)	16,917,600	17,500,000
	<u>17,050,991</u>	<u>17,702,069</u>
<b>SHAREHOLDERS' EQUITY</b>		
Class A and Class B shares (note 5)	15,081,627	15,601,145
Deficit	(12,795,531)	(13,240,167)
	<u>2,286,096</u>	<u>2,360,978</u>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>19,337,087</b>	<b>20,063,047</b>
Number of units (1 Priority Equity share and 1 Class A share) outstanding		
	1,691,760	1,750,000
Net assets per unit (note 2)	\$11.35	\$11.35
Net assets per Priority Equity share (note 2)	\$10.00	\$10.00
Net assets per Class A share (note 2)	\$1.35	\$1.35

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.

**TDB SPLIT CORP.****STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)**

FOR THE SIX MONTH PERIOD ENDED MAY 31 (UNAUDITED)

	2009 (\$)	2008 (\$)
<b>INCOME</b>		
Dividends	281,759	523,972
Interest	90,580	1,155
	<u>372,339</u>	<u>525,127</u>
<b>EXPENSES (note 6)</b>		
Management fees	55,162	103,072
Service fees	-	21,962
Audit fees	10,573	9,048
Directors' and Independent Review Committee fees	11,278	11,302
Custodian fees	8,387	7,864
Legal fees	15,929	11,731
Shareholder reporting costs	8,266	8,453
Other operating expenses	23,798	23,743
Goods and services tax	6,670	8,759
	<u>140,063</u>	<u>205,934</u>
<b>Net investment income</b>		
<b>before distributions on Priority Equity shares</b>	<b>232,276</b>	<b>319,193</b>
<b>Distributions on Priority Equity shares (note 4 and 7)</b>	<b>(452,834)</b>	<b>(459,375)</b>
<b>Net loss for the period</b>	<b>(220,558)</b>	<b>(140,182)</b>
<b>Realized and unrealized gain (loss)</b>		
<b>on investments and options and transaction costs</b>		
Net realized gain (loss) on investments and options	(8,316,122)	69,700
Change in unrealized appreciation (depreciation) of investments	8,484,096	(1,330,927)
Transaction costs on purchase and sale of investments (note 2)	(18,177)	(1,300)
	<u>149,797</u>	<u>(1,262,527)</u>
<b>Net gain (loss) on investments and options for the period</b>	<b>149,797</b>	<b>(1,262,527)</b>
<b>Decrease in net assets from operations for the period</b>	<b>(70,761)</b>	<b>(1,402,709)</b>
<b>Retained earnings (deficit) - Beginning of period</b>	<b>(13,240,167)</b>	<b>1,490,630</b>
<b>Net allocations on retractions</b>	<b>515,397</b>	<b>-</b>
<b>Distributions on Class A shares (note 5 and 7)</b>	<b>-</b>	<b>(525,000)</b>
<b>Deficit - End of period</b>	<b>(12,795,531)</b>	<b>(437,079)</b>
<b>Increase (decrease) in net assets from operations per Class A share</b>	<b>(0.04)</b>	<b>(0.80)</b>

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

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

	2009 (\$)	2008 (\$)
<b>Shareholders' equity - Beginning of period</b>	<b>2,360,978</b>	<b>17,091,775</b>
Decrease in net assets from operations for the period	(70,761)	(1,402,709)
<b>Distributions on Class A shares</b>		
From net realized gains (deficit)	-	(69,700)
From return of capital	-	(455,300)
	-	(525,000)
<b>Class A share redemptions</b>	<b>(4,121)</b>	<b>-</b>
<b>Decrease in net assets for the period</b>	<b>(74,882)</b>	<b>(1,927,709)</b>
<b>Shareholders' equity - End of period</b>	<b>2,286,096</b>	<b>15,164,066</b>

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

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**TDB SPLIT CORP.****STATEMENTS OF CASH FLOW**

FOR THE SIX MONTH PERIOD ENDED MAY 31 (UNAUDITED)

	2009 (\$)	2008 (\$)
<b>Cash flow from Operating activities</b>		
Net investment loss for the period	(220,558)	(140,182)
Proceeds from sale of investments	10,804,252	-
Purchase of investments	(7,779,562)	55,000
Net change in receivable balances	873,398	68,400
Net change in payable balances	(68,678)	(22,711)
Cash flow from operations	<u>3,608,852</u>	<u>(39,493)</u>
<b>Cash flow from Shareholder activities</b>		
Distributions on Class A shares	<u>(586,521)</u>	<u>(525,000)</u>
Cash flow from Shareholder activities	(586,521)	(525,000)
Net increase (decrease) in cash for the period	3,022,331	(564,493)
Cash, beginning of period	<u>101,376</u>	<u>1,280,800</u>
<b>Cash, end of period</b>	<u><b>3,123,707</b></u>	<u><b>716,307</b></u>

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

**TDB SPLIT CORP.**  
**STATEMENT OF PORTFOLIO INVESTMENTS**  
AS AT MAY 31, 2009 (UNAUDITED)

No. of shares	Description	Average Cost (\$) (Premiums received)	Market Value (\$)
	<b>Core Holding</b>		
	<b>Canadian Common Equities</b>		
217,600	Toronto-Dominion Bank	12,276,660	12,057,216
	<b>Total Canadian Common Equities in Core Holding (74.4%)</b>	<u>12,276,660</u>	<u>12,057,216</u>
<b>No. of contracts</b>	<b>Call options written (100 shares per contract)</b>		
	<b>Canadian call options written</b>		
(200)	Toronto-Dominion Bank, June 2009 @ \$54	(15,100)	(49,000)
	<b>Total Canadian call options written (-0.3%)</b>	<u>(15,100)</u>	<u>(49,000)</u>
<b>Face value</b>	<b>Priority Equity Portfolio Protection Plan securities</b>		
1,500,000	Ontario Provincial coupon December 2,2014	1,208,939	1,229,895
2,380,000	Ontario Hydro coupon April 5,2014	1,971,896	2,018,478
1,100,000	Ontario Hydro coupon October 15, 2013	939,315	956,791
	<b>Total Permitted Repayment securities (25.9%)</b>	<u>4,120,150</u>	<u>4,205,164</u>
		<u>16,381,710</u>	<u>16,213,380</u>
	less adjustment for transaction costs	(7,236)	
	<b>Total Investments (100%)</b>	<u>16,374,474</u>	<u>16,213,380</u>

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

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# **TDb SPLIT CORP.**

## **NOTES TO FINANCIAL STATEMENTS**

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

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### **1. Incorporation**

TDb Split Corp. (the "Company") is a mutual fund corporation established under the laws of the Province of Ontario on May 24, 2007 and began investment operations on August 7, 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 years. The following is a summary of the significant accounting policies followed by the Company. Actual results could differ from these estimates.

#### **Adoption of New Accounting standards**

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

#### **Section 1535-Capital Disclosures**

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

#### **Section 3862-Financial Instruments-Disclosures**

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

#### **Section 3863-Financial Instruments-Presentation**

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

#### **Valuation of investments**

In accordance with Accounting Guideline 18, Investment Companies, investments are deemed to be categorized as held for trading, and are required to be recorded at fair value as defined in CICA Handbook-Accounting Section 3855, Financial Instruments-Recognition and Measurement ("Section 3855").

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**TDB SPLIT CORP.****NOTES TO FINANCIAL STATEMENTS**FOR THE SIX MONTH PERIOD ENDED **MAY 31, 2009 AND 2008 (UNAUDITED)**

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The fair value of investments as at the financial reporting date is determined as follows:

- Shares or other securities for which market quotations are readily available are valued at the closing bid price
- Listed options are valued at closing bid prices as reported on recognized exchanges
- Fixed income investments are based on the average bid quotations from recognized dealers

Section 14.2 of amended National Instrument 81-106 ("NI-106") issued by the Canadian Securities Administrators, that came into force on September 8, 2008, requires an investment fund to calculate its net asset value for the purposes of any purchases or redemption of units to be based on the fair value of the investment fund's assets and liabilities (Net Asset Value or NAV). The Company has not changed its methodology in this respect.

The fair value of investments for purposes of calculating the bi monthly net asset value published on the Company's website and also used for the purposes of calculating the price paid on any redemptions received is determined as follows:

- Shares or other securities for which market quotations are readily available are valued at the last traded market price
- Listed options are valued at the last traded prices as reported on recognized exchanges
- Fixed income investments are based on the average bid quotations from recognized dealers

In accordance with Section 3.6 (1) 5 of NI-81-106, the Net Asset Value per unit is compared to the Net Assets per unit and a reconciliation between the differences, are required in the notes to the financial statements. The following table is presented to show the differences between the calculations of these amounts:

	Net Assets (GAAP NAV) per unit	Difference	Net Asset Value (Published NAV) per unit
May 31, 2009	\$11.35	\$0.03	\$11.38
May 31, 2008	\$18.67	\$0.08	\$18.75

**Transaction costs**

- Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Company are recognized as an expense in the Statement of Operations and Retained Earnings (Deficit). The transaction costs for investments held at May 31, 2009 is shown separately on the Statement of Portfolio Investments.

**Investment transactions and income recognition**

- Investment transactions are accounted for on the trade date.
- Realized gains and losses on investment sales and unrealized appreciation or depreciation in investment values are calculated on the average cost basis.
- Option fees paid or received are deferred and included in investments on the statements of financial position. Realized capital gains or losses are recognized in the statements of operations when options are exercised, expire or are closed out.

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## **TDB SPLIT CORP.**

### **NOTES TO FINANCIAL STATEMENTS**

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

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- Deferred gains and losses on options are recognized in investments and as a component of net unrealized appreciation (depreciation) in the statements of operations.
- Dividend income is recognized on the ex-dividend date. Interest income is recognized when earned.
- Net realized gains and losses on investments include net realized gains or losses from foreign currency changes.

#### **Redeemable Priority Equity shares**

Each redeemable Priority Equity share is valued for financial statement purposes at the lesser of: (i) \$10.00; and (ii) the net assets of the Company divided by the number of Priority Equity shares outstanding. The net assets is equal to the difference between the aggregate value of the assets of the Company and the aggregate value of the liabilities excluding Priority Equity shares of the Corporation on a particular date.

#### **Recent Accounting Pronouncements**

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

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

In March 2009, the International Accounting Standards Board issued amendments to IFRS 7, Financial Instruments: Disclosures ("IFRS 7") intended to improve disclosures about fair value and liquidity risk. The Canadian Accounting Standards Board announced in its March 25-26 Decision Summary that it will adopt the amendments into Canadian generally accepted accounting principles ("GAAP") section 3862, Financial Instruments-Disclosures ("Section 3862"). The amendments apply to annual periods beginning on or after January 1, 2009 under IFRS and to fiscal years ending after September 30, 2009, under Canadian GAAP. The new disclosures required by Section 3862 are intended to provide users additional information about how an entity determined fair values and how much of those fair values are derived through estimation rather than objective evidence.

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

The Company's investment activities expose it to a variety of financial risks: market risk (including price risk, interest rate risk and currency risk), credit risk and liquidity risk.

**Any sensitivity analysis presented below may differ from actual results and the difference could be material.**

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## **TDB SPLIT CORP.**

### **NOTES TO FINANCIAL STATEMENTS**

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

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#### **Market Price Risk**

All securities investments present a risk of loss of capital.

The market price risk is affected by three main components: price movements, interest rate risk and foreign currency movements.

##### **Price risk**

It would be reasonable to expect that the Company's portfolio will exhibit market price movements that are reflective and correlated with the market price of TD Bank common stock. However, due to implementation of the Priority Equity Portfolio Protection Plan, the Company's exposure to TD Bank common shares has been reduced to 62.8% of the net assets of the Company as at May 31, 2009.

A 10% increase/decrease in the market price of TD Bank common stock would currently increase/decrease net assets by \$1,200,822.

##### **Interest rate risk**

As at May 31, 2009, a portion of the Company's financial assets are now invested in fixed income securities as part of the Priority Equity Protection Plan. As at May 31, 2009, approximately 21.9% of the net assets of the Company are invested in Canadian provincial government strip coupons with maturity dates in 2013 and 2014. As a result, this portion of the portfolio is subject to interest rate risk. A 5% increase/decrease in the market value of the fixed income securities would currently increase/decrease net assets by \$210,258.

##### **Currency risk**

The Portfolio holding 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.

The Company had purchased Canadian provincial government strip coupons as part of the Priority Equity Protection Plan. The Company considers the risk of default as low in connection with these fixed income instruments.

##### **Liquidity risk**

The Company pays monthly dividends and is subject to redemption requests from time to time. The Company's portfolio is invested in TD Bank common stock which is a highly liquid large capitalization stock that trades on the Toronto Stock Exchange ("TSX") and government bonds. As such, any requirement to raise cash beyond the Company's normal operating level can be satisfied through the sales of its portfolio holding. The Company receives adequate notice for all redemption requests.

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**TDB SPLIT CORP.****NOTES TO FINANCIAL STATEMENTS**FOR THE SIX MONTH PERIOD ENDED **MAY 31, 2009 AND 2008 (UNAUDITED)**

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**Concentration risk**

The Company's only equity holding is concentrated in the common stock of TD Bank and as such will be exposed to the specific factors that affect this stock.

**4. Priority Equity shares**

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

<u>Issued and outstanding</u>	May 31, 2009	May 31, 2008
1,691,760 Priority Equity shares (2008-1,750,000)	<u>16,917,600</u>	<u>\$17,500,000</u>

Priority Equity share transactions

Beginning of period	1,750,000	1,750,000
Redemptions during the period	<u>(58,240)</u>	<u>-</u>
End of period	1,691,760	1,750,000

On August 7, 2007, 1,750,000 Priority Equity Shares were issued at \$10 per share.

Priority Equity shares are entitled to cumulative monthly cash dividends of \$0.04375 per Priority Equity share. All Priority Equity shares outstanding on December 1, 2014 will be redeemed by the Company on that date. For accounting purposes, the Priority Equity shares have been presented as liabilities in the financial statements in accordance with Section 3863 of the CICA Handbook.

Priority Equity shares trade under the symbol "XTD.A" on the TSX. Priority Equity shares trading price on the TSX was \$8.55 as at May 31, 2009 (\$10.05 - 2008). Priority Equity 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 Priority Equity 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. Priority Equity 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 Priority Equity shares or Class A shares tendered for retraction.

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

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**TDb SPLIT CORP.****NOTES TO FINANCIAL STATEMENTS**FOR THE SIX MONTH PERIOD ENDED **MAY 31, 2009 AND 2008 (UNAUDITED)**

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**5. Class A shares and Class B shares**Authorized

An unlimited number of Class A shares

1,000 Class B shares

<u>Issued and outstanding</u>	May 31, 2009	May 31, 2008
1,691,760 Class A shares (2008-1,750,000)	\$15,080,627	\$15,600,145
1,000 Class B shares	\$1,000	\$1,000
	<u>\$15,081,627</u>	<u>\$15,601,145</u>

Class A share transactions

Beginning of period	1,750,000	1,750,000
Redemptions during the period	<u>(58,240)</u>	<u>-</u>
End of period	1,691,760	1,750,000

Class A shares were issued at \$10 per share. Class A distributions are targeted at \$0.05 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 "XTD" on the TSX. Class A shares trading price on the TSX was \$2.19 as at May 31, 2009 (\$9.00 - 2008). 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 Priority Equity 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. 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 Priority Equity shares or Class A shares tendered for retraction.

The Priority Equity 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 net asset value per unit less \$10 (the redemption value of the Priority Equity shares).

The holders of Class B shares are not entitled to receive dividends. The Class B shares are retractable at a price of \$1.00 per share. Class B shareholders are entitled to one vote per share. On May 29, 2007, the Company issued \$1,000 Class B shares to TDb Split Corp. 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 net assets of the Company, which includes the outstanding Priority Equity 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.

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**TDB SPLIT CORP.****NOTES TO FINANCIAL STATEMENTS**FOR THE SIX MONTH PERIOD ENDED **MAY 31, 2009** AND **2008** (UNAUDITED)

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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 0.55% of the net asset value of the Company, which includes the outstanding Priority Equity shares, calculated as at each monthly valuation date.

Total management fees of \$55,162 (2008 - \$103,072) incurred during the year include the administration fee and base management fee.

The brokerage commissions paid during the year by the Company for its portfolio transactions were \$18,177 (2008 - \$1,300).

**7. Distributions**

The Company's investment objectives are to provide steady monthly distributions to both the Priority Equity and Class A shareholders while returning the original issue price to each shareholder on the termination date of the Company on December 1, 2014.

Distributions per share were as follows:

	May 31, 2009	May 31, 2008
Priority Equity shares	\$0.2625	\$0.2625
Class A shares	-	\$0.30

**8. Capital Management**

The Company considers its capital to consist of Class A, Class B and Priority Equity shares.

The Company's objectives in managing its capital are:

- i) to provide holders of Priority Equity shares with fixed cumulative preferential monthly cash dividends in an amount of \$0.04375 per Priority Equity share to yield 5.25% per annum on the original issue price and to return the original issue price on December 1, 2014; and
- ii) to provide holders of Class A shares with regular monthly cash distribution targeted to be \$0.05 per Class A share to yield 6.0% on the original issue price and return the original issue price on December 1, 2014

In order to manage its capital structure, the Company may adjust the amount of dividends paid to shareholders or return capital to shareholders.

**9. Income Taxes**

The Company is a mutual fund corporation as defined in the Income Tax Act (Canada) (the Act) and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. Also, the Company is generally subject to a tax of 33-1/3% under Part IV of the Act on taxable dividends received in the year. This tax is fully refundable upon payment of sufficient dividends.

The Company is also a financial intermediary corporation as defined in the Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends received nor is it generally liable to tax under Part VI.1 on dividends paid on taxable Priority Equity shares.

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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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### **Legal Counsel**

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### **Custodian**

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