

CANADIAN LIFE COMPANIES SPLIT CORP.

2008 ANNUAL REPORT

CANADIAN  
LIFE SPLIT  
COMPANIES



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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**CANADIAN LIFE COMPANIES SPLIT CORP.**  
**ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE**

NOVEMBER 30, 2008

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This is the annual Management Report of Fund Performance (MRFP) for the year ended November 30, 2008. This MRFP contains financial highlights but does not contain the complete financial statements of the Company. The 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.lifesplit.com](http://www.lifesplit.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.lifesplit.com](http://www.lifesplit.com) or [www.sedar.com](http://www.sedar.com).

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## **INVESTMENT OBJECTIVES AND STRATEGIES**

Canadian Life Companies Split Corp. invests primarily in a portfolio of commons shares, which will include each of the Canadian life insurance companies listed below:

Great West Lifeco Inc.	Manulife Financial Corporation
Industrial-Alliance Insurance & Financial Services	Sun Life Financial Inc.

The Company may also invest up to 20% of the Net Asset Value in equity securities of foreign life insurance companies or other Canadian or foreign financial services corporations other than the four Canadian life insurance 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 in the portfolio.

The Company offers two types of shares:

### **Preferred Shares**

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

1. To provide holders with fixed cumulative preferential monthly cash dividends in the amount of \$0.04375 per Preferred share to yield 5.25% per annum on the original issue price; and
2. On or about December 1, 2012 (the termination date) to pay holders the original issue price (\$10) of the Preferred shares.

### **Class A Shares**

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

1. To provide holders with regular monthly cash dividends initially targeted to be \$0.10 per Capital share to yield 8% per annum on the original issue price; and
2. On or about December 1, 2012 (the termination date), to pay holders at least the original issue price of those shares (\$15).

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## **RISK**

The risks of investing in the Company remain as discussed in the Annual Information form dated February 23, 2009. In addition, Note 3 of the 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 has increased significantly over the year ended November 30, 2008 as further explained in the Results of Operation section below. This environment has had a material adverse impact on the market prices of the companies held in the portfolio.

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## **RESULTS OF OPERATIONS**

The year ended November 30, 2008 was one of the worst periods in financial market history. The underlying problems in the US subprime housing market which began to surface in August 2007 developed into a full global financial and economic crisis by the end of 2008.

The financial sector in the United States reached a critical point in the fall of 2008 as many former blue chip financial services companies, weighed down by worsening mortgage loans, excessive leverage and failed credit default swaps, began encountering capital and insolvency problems. The collapse of Lehman Brothers in September 2008 proved to be a particularly destabilizing event creating tremendous uncertainty in financial markets. Following this event, the US government took unprecedented actions to save many similarly troubled US financial companies by injecting billions into these companies in an effort to deal with their troubled assets and improve their capital bases.

The destabilization of the US financial services sector had a far reaching global impact and demonstrated the interconnectivity of world financial markets. As a consequence, most other major governments around the world ultimately had to take similar actions as it became evident that these problems were not isolated to the US financial services companies. On the monetary front, central banks around the world continued to aggressively cut administered interest rates to multi-decade lows in an attempt to make borrowing easier and stimulate their economies.

Notwithstanding the massive amounts of capital that have been injected into financial services companies around the world and record low interest rates, the credit "freeze" remained a major problem as lending activity reached record low levels towards the end of 2008. The lack of available credit to even the most creditworthy corporations began weighing on economic growth.

By the end of 2008, the cumulative impact of the deterioration in financial and economic conditions created record lows in business, investor and consumer confidence and resulted in recessionary conditions throughout the world. In addition, the de-leveraging of hedge funds and other similar funds during the final months exacerbated market volatility and losses in financial markets.

Market indices experienced declines not seen since the Great Depression of the 1930s. In Canada, the S&P TSX Financial index declined by 32.45% for the year ending November 30, 2008 evidencing the deterioration of financial and economic conditions on these broad based financial services indices.

Throughout this difficult environment, the core holdings in the portfolio have been negatively impacted. The Company met its distribution objectives during the year for Preferred shares and Class A shares, but the net asset value declined to \$16.04 per unit (a unit consisting of one Preferred share and one Class A share) as at November 30, 2008.

Although the Canadian financial services companies have been adversely impacted by this worldwide financial crisis, the Canadian life insurance companies had been performing relatively well up until the late fall of 2008. The impact of the decline in equities throughout 2008 eventually impacted the underlying holdings of the Canadian life insurance companies to the point where it was necessary for these companies to raise additional capital. This had a negative impact on the valuations of the Canadian life insurance companies and all four core holding Canadian Life insurance companies declined significantly in November 2008.

The Company also has utilized its mandated ability (per the prospectus) to invest up to 20% of the net assets in additional financial services stocks in order to provide additional diversification, dividend, covered call writing and capital appreciation opportunities. 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.

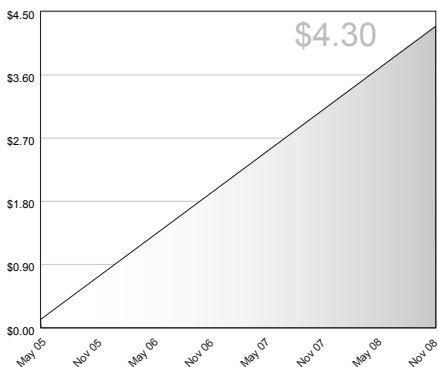
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## DISTRIBUTIONS

### Class A Shares - Distributions

Class A shareholders are entitled to receive regular monthly cash dividends initially targeted to be \$0.10 per Class A share to yield 8.0% per annum on the original issue price. The distributions paid during the year were paid at the monthly targeted rate for a total of \$1.20 per Class A share.

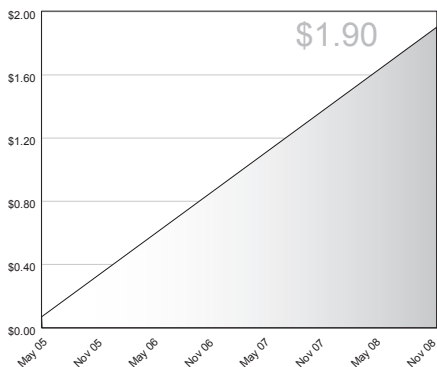
### Cumulative Distributions since inception



### Preferred Shares - Distributions

Preferred Shareholders are entitled to fixed, cumulative preferential monthly cash dividends in the amount of \$0.04375 per Preferred share to yield 5.25% per annum on the original issue price. The distributions paid during the year were paid at the fixed monthly rate for a total of \$0.525 per share.

### Cumulative Distributions since inception



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## RECENT DEVELOPMENTS

### Adoption of new accounting standards:

On December 1, 2008, 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. Detailed information on the impact of these standards can be found in Note 3 of the annual audited financial statements.

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## RELATED PARTY TRANSACTIONS

Quadravest Capital Management Inc. (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 0.2% of the Company’s Net Asset Value calculated as at the last Valuation Date in each month.

Total management fees of \$1,810,345 paid for the period ended November 30, 2008 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 November 30, 2008

Name	Weighting (%)
Great-West Lifeco Inc.	24.0
Manulife Financial Corporation	23.5
Sun Life Financial Inc.	20.8
Industrial Alliance Insurance	12.1
Aflac Corp.	4.9
Toronto-Dominion Bank	4.3
Canadian Imperial Bank of Commerce	3.1
MetLife Inc.	3.0
Royal Bank of Canada	1.3
Bank of Montreal	1.3
Bank of Nova Scotia	0.5
<b>Total long positions as a percentage of net assets</b>	<b>98.8</b>
Other net assets	1.2

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 annual financial statements and previous annual audited financial statements. For November 30, 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 Assets per unit

	2008	2007	2006	2005 <sup>(2)</sup>
Net asset value per unit, beginning of year <sup>(1)</sup>	27.38	26.59	25.28 <sup>(3)</sup>	23.71 <sup>(3)</sup>
Increase (decrease) from operations				
Total revenue	0.67	0.63	0.58	0.4
Total expenses	(0.30)	(0.36)	(0.34)	(0.41)
Realized gains for the year	0.34	1.59	0.68	0.21
Unrealized (losses) gains for the year	(10.28)	0.67	2.08	2.41
Total increase from operations <sup>(4)</sup>	<u>(9.57)</u>	<u>2.53</u>	<u>3.00</u>	<u>2.61</u>
Distributions <sup>(5)</sup>				
Taxable Dividends	(1.36)	(0.60)	(0.98)	(0.77)
Capital Gains	(0.37)	(1.12)	(0.75)	(0.26)
Total annual distributions	<u>(1.73)</u>	<u>(1.72)</u>	<u>(1.73)</u>	<u>(1.03)</u>
Net assets per unit at end of year	16.04	27.38	26.59	25.28
Net assets per Preferred share	10.00	10.00	10.00	10.00
Net assets per Class A share	<u>6.04</u>	<u>17.38</u>	<u>16.59</u>	<u>15.28</u>
Net assets per unit at end of year	16.04	27.38	26.59	25.28

(1) Net assets 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) Results from the year April 18, 2005 (inception date) to November 30, 2005

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

(4) Total increase from operations is before the payment of Preferred and Class A share distributions and is calculated based on the weighted average number of units outstanding during the year

(5) Distributions 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

	Years ended November 30			
	2008	2007	2006	2005 <sup>(1)</sup>
Net assets (millions)	\$150.6	\$261.2	\$257.1	\$209.9
Number of units outstanding <sup>(2)</sup>	9,060,929	9,532,029	9,670,078	8,302,078
Base management expense ratio <sup>(3)</sup>	1.31%	1.33%	1.34%	1.33%
Management expense ratio including one time initial offering expenses <sup>(4)</sup>	1.31%	1.33%	2.13%	6.60%
Management expense ratio with performance fee and one time initial offering expenses <sup>(5)</sup>	1.31%	1.33%	2.13%	7.45%
Portfolio turnover rate <sup>(6)</sup>	0.8%	30.70%	21.8%	18.1%
Trading expense ratio <sup>(7)</sup>	0.03%	0.06%	0.04%	0.11%
Closing market price (TSX): Preferred shares	\$7.55	\$10.32	\$10.96	\$11.30
Closing market price (TSX): Class A shares	\$4.80	\$14.96	\$15.45	\$15.65

(1) Results for the year April 18, 2005 (inception) to November 30, 2005

(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 year and is expressed as an annualized percentage of average net assets during the year

(4) Performance fees occur in years in which the total return per unit exceeds a pre established threshold

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

(6) 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

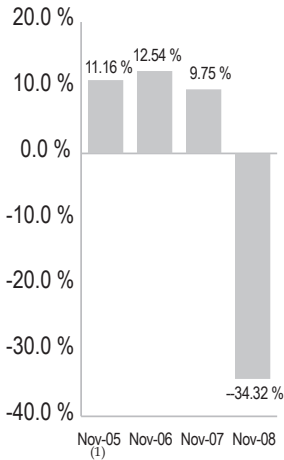
(7) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average net assets during the year.

## PAST PERFORMANCE

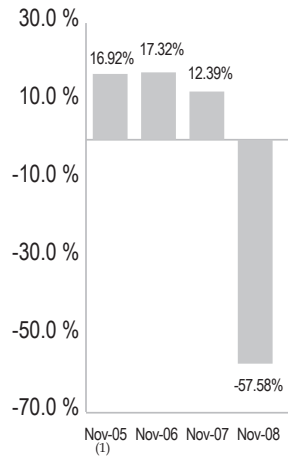
The past performance of 1) the net asset value per unit (1 Preferred share and 1 Class A share); 2) the Preferred share on net asset value basis; and 3) the Class A share on a net asset value basis for each 12 month period ended November 30 since inception are presented in the bar charts below. Each 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 years 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.

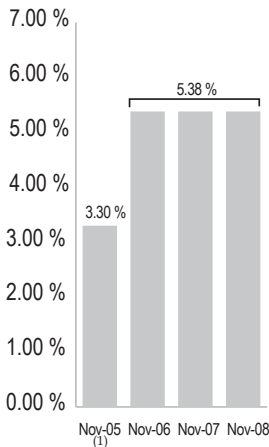
### NET ASSET VALUE



### CLASS A SHARE



### PREFERRED SHARE



<sup>(1)</sup> Based on initial year from April 18, 2005 to November 30, 2005

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## ANNUAL COMPOUND PERFORMANCE

The following table shows the Company's annual compound return for the period ended November 30, 2008:

	<b>One year</b>	<b>Three years</b>	<b>Since inception</b>
Canadian Life Companies Split Corp. - Unit	-34.32%	-6.74%	-2.82%
Canadian Life Companies Split Corp. - Preferred share	5.38%	5.37%	5.37%
Canadian Life Companies Split Corp. - Class A share	-57.58%	-17.61%	-11.86%
Benchmark Index <sup>(1)</sup>	N/A	N/A	N/A

## MARKET INDEX

S&P TSX Financial index	-32.45%	-5.13%	-0.37%
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<sup>(1)</sup> As a result of the Company being limited to a specific universe of stocks and that a covered call writing program is implemented to generate additional income, the investment profile of the Company is quite unique and any comparisons with any other external market indices may not be appropriate.

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**CANADIAN LIFE COMPANIES SPLIT CORP.  
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The financial statements of Canadian Life Companies Split Corp. (the "Company") and all the information in this 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 with the approval of its Board of Directors, has appointed the external firm PricewaterhouseCoopers LLP as the auditors of the Company. They have audited the financial statements of the Company in accordance with Canadian generally accepted auditing standards to enable them to express to shareholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

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**AUDITORS' REPORT  
FEBRUARY 12, 2009**

**Auditors' Report**

**To the Shareholders of Canadian Life Companies Split Corp.**

We have audited the statement of portfolio investments of **Canadian Life Companies Split Corp.** (the "Company") as at November 30, 2008, the statements of financial position as at November 30, 2008 and 2007 and the statements of operations and retained earnings (deficit), changes in shareholders' equity and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2008 and 2007 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants  
Toronto, Ontario**

**CANADIAN LIFE COMPANIES SPLIT CORP.**  
**STATEMENTS OF FINANCIAL POSITION**

AS AT NOVEMBER 30

	2008 (\$)	2007 (\$)
<b>ASSETS</b>		
Investments - at fair value (note 2)	142,741,389	256,855,840
Cash	3,050,128	5,937,473
Interest, dividends and other receivables	1,051,149	1,381,984
Receivable in respect of investments sold	-	89,600
<b>Total Assets</b>	<b><u>146,842,666</u></b>	<b><u>264,264,897</u></b>
<b>LIABILITIES</b>		
Fees and other accounts payable	172,688	354,124
Payable in respect of investments purchased	-	1,588,200
Dividends payable	1,302,509	1,370,229
Unamortized premium on issue of Preferred shares	836,385	1,041,585
Preferred shares (note 4)	<u>90,609,290</u>	<u>95,320,290</u>
	<b><u>92,920,872</u></b>	<b><u>99,674,428</u></b>
<b>SHAREHOLDERS' EQUITY</b>		
Class A and Class B shares (note 5)	125,747,833	132,285,772
Retained earnings (deficit)	<u>(71,826,039)</u>	<u>32,304,697</u>
	<u>53,921,794</u>	<u>164,590,469</u>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b><u>146,842,666</u></b>	<b><u>264,264,897</u></b>

Number of units (1 Preferred share and 1 Class A share) outstanding	9,060,929	9,532,029
Net assets per unit (note 2)	\$16.04	\$27.38
Net assets per Preferred share (note 2)	\$10.00	\$10.00
Net assets per Class A share (note 2)	\$6.04	\$17.38
Net asset per unit (Transactional NAV) (note 2)	\$16.62	\$27.40

**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.

**CANADIAN LIFE COMPANIES SPLIT CORP.**  
**STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)**

FOR THE YEARS ENDED NOVEMBER 30

	2008 (\$)	2007 (\$)
<b>INCOME</b>		
Dividends (net of foreign withholding taxes- \$36,413; 2007-\$10,107)	6,141,352	6,049,749
Interest	10,343	57,577
	<u>6,151,695</u>	<u>6,107,326</u>
<b>EXPENSES (note 6)</b>		
Management fees	1,810,345	2,245,102
Service fees	544,869	826,821
Audit fees	19,973	20,111
Directors' and Independent Review Committee fees	24,068	28,557
Custodian fees	40,823	47,733
Legal fees	14,084	13,613
Shareholder reporting costs	25,685	11,614
Other operating expenses	134,642	158,182
Capital tax	-	5,968
Goods and services tax	102,221	151,430
	<u>2,716,710</u>	<u>3,509,131</u>
<b>Net investment income</b>		
before distributions on Preferred shares	3,434,985	2,598,195
Distributions on Preferred shares (note 4 and 7)	<u>(4,830,733)</u>	<u>(5,056,502)</u>
<b>Net investment (loss) for the year</b>	<u>(1,395,748)</u>	<u>(2,458,307)</u>
<b>Realized and unrealized gain (loss) on</b>		
<b>investments and options and transaction costs</b>		
Net realized gain on investments and options	3,085,266	15,300,906
Change in unrealized appreciation (depreciation) of investments	(94,898,171)	6,520,743
Change in unrealized appreciation (depreciation) of foreign exchange	279,844	(49,483)
Transaction costs on purchase and sale of investments (note 2)	<u>(56,450)</u>	<u>(157,737)</u>
<b>Net gain (loss) on investments and options for the year</b>	<u>(91,589,511)</u>	<u>21,614,429</u>
<b>Amortization of premium on issue of Preferred shares</b>	<u>205,200</u>	<u>205,200</u>
<b>Increase (decrease) in net assets from operations for the year</b>	<u>(92,780,059)</u>	<u>19,361,322</u>
<b>Retained earnings - Beginning of year</b>	32,304,697	24,992,736
<b>Transitional adjustment for new</b>		
<b>accounting policy (note 2)</b>	-	(101,486)
<b>Net allocation on retractions</b>	(309,002)	(390,156)
<b>Distributions on Class A shares (note 5 and 7)</b>	<u>(11,041,675)</u>	<u>(11,557,719)</u>
<b>Retained earnings (deficit) - End of year</b>	<u>(71,826,039)</u>	<u>32,304,697</u>
<b>Increase (decrease) in net assets from operations</b>		
<b>per Class A share</b>	(10.08)	2.01

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

**CANADIAN LIFE COMPANIES SPLIT CORP.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

FOR THE YEARS ENDED NOVEMBER 30

	2008 (\$)	2007 (\$)
<b>Shareholders' equity - Beginning of year</b>	<b>164,590,469</b>	<b>159,194,342</b>
Transitional adjustment on adopting new accounting pronouncement (note 2)	-	(101,486)
Adjusted Shareholders' equity - Beginning of year	<u>164,590,469</u>	<u>159,092,856</u>
Increase (decrease) in net assets from operations for the year	(92,780,059)	19,361,322
Class A share redemptions	(6,846,941)	(2,305,990)
<b>Distributions on Class A shares</b>		
From net realized gains	(1,689,518)	(11,557,719)
From return of capital	<u>(9,352,157)</u>	<u>-</u>
	(11,041,675)	(11,557,719)
<b>Increase (decrease) in net assets for the year</b>	<b><u>(110,668,675)</u></b>	<b><u>5,497,613</u></b>
<b>Shareholders' equity - End of year</b>	<b><u>53,921,794</u></b>	<b><u>164,590,469</u></b>

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

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**CANADIAN LIFE COMPANIES SPLIT CORP.****STATEMENTS OF CASH FLOW**

FOR THE YEARS ENDED NOVEMBER 30

	2008	2007
	(\$)	(\$)
<b>Cash flow from Operating activities</b>		
Net investment loss for the year	(1,395,748)	(2,458,307)
Proceeds from sale of investments	20,542,212	84,701,365
Purchase of investments	1,702,885	(73,728,158)
Net change in receivable balances	420,435	(252,659)
Net change in payable balances	(1,837,356)	1,554,777
Change in unrealized appreciation (depreciation) of foreign exchange	279,844	(49,483)
Cash flow from operations	<u>19,712,272</u>	<u>9,767,535</u>
<b>Cash flow from Shareholder activities</b>		
Amount paid on redemption of Class A shares and Preferred shares	(11,557,942)	(3,686,480)
Distributions on Class A shares	<u>(11,041,675)</u>	<u>(11,557,719)</u>
Cash flow from Shareholder activities	<u>(22,599,617)</u>	<u>(15,244,199)</u>
Net decrease in cash for the year	(2,887,345)	(5,476,664)
Cash, beginning of year	5,937,473	11,414,137
<b>Cash, end of year</b>	<u><b>3,050,128</b></u>	<u><b>5,937,473</b></u>

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

**CANADIAN LIFE COMPANIES SPLIT CORP.**

**STATEMENT OF PORTFOLIO INVESTMENTS**

AS AT NOVEMBER 30, 2008

No. of shares	Description	Average Cost (\$ (Premiums received)	Fair Value (\$)
<b>4 Core Holdings</b>			
<b>Canadian Common Equities</b>			
1,375,500	Great-West Lifeco Inc.	37,820,342	34,937,700
613,258	Industrial Alliance Insurance	18,209,696	17,557,577
1,462,900	Manulife Financial Corporation	50,201,790	34,217,231
1,091,300	Sun Life Financial Inc.	47,312,654	30,174,445
	<b>Total Core Portfolio Equities (81.9%)</b>	<b><u>153,544,482</u></b>	<b><u>116,886,953</u></b>
<b>Other Canadian Equity Holdings</b>			
50,000	Bank of Montreal	3,420,859	1,845,500
16,000	Bank of Nova Scotia	709,167	592,000
92,300	Canadian Imperial Bank of Commerce	8,812,388	4,477,473
46,000	Royal Bank of Canada	2,271,157	1,932,460
140,000	Toronto-Dominion Bank	8,722,395	6,300,000
	<b>Total Canadian Equities in Other (10.6%)</b>	<b><u>23,935,966</u></b>	<b><u>15,147,433</u></b>
	<b>Total Canadian Equities</b>	<b><u>177,480,448</u></b>	<b><u>132,034,386</u></b>
<b>Other U.S. Common Equities</b>			
125,000	Aflac Corp.	7,404,754	7,140,020
123,000	MetLife Inc.	7,538,166	4,370,883
	<b>Total U.S. Equities in Other (8.1%)</b>	<b><u>14,942,920</u></b>	<b><u>11,510,903</u></b>
<b>Call Options written (100 shares per contract)</b>			
<b>Canadian call options written</b>			
(500)	Bank of Montreal, January 2009 @ \$40	(49,000)	(30,000)
(1000)	Great-West Lifeco Inc., December 2008 @ \$30	(100,000)	(30,000)
(780)	Manulife Financial Corporation, January 2009 @ \$25	(44,460)	(144,300)
(350)	Royal Bank of Canada, January 2009 @ \$44	(58,450)	(61,600)
(1,300)	Sun Life Financial Inc., January 2009 @ \$26	(197,600)	(416,000)
(400)	Toronto-Dominion Bank, January 2009 @ \$46	(79,600)	(122,000)
	<b>Total Canadian call options written (-0.6%)</b>	<b><u>(529,110)</u></b>	<b><u>(803,900)</u></b>
		<b>191,894,258</b>	<b>142,741,389</b>
	less adjustments for transaction costs (note 2 )	(157,889)	
	<b>Total Investments (100%)</b>	<b><u>191,736,369</u></b>	<b><u>142,741,389</u></b>

The Statement of Portfolio Investments is at November 30, 2008 and may or may not be indicative of the current portfolio. Due to tax considerations, the level of option premiums outstanding at year end may not be indicative of options outstanding during the year.

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

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# CANADIAN LIFE COMPANIES SPLIT CORP.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2008 AND 2007

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### 1. Incorporation

Canadian Life Companies Split Corp. (the “Company”) is a mutual fund corporation established under the laws of the Province of Ontario on March 3, 2005 and began investment operations on April 18, 2005. 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, 2012, 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.

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# CANADIAN LIFE COMPANIES SPLIT CORP.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2008 AND 2007

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### 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"). The provisions of Section 3855 were applied retroactively without a restatement of prior periods. Accordingly, the opening net assets in the Statement of Changes in Shareholders Equity for the period ended November 30, 2007 have been adjusted.

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's 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

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**CANADIAN LIFE COMPANIES SPLIT CORP.****NOTES TO FINANCIAL STATEMENTS**FOR THE YEARS ENDED NOVEMBER 30, 2008 AND 2007

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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)	Difference	Net Asset Value (Published NAV)
November 30, 2008	\$145,367,469	\$5,258,634	\$150,626,103

	Net Assets (GAAP NAV) per unit	Difference	Net Asset Value (Published NAV) per unit
November 30, 2008	\$16.04	\$0.58	\$16.62

**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 November 30, 2008 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.
- 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 Preferred shares**

Each redeemable Preferred 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 Preferred 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 Preferred shares of the Company on a particular date.

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# CANADIAN LIFE COMPANIES SPLIT CORP.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2008 AND 2007

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### 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 in the financial statements of the Company.

### 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 4 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 life insurance sector of the financial services indices of the S&P/TSX 60 and are among the largest financial services companies in Canada.

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 generally highly correlated with the 4 securities. 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 years in which a particular Portfolio company has a covered call option written against that position.

A 10% increase /decrease in the portfolio (net of any covered call options written) would currently increase/decrease net assets by \$14,354,529.

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# CANADIAN LIFE COMPANIES SPLIT CORP.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2008 AND 2007

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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**

Two of the non core holdings as at November 30, 2008 were US life insurance companies. As at November 30, 2008, 8.9% of the net assets were invested in US dollar denominated assets. As a result, the Company's net asset value will be affected by changes in the US dollar relative to the Canadian dollar which is the functional currency of the Company. The Company has not entered into currency hedging contracts. As a result, if the Canadian dollar appreciated/depreciated by 5% against the US dollar, the net assets of the Company would currently decrease/increase by approximately \$639,281.

### **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 Toronto Stock Exchange ("TSX") and New York Stock Exchange ("NYSE"). 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 4 core holdings are concentrated in the life insurance sector and as such will be exposed to the specific factors that affect this sector. An individual Portfolio holding could be as high as 30% of the net asset value of the Company.

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**CANADIAN LIFE COMPANIES SPLIT CORP.****NOTES TO FINANCIAL STATEMENTS**FOR THE YEARS ENDED NOVEMBER 30, 2008 AND 2007

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**4. Preferred shares**

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

<u>Issued and outstanding</u>	November 30, 2008	November 30, 2007
9,060,929 Preferred shares (2007-9,532,029)	<u>\$90,609,290</u>	<u>\$95,320,290</u>

Preferred share transactions

Beginning of year	9,532,029	9,670,078
Redemptions during the year	<u>(471,100)</u>	<u>(138,049)</u>
End of year	9,060,929	9,532,029

Preferred shares were issued at \$10 per share.

Preferred shares are entitled to fixed, cumulative monthly cash dividends of \$0.04375 per Preferred share. All Preferred shares outstanding on December 1, 2012 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 3863 of the CICA Handbook.

Preferred shares trade under the symbol "LFE.PR.A" on the TSX. Preferred shares trading price on the TSX was \$7.55 as at November 30, 2008 (\$10.32- November 30, 2007). 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 March in each year will be entitled to receive an amount equal to the transactional net asset value per unit on the last day of March. 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 and the Class A shares rank in priority 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>	November 30, 2008	November 30, 2007
9,060,929 Class A shares (2007- 9,532,029)	\$125,746,833	\$132,284,772
1,000 Class B shares	\$1,000	\$1,000
	<u>\$125,747,833</u>	<u>\$132,285,772</u>

Class A share transactions

Beginning of year	9,532,029	9,670,078
Redemptions during the year	<u>(471,100)</u>	<u>(138,049)</u>
End of year	9,060,929	9,532,029

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# CANADIAN LIFE COMPANIES SPLIT CORP.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2008 AND 2007

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Class A shares were originally issued at \$15 per share. On March 9, 2006 a secondary offering resulted in the issue of 1,250,000 Class A shares at \$16.30 for gross proceeds of \$20,375,000. An additional 118,000 shares were issued on March 29, 2006 for gross proceeds of \$1,923,400. Agents' fees of \$1,566,360 and filing fees of \$350,000 were incurred in connection with this offering resulting in net proceeds of \$20,382,040. Class A share distributions are targeted at \$0.10 per month. All Class A shares outstanding on December 1, 2012 will be redeemed by the Company on that date.

Class A shares trade under the symbol "LFE" on the TSX. Class A shares trading price on the TSX was \$4.80 as at November 30, 2008 (\$14.95- November 30, 2007). 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 March in each year will be entitled to receive an amount equal to the transactional net asset value per unit on the last day of March. 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).

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.

### 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 0.20% 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 \$1,810,345 (November 30, 2007 - \$2,245,102), incurred during the year, include the administration fee and base management fee. No performance fees were paid in 2008 or 2007.

Total brokerage commission paid during the year by the Company for its portfolio transactions were \$56,450 (2007 - \$157,737).

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# CANADIAN LIFE COMPANIES SPLIT CORP.

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2008 AND 2007

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### 7. Distributions

The Company's investment objectives are to provide steady monthly distributions to both the Preferred and Class A shareholders while returning the original issue price to each shareholder on the termination date of the Company on December 1, 2012.

Distributions per share were as follows:

	November 30, 2008	November 30, 2007
Preferred shares	\$0.525	\$0.525
Class A shares	\$1.20	\$1.20

### 8. Capital Management

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

The Company's objectives in managing its capital are:

- i) to provide holders of Preferred shares with fixed cumulative preferential monthly cash dividends in an amount of \$0.04375 per Preferred share to yield 5.25% per annum on the original issue price and to return the original issue price to their holders on December 1, 2012; and
- ii) to provide holders of Class A shares with regular monthly cash distribution targeted to be \$0.10 per Class A share to yield 8.0% on the original issue price and return the original issue price to their holders on December 1, 2012

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 preferred 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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77 King Street West, P.O. Box 82  
Toronto, Ontario M5K 1G8

### **Transfer Agent**

Computershare  
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Toronto, Ontario M5J 2Y1

### **Legal Counsel**

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Toronto, Ontario M5L 1A9

### **Custodian**

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