

2010

M SPLIT CORP.

ANNUAL REPORT



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.

This is the annual Management Report of Fund Performance (MRFP) for the period ended November 30, 2010. 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.m-split.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.m-split.com or www.sedar.com.

INVESTMENT OBJECTIVES AND STRATEGIES

As a result of the corporate reorganization that was approved at a special meeting of shareholders on February 3, 2010 and subsequently implemented on March 23, 2010 (the reorganization date), the Priority Equity shares and Class A shares outstanding on the reorganization date were each exchanged for a new class of shares as outlined further below.

The primary purpose of the reorganization was to provide holders of Priority Equity shares and Class A shares with an opportunity to have those shares reorganized into a new series of shares that would provide greater distribution and capital growth potential, if the common shares of Manulife Financial Corporation (Manulife) increase over the remaining term of the Company. The Priority Equity Portfolio Protection Plan was eliminated at the reorganization date and the fixed income securities held by the Company pursuant to the Plan were sold in order for the newly reorganized Company to re-establish a much more fully invested position in common shares of Manulife. A covered call writing strategy is also used by the Company to provide supplemental income in addition to the dividend income from Manulife common shares.

At the opening of trading on March 23, 2010:

Holders of Priority Equity shares (Symbol: XMF.PR.A) received the following securities in exchange for each Priority Equity share held:

1. One \$5.00 Class I Preferred share (Symbol: XMF.PR.B) (the "Class I Preferred share");
2. One \$5.00 Class II Preferred share (Symbol: XMF.PR.C) (the "Class II Preferred share");
3. One 2011 Warrant (Symbol: XMF.WT); and
4. One 2012 Warrant (Symbol: XMF.WT.A).

Holders of Class A shares (Symbol: XMF) received 0.944808 Capital shares (Symbol: XMF.A) in exchange for each Class A share held. The conversion ratio of 0.944808 was required to maintain an equal number of Capital shares, Class I Preferred shares and Class II Preferred shares after giving effect to the special retraction that was offered to all shareholders prior to the reorganization.

Class I Preferred Shares

Each Class I Preferred share (Symbol: XMF.PR.B) pays fixed cumulative preferential monthly dividends to yield 7.50% per annum on the \$5.00 notional issue price and having a repayment objective on December 1, 2014 or such other date as the Company may be terminated (the termination date) of \$5.00.

Class II Preferred Shares

Each Class II Preferred share (Symbol: XMF.PR.C) pays distributions to yield 7.50% per annum on the \$5.00 notional issue price if and when the Net Asset Value per Unit exceeds \$12.50 and having a repayment objective on the termination date of \$5.00. Each "Unit" consists of one Class I Preferred share, one Class II Preferred share and one Capital share.

2011 Warrant

Each 2011 Warrant (Symbol: XMF.WT) can be exercised to purchase one Unit for an exercise price of \$10.00 per Unit at specified times until February 28, 2011.

2012 Warrant

Each 2012 Warrant (Symbol: XMF.WT.A) can be exercised to purchase one Unit for an exercise price of \$12.50 per Unit at specified times until February 28, 2012.

Capital shares

Capital shares (Symbol: XMF.A) will continue to participate in any Net Asset Value growth over \$10.00 per Unit and dividends would be reinstated only if and when the Net Asset Value per Unit exceeds \$15.00. The dividend rate on the Capital shares will be set by the Board of Directors of the Company at its discretion, based on market conditions. No dividend payments will be made on the Capital shares unless all dividends on the Class I Preferred shares and, if applicable, Class II Preferred shares have been declared and paid.

RISK

The risks of investing in the Company remain as discussed in the Annual Information Form dated February 23, 2011. 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.

RESULTS OF OPERATIONS

The major operational activity during the period was the completion of the reorganization of M Split Corp. which was reorganized effective March 23, 2010 (the "reorganization date") as more fully outlined in the Investment Objectives and Strategies section.

As at the reorganization date, the net assets in M Split Corp. were \$25.6 million after giving effect to the special retraction that was provided to all shareholders prior to the reorganization.

The reorganized M Split Corp. will provide more direct exposure to Manulife common shares as it will be primarily invested in Manulife common shares. As such, any changes in the market price of Manulife common shares will have a much more direct impact on the Net Asset Value of M Split Corp. The larger holding of Manulife common shares will also enhance the ability of the Company to supplement the dividend income through a much larger covered call writing program than had been the case prior to the reorganization.

Manulife common stock was at \$14.28 as at November 30, 2010 which was down approximately 65% since M Split commenced operations on April 18, 2007.

As at November 30, 2010 M Split Corp. had a Net Asset Value of \$6.54 per unit (consisting of one Class I Preferred share, one Class II Preferred share and 1 Capital share). As at November 30, 2010, M Split Corp. had 90.4% of net assets invested in Manulife common shares. One time costs associated with the reorganization increased shareholder reporting expenses during the period. Distributions were made at the targeted rate for the Class I Preferred shares during the initial period. Class II Preferred shares and Capital shares were not eligible to received distributions under the distribution policy of the Fund as outlined in the Investment Objectives and Strategies section.

DISTRIBUTIONS

Distributions prior to the reorganization date

As part of the reorganization, accrued cumulative distributions in arrears on the Priority Equity shares as at the reorganization date were added back to the net assets of the Company and the liability eliminated. This resulted in a \$0.57 increase in the Net Asset Value per unit as at the reorganization date.

Capital shares

No distributions paid during the period.

Class I Preferred shares

At total of 9 regular monthly distributions were paid at the monthly rate of \$0.03125 for a total of \$0.2813 per Class I Preferred share during the initial period.

Class II Preferred shares

No distributions were paid during the period as the Net Asset Value per unit remains below the required \$12.50 per unit threshold level which would allow the payment of monthly dividends to Class II Preferred shareholders.

RECENT DEVELOPMENTS

At its January 2011 meeting, the Canadian Accounting Standards Board (AcSb) decided to extend the deferral of mandatory adoption of IFRS for Investment Companies to fiscal years beginning on or after January 1, 2013. The decision is in response to the International Accounting Standards Board's announcement in late 2010 that its Investment Company project is delayed and will not likely be issued before January 1, 2012, which is the current date of the mandatory adoption of IFRS for these entities. The AcSb expects to issue the amendment in March 2011.

The Company expects to report its financial results for the six month period ended May 31, 2014 prepared on an IFRS basis. The Company will also provide comparative data on an IFRS basis, including an operating balance sheet as at December 1, 2013.

The Company has not identified any changes that will impact Net Asset Value per unit as a result of the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of additional note disclosure and potentially different presentation of shareholder interests and other items in the financial statements of the Company. However this determination is subject to change as the Company finalizes its assessment of potential IFRS differences and as new standards are issued prior to the Company's adoption of IFRS.

RELATED PARTY TRANSACTIONS

Quadravest Capital Management Inc. ("Quadravest") as Investment Manager and Manager earns fees from the Company as described below in the Management Fees section.

MANAGEMENT FEES

The Investment Manager is entitled to a base management fee payable monthly in arrears at an annual rate equal to 0.45% effective March 23, 2010 (0.55% prior to the reorganization) of the Company's Net Asset Value calculated as at the last Valuation Date in each month.

Pursuant to the administration agreement, Quadravest is entitled to an administration fee payable monthly in arrears at an annual rate equal to 0.1% 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 Capital shares at a rate of 0.50% per annum. No service fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A shares in respect of each month in such calendar quarter.

Total management fees of \$148,070 paid for the period ended November 30, 2010 include the base management fee and the administration fee. The base management fee was used by Quadravest to provide investment analysis, make investment decisions and to make 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.

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 audited annual financial statements. 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

	Years ended November 30			
	2010	2009	2008	2007 ⁽²⁾
Net assets per unit, beginning of year ⁽¹⁾	8.54	9.55	19.32	18.97 ⁽³⁾
Increase (decrease) from operations				
Total revenue	0.22	0.25	0.41	0.30
Total expenses	(0.17)	(0.11)	(0.18)	(0.13)
Realized gains (losses) for the year	0.33	(3.04)	(6.27)	0.08
Unrealized gains (losses) for the year	(2.57)	2.31	(2.64)	0.77
Total increase (decrease) from operations ⁽⁴⁾	<u>(2.19)</u>	<u>(0.59)</u>	<u>(8.68)</u>	<u>1.02</u>
Distributions ⁽⁵⁾				
Taxable Dividends	(0.28)	(0.09)	(1.07)	(0.59)
Capital gains	-	-	-	(0.09)
Total annual distributions	<u>(0.28)</u>	<u>(0.09)</u>	<u>(1.07)</u>	<u>(0.68)</u>
Net assets per unit, end of year	6.54	8.54	9.55	19.32
Net assets per Class I Preferred share	5.00	N/A	N/A	N/A
Net assets per Class II Preferred share	1.54	N/A	N/A	N/A
Net assets per Capital share	-	N/A	N/A	N/A
Net assets per unit at end of period	6.54	N/A	N/A	N/A
Net assets per Priority Equity share	N/A	8.54	9.55	10.00
Net assets per Class A share	<u>N/A</u>	<u>-</u>	<u>-</u>	<u>9.32</u>
Net assets per unit at end of year	<u>N/A</u>	<u>8.54</u>	<u>9.55</u>	<u>19.32</u>

(1) Net asset value per unit is the difference between the aggregate value of the assets of the Company and the aggregate value of the liabilities excluding the Preferred shares (Priority Equity shares prior to March 23, 2010) of the Company on that date divided by the number of units then outstanding.

(2) Results for the period April 18, 2007 (inception) 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 before the payment of Preferred shares (Priority Equity shares prior to March 23, 2010) and Capital share (Class A share prior to March 23, 2010) distributions and is calculated based on the weighted average number of units outstanding during the period.

(5) Distributions to Class I Preferred shares, Class II Preferred shares, Capital shares (Priority Equity shares and Class A shares prior to March 23, 2010) are based on the number of Class I Preferred shares, Class II Preferred shares, Capital shares (Priority Equity shares and Class A shares prior to March 23, 2010) 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			
	2010	2009	2008	2007 ⁽¹⁾
Net assets (millions)	\$17.9	\$27.2	\$42.7	\$91.8
Number of units outstanding ⁽²⁾	2,735,610	3,188,402	4,429,246	4,753,400
Base Management expense ratio ⁽³⁾	2.24%	1.22%	1.09%	1.08%
Management expense ratio including one time initial offering expenses ⁽⁴⁾	2.24%	1.22%	1.09%	6.27%
Management expense ratio per Capital share (Class A share) ⁽⁵⁾	N/A	N/A	11.22%	15.92%
Management expense ratio per Preferred shares (Priority Equity share) ⁽⁶⁾	2.24%	1.22%	N/A	N/A
Portfolio turnover rate ⁽⁷⁾	131.1%	24.9%	39.1%	5.0%
Trading expense ratio ⁽⁸⁾	0.17%	0.08%	0.11%	0.11%
New class of shares effective March 23, 2010 (reorganization date)				
Closing market price (TSX): Class I Preferred share	\$5.05	N/A	N/A	N/A
Closing market price (TSX): Class II Preferred share	\$1.95	N/A	N/A	N/A
Closing market price (TSX): Capital share	\$0.305	N/A	N/A	N/A
Original class of shares prior to March 23, 2010 (reorganization date)				
Closing market price (TSX): Priority Equity shares	N/A	\$7.50	\$6.51	\$10.10
Closing market price (TSX): Class A shares	N/A	\$0.33	\$0.88	\$7.30

(1) Results for the period April 18, 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.

(5) Management expense ratio for Capital shares (Class A shares prior to March 23, 2010) is based on the requirements of National Instrument 81-106. This Instrument requires that all split share companies produce an expense ratio which allocates all operating expenses of the Company, all distributions on Preferred shares (Priority Equity shares prior to March 23, 2010) and all issuance costs to the Capital shares and expresses this as an annualized percentage of net assets applicable only to the Capital shares during the period. The management expense ratio per Capital share (Class A share prior to March 23, 2010) should not be interpreted as the required return necessary for the Fund or the Capital share to cover the operating expenses of the Company. This calculation is based only on a portion of the Company's assets whereas the Company utilizes its entire assets to generate investment returns. Management believes that the base management expense ratio per unit disclosed in the table above is the most representative ratio in assessing the ongoing efficiency of the administration of the Company, making comparisons to the expense ratios of single unit mutual funds or determining the minimum investment returns necessary by the Company to achieve growth in Net Asset Value per unit.

(6) Management expense ratio per Preferred shares (Priority Equity share prior to March 23, 2010) is calculated in periods in which the Net Asset Value is less than \$10 per unit and includes all expenses of the Fund. During 2010, this ratio includes a blend of the Priority Equity shares (to March 23, 2010) and the Class I and Class II Preferred shares.

(7) 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

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

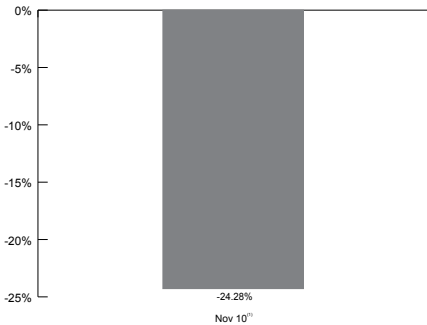
PAST PERFORMANCE

Year-by-Year Returns

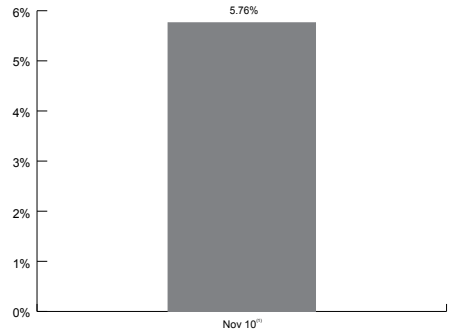
The past performance of 1) the Net Asset Value per unit; 2) the Priority Equity share on a Net Asset Value basis; and 3) the Class A share on a Net Asset Value basis for each 12 month period ended November 30 since inception are presented in the bar charts below. Each bar in the chart reflects the change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

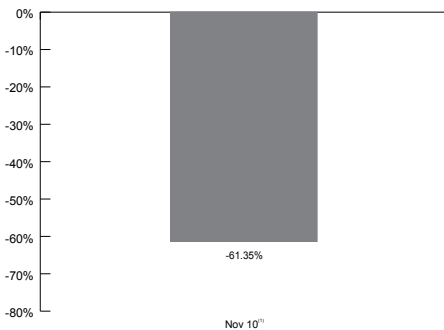
NET ASSET VALUE PER UNIT



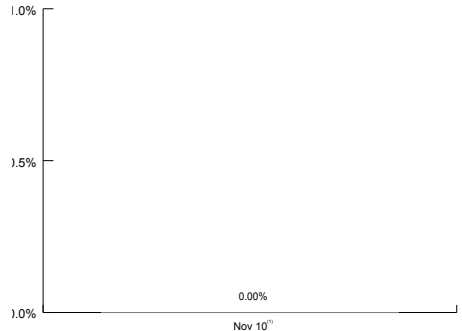
CLASS I PREFERRED SHARE



CLASS II PREFERRED SHARE



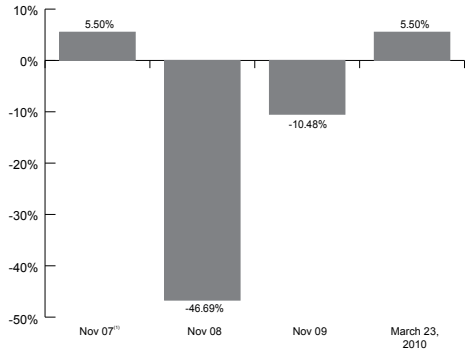
CAPITAL SHARE



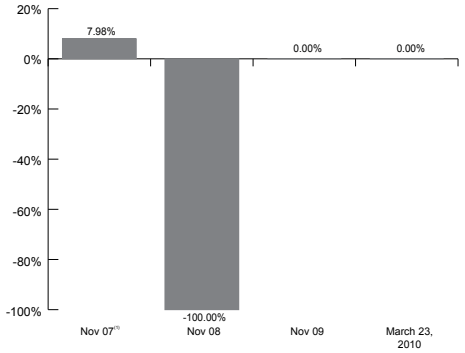
⁽¹⁾ Based on initial period from March 23, 2010 to November 30, 2010

Performance of Original Classes of shares from inception (April 18, 2007) to the reorganization date (March 23, 2010)

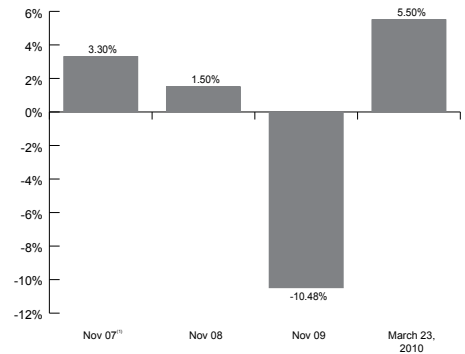
**NET ASSET VALUE
PER UNIT**



CLASS A SHARE



PRIORITY EQUITY SHARE



⁽¹⁾ Based on initial year from April 18, 2007 to November 30, 2007

Annual Compound Performance

The following table shows the Company's annual compound return for the period ended November 30, 2010:

	Since reorganization date (March 23, 2010 to November 30, 2010)
M-Split Corp. - Unit	-24.28%
M-Split Corp. - Class I Preferred share	5.76%
M-Split Corp. - Class II Preferred share	-61.35%
M Split Corp. - Capital share	0%
	From March 23, 2010 to November 30, 2010
MARKET INDEX⁽¹⁾	
S&P TSX Financial index	-0.32%

- (1) As a result of the Company being limited to specific stock and a covered call writing program that is implemented to generate additional income, and the impact of the Priority Equity Portfolio Protection Plan, the investment profile of the Company is quite unique and any comparisons with any other external market indices may not be appropriate.

SUMMARY OF INVESTMENT PORTFOLIO

All holdings as at November 30, 2010

Name	Weighting (%)
Manulife Financial Corporation	90.4
Other net assets	9.6

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

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

The financial statements of M 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.

AUDITOR'S REPORT
FEBRUARY 24, 2011

Independent Auditor's Report

To the Shareholders of M Split Corp. (the Company)

We have audited the accompanying financial statements of the Company, which comprise the statement of portfolio investments as at November 30, 2010, the statements of financial position as at November 30, 2010 and 2009 and the statements of operations and deficit, cash flow and changes in shareholders' equity for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2010 and November 30, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

M SPLIT CORP.
STATEMENTS OF FINANCIAL POSITION

AS AT NOVEMBER 30

	2010 (\$)	2009 (\$)
ASSETS		
Investments - at fair value (note 2)	16,121,944	28,034,146
Cash	1,913,743	620,374
Interest, dividends and other receivables	146,788	1,560
Total Assets	<u>18,182,475</u>	<u>28,656,080</u>
LIABILITIES		
Fees and other accounts payable	57,835	39,291
Payable in respect of investments purchased	144,237	-
Dividends payable	85,488	1,394,926
Class I Preferred shares	13,678,050	-
Class II Preferred shares	4,216,865	-
Priority Equity shares (note 1b and 4)	-	27,221,863
Warrants (notes 2 and 6)	28,468	-
	<u>18,210,943</u>	<u>28,656,080</u>
SHAREHOLDERS' EQUITY		
Class A and Class B shares (note 5)	24,677,372	28,761,915
Deficit	<u>(24,705,840)</u>	<u>(28,761,915)</u>
	<u>(28,468)</u>	<u>-</u>
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	<u>18,182,475</u>	<u>28,656,080</u>

Number of units (1 Class I Preferred share, 1 Class II Preferred share, 1 Capital share and previously 1 Priority Equity share and 1 Class A share) outstanding

	2,735,610	3,188,402
Net assets per unit (note 2)	6.54	8.54
Net assets per Class I Preferred share (note 2)	5.00	-
Net assets per Class II Preferred share (note 2)	1.54	-
Net assets per Capital share (note 2)	-	-
Net assets per Priority Equity share (note 2)	-	8.54
Net assets per Class A share (note 2)	-	-

Approved on behalf of the Board of Directors



WAYNE FINCH

Chairman, as Chief Executive Officer
and Chief Investment Officer



PETER CRUICKSHANK

Managing Director and
Chief Financial Officer

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

M SPLIT CORP.
STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED NOVEMBER 30

	2010 (\$)	2009 (\$)
INCOME		
Dividends	437,151	17,108
Interest	209,750	1,012,331
	<u>646,901</u>	<u>1,029,439</u>
EXPENSES (note 6)		
Management fees	148,070	229,414
Audit fees	19,961	19,815
Directors' fees	20,226	20,513
Independent Review Committee fees	3,531	3,531
Custodian fees	26,939	16,536
Legal fees	21,084	41,135
Shareholder reporting costs	202,485	42,049
Other operating expenses	19,410	41,438
Goods and services tax/harmonized sales tax	20,206	20,802
	<u>481,912</u>	<u>435,233</u>
Net investment income		
before distributions on Priority Equity shares	164,989	594,206
Distributions on Priority Equity shares (note 4 and 7)	<u>(784,401)</u>	<u>(1,780,866)</u>
Net investment loss for the year	<u>(619,412)</u>	<u>(1,186,660)</u>
Realized and unrealized gain (loss)		
on investments and options and transaction costs		
Net realized gain (loss) on investments and options	970,763	(12,524,114)
Change in unrealized appreciation (depreciation) of investments	(7,379,350)	9,506,766
Transaction costs on purchase and sale of investments (note 2)	<u>(35,672)</u>	<u>(28,729)</u>
Net loss on investments and options for the year	<u>(6,444,259)</u>	<u>(3,046,077)</u>
Change in value of Class II Preferred shares		
(Priority Equity shares 2009)	4,799,028	2,651,297
Net allocation on retractions of Class II Preferred shares		
(Priority Equity shares 2009)	869,717	1,581,440
Reduction in Priority Equity share		
dividend accrual from reorganization	1,394,926	-
Reduction in fair value accounting recognition		
on warrants (notes 2 and 6)	<u>(28,468)</u>	<u>-</u>
Increase (decrease) in net assets from operations for the year	<u>(28,468)</u>	<u>-</u>
Deficit - Beginning of year	<u>(28,761,915)</u>	<u>(39,952,653)</u>
Net allocations on retractions	4,084,543	11,190,738
Deficit - End of year	<u>(24,705,840)</u>	<u>(28,761,915)</u>
Increase (decrease) in net assets from operations		
per Class A share	(0.01)	-

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

M SPLIT CORP.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 FOR THE YEARS ENDED NOVEMBER 30

	2010 (\$)	2009 (\$)
Shareholders' equity - Beginning of year	-	-
Decrease in net assets from operations for the year	(28,468)	-
Capital share and Class A share redemptions	(4,084,543)	(11,190,738)
Net allocation on retractions	4,084,543	11,190,738
Decrease in shareholders' equity for the year	<u>(28,468)</u>	<u>-</u>
Shareholders' equity - End of year	<u>(28,468)</u>	<u>-</u>

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

M SPLIT CORP.
STATEMENTS OF CASH FLOW
 FOR THE YEARS ENDED NOVEMBER 30

	2010 (\$)	2009 (\$)
Cash flow from Operating activities		
Net investment loss for the year	(619,412)	(1,186,660)
Proceeds from sale of investments	26,915,719	17,555,879
Purchase of investments	(21,303,542)	(9,003,604)
Net change in interest, dividends and other receivable balances	(145,228)	318,110
Net change in fees, other accounts payable and dividends payable on Priority Equity shares	<u>104,032</u>	<u>1,191,574</u>
Cash flow from operations	4,951,569	8,875,299
Cash flow from Shareholder activities		
Amount paid on redemption of Capital shares (Class A shares 2009) and Class I and Class II Preferred shares (Priority Equity shares 2009)	<u>(3,658,200)</u>	<u>(10,826,997)</u>
Cash flow from Shareholder activities	<u>(3,658,200)</u>	<u>(10,826,997)</u>
Increase (decrease) in cash for the year	1,293,369	(1,951,698)
Cash, beginning of year	<u>620,374</u>	<u>2,572,072</u>
Cash, end of year	<u>1,913,743</u>	<u>620,374</u>
Supplemental information		
Distributions paid on Class I Preferred shares (Priority Equity shares 2009)	698,922	1,974,646

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

M SPLIT CORP.
STATEMENT OF PORTFOLIO INVESTMENTS
AS AT NOVEMBER 30, 2010

No. of shares	Description	Average Cost (\$ (Premiums received)	Fair Value (\$)
	Core Holding		
	Canadian Common Equities		
1,134,400	Manulife Financial Corporation	22,765,656	16,176,544
	Total Canadian Common Equities in Core Holding (100.3%)	<u>22,765,656</u>	<u>16,176,544</u>
Face value	Canadian call options written (100 shares per contract)		
(1,300)	Manulife Financial Corporation @ \$15 January 2011	(49,400)	(54,600)
	Total Canadian call options written (-0.3%)	<u>(49,400)</u>	<u>(54,600)</u>
		<u>22,716,256</u>	<u>16,121,944</u>
	less adjustment for transaction costs	(35,703)	
	Total Investments (100%)	<u>22,680,553</u>	<u>16,121,944</u>

The Statement of Portfolio Investments is at November 30, 2010 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.

M SPLIT CORP.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

1. Incorporation

M Split Corp. (the "Company") is a mutual fund corporation established under the laws of the Province of Ontario on February 12, 2007 that began investment operations on April 18, 2007. A corporate reorganization was approved at the special meeting of shareholders on February 3, 2010 and subsequently implemented on March 23, 2010 (the reorganization date). All Priority Equity shares and Class A shares outstanding on the reorganization date were exchanged for a new class of shares with a different set of attributes (see Note 4, 5 and 6 for a more complete discussion). The manager and the investment manager of the Company is Quadravest Capital Management Inc. ("Quadravest"). All Class I Preferred shares, Class II Preferred shares and Capital shares outstanding on December 1, 2014, the termination date of the Company, will be redeemed by the Company on the earlier of December 1, 2014 or such time if the Net Assets of the Company decline below \$5 million.

1b. Sufficiency of Assets

The Company has 2,735,610 Class II Preferred shares outstanding as at November 30, 2010 with a principal repayment target of \$5.00 per Class II Preferred share for a total of \$13,678,050 on the termination date, December 1, 2014. As at November 30, 2010, the Company has Net Assets equivalent to \$1.54 per Class II Preferred share for a total of \$4,216,865. This represents a deficiency as at November 30, 2010 of \$3.46 per Class II Preferred share for a total deficiency of \$9,461,185.

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.

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") for purposes of determining the Net Assets per unit reflected in the financial statements.

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
- Call options written are valued at closing ask 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 81-106") 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 based on the fair value of the investment fund's assets and liabilities (Net Asset Value or NAV).

M SPLIT CORP.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

The fair value of investments for purposes of calculating the bi monthly Net Asset Value 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
- Call options written 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 the difference is required to be disclosed in the notes to the financial statements. The following table is presented to show the differences between these amounts:

	Net Assets (GAAP NAV) per unit	Difference	Net Asset Value (Published NAV) per unit
November 30, 2010	\$6.54	\$0.01	\$6.55
November 30, 2009	\$8.54	-	\$8.54

Transaction costs

- Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Company are recognized as an expense in the Statement of Operations and Deficit. The transaction costs for investments held at November 30, 2010 are 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
- Written call option income received is 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

Other Assets and Liabilities

For the purposes of categorization in accordance with Handbook – Accounting Section 3855, income receivable is designated as loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities and dividends payable to shareholders are designated as financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short-term nature

M SPLIT CORP.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

Redeemable Class I and Class II Preferred shares

In accordance with their terms, each redeemable Class I Preferred share is valued at the lesser of: (i) \$5.00; and (ii) the Net Assets of the Company divided by the number of Class I Preferred shares outstanding. Each redeemable Class II Preferred share is valued at the amount, if any, of the difference between the Net Assets per unit of the Company and \$5.00 (the par value of the Class I Preferred shares) subject to a maximum value of \$5.00 per share. The Net Assets are equal to the difference between the aggregate value of the assets of the Company and the aggregate value of its liabilities, excluding Class I and Class II Preferred shares (Priority Equity shares 2009) of the Company.

Warrants

Warrants are valued at the closing ask price on the TSX as required under GAAP and are expressed as a liability for financial statement purposes but do not affect the calculation of the Net Asset Value per unit for transactional purposes. For transactional purposes, if at any time while any 2011 warrants are outstanding the Net Asset Value per unit is in excess of \$10.00, or while any 2012 warrants are outstanding the Net Asset Value per unit is in excess of \$12.50, a diluted Net Asset Value per unit will be calculated in addition to the basic Net Asset Value per unit, and any payment of retraction proceeds will be based on the diluted Net Asset Value per unit.

3. Management of Risk of Financial Instruments

Amendment to Section 3862- Financial Instruments Disclosure

Amended CICA Handbook – Accounting Section 3862, Financial Instruments-Disclosures (“Section 3862”) requires disclosure about the inputs to fair value measurements, including the classification with a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

The following table illustrates the classification of the Company’s financial instruments within the fair value hierarchy as at November 30, 2010 and 2009:

Financial assets at fair value as at November 30, 2010

	Level 1	Level 2	Level 3	Total
Equities	\$16,176,544	-	-	\$16,176,544
Options	(\$54,600)	-	-	(\$54,600)
	<u>\$16,121,944</u>	<u>-</u>	<u>-</u>	<u>\$16,121,944</u>

Financial assets at fair value as at November 30, 2009

	Level 1	Level 2	Level 3	Total
Equities	\$221,160	-	-	\$221,160
Bonds	-	\$27,812,986	-	\$27,812,986
	<u>\$221,160</u>	<u>\$27,812,986</u>	<u>-</u>	<u>\$28,034,146</u>

M SPLIT CORP.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

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

Price risk

As at November 30, 2010, the Company's exposure to Manulife common shares was 90.1% (November 30, 2009-0.8%) of the Net Assets of the Company.

A 10% increase /decrease in Manulife common shares would currently increase/decrease Net Assets of the Company by \$1,612,194 (November 30, 2009-\$22,116).

Interest rate risk

As a result of the reorganization, the majority of the Company's financial assets are now invested in financial assets and liabilities that 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 consider interest rate insignificant (November 30, 2009-\$309,612 due to the holding of fixed income investments in the Priority Equity Protection Plan).

Currency risk

The portfolio holding and other Net Assets are denominated in Canadian dollars and therefore there is no currency risk (consistent with previous year).

Other risks

Credit risk

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

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company is exposed to liquidity risk primarily through its monthly and annual retractions of Capital shares and Class I and Class II Preferred shares. The Company receives adequate notice for all redemption requests. The Company's Portfolio is invested in Manulife which is a highly liquid large capitalization stock that

M SPLIT CORP.**NOTES TO FINANCIAL STATEMENTS**FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

trades on the Toronto Stock Exchange ("TSX") (consistent with previous year). All Capital shares and Class I and Class II Preferred shares outstanding are redeemable on demand but are scheduled to be redeemed upon termination of the Company on December 1, 2014. All other financial liabilities excluding warrants (see note 6) are payable within three months from the end of the year.

Concentration risk

The Company's only equity holding is concentrated in the common stock of Manulife and as such will be exposed to the specific factors that affect this stock (prior year exposure to Manulife at November 30, 2009 was 0.8% of the Net Assets.)

4. Class I and Class II Preferred shares

The Company is authorized to issue an unlimited number of Class I Preferred shares and an unlimited number of Class II Preferred shares. As a result of the reorganization on March 23, 2010, each Priority Equity share outstanding on that date was converted into one Class I Preferred share, one Class II Preferred share, one 2011 warrant and one 2012 warrant (see Note 6 for warrants.)

<u>Issued and outstanding</u>	November 30, 2010	November 30, 2009
2,735,610 Class I Preferred shares	\$13,678,050	-
2,735,610 Class II Preferred shares	\$13,678,050	-
less reduction in value of Class II Preferred shares	<u>(\$9,461,185)</u>	<u>-</u>
	\$4,216,865	

Preferred share transactions

Priority Equity shares beginning of year	3,188,402	4,429,246
Priority Equity share redemptions	(341,607)	(1,240,844)
Priority Equity shares reorganized into		
Class I and Class II Preferred shares	(2,846,795)	-
Class I and Class II Preferred shares issued		
at reorganization date	2,846,795	-
Class I and Class II Preferred share redemptions	<u>(111,185)</u>	<u>-</u>
Priority Equity shares end of year	-	3,188,402
Class I and Class II Preferred shares end of year	2,735,610	-

Class I Preferred shares are entitled to fixed cumulative monthly dividends of \$0.03125 per share. Class II Preferred shares are entitled to monthly dividends of \$0.03125 per share if and when the Net Asset Value per unit exceeds \$12.50. All Class I and Class II Preferred shares outstanding on December 1, 2014 will be redeemed by the Company on that date. Class I Preferred shares have a repayment objective of \$5.00 and rank in priority to the Class II Preferred shares and Capital shares upon the winding up of the Company. Class II Preferred shares have a repayment objective of \$5.00 and rank behind the Class I Preferred shares but ahead of the Capital shares. Class I and Class II Preferred shares trade under the symbols "XMF.B" and "XMF.C" respectively on the TSX. The trading price as at November 30, 2010 of Class I Preferred shares and Class II Preferred share was \$5.05 and \$1.95 respectively. The Class I and Class II Preferred shares have been presented as liabilities in the financial statements.

M SPLIT CORP.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

Class I and Class II 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 Class I Preferred share, a Class II Preferred share and a Capital 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 calculated on the last day of October. Class I and Class II 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 Class I and Class II Preferred shares or Capital shares tendered for retraction.

Prior to the reorganization, Priority Equity shares were entitled to cumulative monthly cash dividends of \$0.04375 per Priority Equity share. The Priority Equity shares have been presented as liabilities in the financial statements. Priority Equity shares traded under the symbol "XMF.A" on the TSX. Priority Equity shares could be surrendered at any time for retraction amounts, but were retracted only on the last day of each month. Shareholders who concurrently retracted a Priority Equity share and a Class A share (together, a "unit") in the month of October were entitled to receive an amount equal to the Net Asset Value per unit calculated on the last day of October. Priority Equity shares retracted in any other month received a retraction price based on a discounted specified retraction formula. Under the terms of a Recirculation Agreement, the Company could, but was not obliged to, require the Recirculation Agent to use its best efforts to find purchasers for any Priority Equity share or Class A shares tendered for retraction. The Priority Equity shares ranked in priority to the Class A shares with respect to the payment of dividends. Priority Equity shares ranked in priority to the Class A shares upon termination of the Company. Upon termination of the Company, Priority Equity shareholders were to receive the lower of the Net Asset Value or \$10 per Priority Equity share.

5. Capital shares

The Company is authorized to issue an unlimited number of Capital shares. As a result of the reorganization on March 23, 2010, each Class A share outstanding on that date was converted into one Capital share.

<u>Issued and outstanding</u>	November 30, 2010	November 30, 2009
2,735,610 Capital shares (2009-3,188,402 Class A shares)	\$24,676,372	\$28,760,915
1,000 Class B shares	\$1,000	\$1,000
	<u>\$24,677,372</u>	<u>\$28,761,915</u>
<u>Capital share transactions</u>		
Class A shares beginning of year	3,188,402	4,429,246
Class A share redemptions/consolidated	(341,607)	(1,240,844)
Class A shares reorganized into Capital shares	(2,846,795)	-
Capital shares issued at reorganization date	2,846,795	-
Capital share redemptions	(111,185)	-
	<hr/>	<hr/>
Class A shares end of year	-	3,188,402
Capital shares end of year	2,735,610	-

M SPLIT CORP.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

Capital shares will participate in any Net Asset Value growth over \$10 per unit. The dividend on the Capital shares will only be reinstated if and when the Net Asset Value per unit exceeds \$15. The dividend rate on the Capital shares at such time will be set by the Board of Directors of the Company at its discretion, based on market conditions. All Capital shares outstanding on December 1, 2014 will be redeemed by the Company on that date.

Capital shares trade under the symbol "XMF.A" on the TSX. The Capital shares trading price on the TSX was \$0.305 as at November 30, 2010 (November 30, 2009-Class A share \$0.33). Capital 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 Capital share and a Class I Preferred and a Class II Preferred shares (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 calculated on the last day of October. Capital 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 Class I and Class II Preferred shares or Capital shares tendered for retraction.

The Class I and Class II Preferred shares rank in priority to the Capital shares with respect to the payment of dividends. Upon the termination of the Company, Capital shareholders will receive an amount equal to the Net Asset Value per unit less \$10 (the redemption value of the Class I and Class II 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. On April 18, 2007, the Company issued \$1,000 Class B shares to M Split Corp. Holding Trust for cash consideration of \$1,000.

The Deficit in the Statement of Financial Position includes contributed surplus of \$18,199,213 (November 30, 2009-\$14,114,670) in connection with amounts paid on the retractions of Capital shares. Contributed surplus arises when the amount of the retraction allocated to the Capital shares is less than the average cost of capital per share of the Capital shares.

Class A shares were issued at \$10 per share. Prior to the reorganization, Class A distributions were targeted at \$0.05 per month per share.

Class A shares traded under the symbol "XMF" on the TSX. Class A shares trading price on the TSX was \$0.33 as at November 30, 2009. Class A shares could be surrendered at any time for retraction at specified retraction amounts, but were retracted only on the last day of each month. Shareholders who concurrently retracted a Class A share and a Priority Equity share (together, a "unit") in the month of October would be entitled to receive an amount equal to the Net Asset Value per unit calculated on the last day of October. Class A shares retracted in any other month would receive a retraction price based on a discounted specified retraction formula. Under the terms of a Recirculation Agreement, the Company could, but was not obliged 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 ranked in priority to the Class A shares with respect to the payment of dividends. Upon the termination of the Company, Class A shareholders were to receive an amount equal to the transactional Net Asset Value per unit less \$10 (the redemption value of the Priority Equity shares).

M SPLIT CORP.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

6. Warrants

As a result of the reorganization of the Company each Priority Equity shareholder on record on March 23, 2010 received: (1) a 2011 warrant that can be exercised to purchase a unit (one Class I Preferred share, one Class II Preferred share and one Capital share) for an exercise price of \$10.00 at specified times until February 28, 2011; and (2) a 2012 warrant that can be exercised to purchase a unit (one Class I Preferred share, one Class II Preferred share and one Capital share) for an exercise price of \$12.50 at specified times until February 28, 2012. A total of 2,846,795 2011 and 2012 warrants were issued on March 22, 2010. The warrants trade on the TSX under the following symbols: 2011 warrant (TSX: XMF.WT); 2012 warrant (TSX: XMF.WT.A). The 2011 warrants and 2012 warrants trading prices were \$0.005 and \$0.005 respectively on November 30, 2010. As at November 30, 2010, no warrants had been exercised. For transactional purposes, if at any time while any 2011 warrants are outstanding the Net Asset Value per unit is in excess of \$10.00, or while any 2012 warrants are outstanding the Net Asset Value per unit is in excess of \$12.50, a diluted Net Asset Value per unit will be calculated in addition to the basic Net Asset Value per unit, and any payment of retraction proceeds will be based on the diluted Net Asset Value per unit.

7. 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, Quadravest 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 Class I and Class II Preferred shares, calculated as at each monthly valuation date and an amount equal to the service fee payable to dealers on the Capital shares at a rate of 0.50% per annum. No service fee will be paid in any calendar quarter if regular dividends are not paid to holders of Capital shares in respect of each month in such calendar quarter.

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 0.45% (0.55% prior to March 22, 2010) of the transactional net assets of the Company, which includes the outstanding Class I and Class II Preferred shares, calculated as at each monthly valuation date.

Total management fees of \$148,070 (November 30, 2009-\$229,414) 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 \$35,672 (November 30, 2009-\$28,729).

M SPLIT CORP.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

8. Distributions

The Company's investment objectives are to provide steady monthly distributions to both the Class I and Class II Preferred shareholders and Capital 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:

	November 30, 2010	November 30, 2009
Priority Equity shares	-	\$0.0875
Class A shares	-	-
Class I Preferred shares	\$0.2812	-
Class II Preferred shares	-	-
Capital shares	-	-

9. Capital Management

The Company considers its capital to consist of Capital, Class B and Class I and Class II Preferred shares.

The Company's objectives in managing its capital are:

- i) to provide holders of Class I Preferred shares with fixed cumulative preferential monthly cash dividends in an amount of \$0.03125 per Class I Preferred share to yield 7.50% per annum on the notional issue price and to return \$5.00 per share to their holders on December 1, 2014;
- ii) to provide holders of Class II Preferred shares with monthly cash dividends of \$0.03125 per Class II Preferred share to yield 7.50% on the \$5 notional issue price if and when the Net Asset Value per unit exceeds \$12.50 and having a repayment objective on December 1, 2014 of \$5.00 and
- iii) to provide holders of Capital shares with growth above the value of the Class I and Class II Preferred shares.

Prior to the reorganization, the Company's objectives in managing its capital were:

- 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 to their holders 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 to their holders 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.

M SPLIT CORP.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED NOVEMBER 30, 2010 AND 2009

10. 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.

Temporary differences between the carrying value of assets and liabilities for accounting and income tax purposes give rise to future income tax assets and liabilities. When the market value of a security in the Company exceeds its cost base, a future income tax liability arises. As capital gains taxes payable by the Company are refundable under the provisions of the Income Tax Act (Canada), the future tax liability is offset by these future refundable taxes. If the cost base exceeds the market value of the security, a future income tax asset is generated. A full valuation allowance is taken to offset this asset given the uncertainty that such future assets will ultimately be realized. Future income tax liabilities or assets are calculated using substantively enacted tax rates expected to apply in the period that the temporary differences are expected to reverse.

The Company has estimated accumulated non capital losses for tax purposes of \$4,248,513 (November 30, 2009-\$3,031,614) that are available to lower taxable income in future years if required and expire after the scheduled termination date of the Company on December 1, 2014. The Company also has estimated accumulated capital losses for tax purposes of \$25,467,146 (November 30, 2009-\$25,467,146) which may be used to lower future capital gains if required.

10. Harmonized Sales Taxes

Effective July 1, 2010, goods and services tax ("GST") was replaced by the harmonized sales tax ("HST") in certain provinces and is imposed at higher rates than the GST. Since the applicable HST is being paid by the Company, it has resulted in an overall increase in expenses incurred by the Company since the effective date of implementation.

11. Comparative Financial Statements

Certain 2009 comparative figures have been reclassified from statements previously presented to conform to the presentation of the 2010 financial statements.

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.

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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