

May 31 Prime Dividend Corp.

2006 *Semi-Annual Report (unaudited)*



PRIME DIVIDEND
C O R P



This report may contain forward-looking statements about the Fund. 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 Fund 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 Fund 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 Fund. 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 Fund currently anticipates that subsequent events and developments may cause the Fund’s views to change, the Fund does not undertake to update any forward-looking statements.

Semi-Annual Management Report of Fund Performance

May 31, 2006

This is the **Semi-Annual Management Report of Fund Performance (MRFP)** for the period ended May 31, 2006. This management report of fund performance contains financial highlights but does not contain the complete financial statements of the Company. The semi-annual financial statements and accompanying notes are attached to this report.

Investors may also obtain a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure by visiting our website at www.primedividend.com or by writing to the Fund 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.primedividend.com or www.sedar.com.



Investment Objectives and Strategies

Prime Dividend Corp. invests primarily in a portfolio of common shares which will include each of the following Canadian dividend paying companies:

Banks

Bank of Montreal
The Bank of Nova Scotia
Canadian Imperial Bank of Commerce
National Bank of Canada
Royal Bank of Canada
The Toronto-Dominion Bank

Utilities & Other

BCE Inc.
TransAlta Corporation
TransCanada Corporation
Power Financial Corporation
TSX Group Inc.

Investment Management Companies

AGF Management Limited
CI Fund Management Inc.
IGM Financial Inc.

Life Insurance Companies

Great-West Lifeco Inc.
Manulife Financial Corporation
Sun Life Financial Inc.

The Company may also invest up to 20% of the Net Asset Value in equity securities of issuers in the financial services or utilities sectors in Canada or the United States other than the core holdings 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 cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the prevailing Canadian Prime Rate plus 0.75%, with a minimum annual rate of 5.0% and a maximum annual rate of 7% based on original issue price and
2. on or about December 1, 2012 (the termination date) to pay holders the original issue price (\$10) of those shares.

Class A Shares

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

1. to provide holders with regular floating rate monthly cash distributions targeted to be at a rate per annum equal to the prevailing Canadian Prime Rate plus 2%, with a minimum targeted annual rate of 5% and a maximum targeted annual rate of 10.0%; and
2. on or about December 1, 2012 (the termination date) to pay holders the original issue price (\$15) of those shares.

Risk

The risks of investing in the Company remain as discussed in the Annual Information form dated March 29, 2006.

Results of Operations

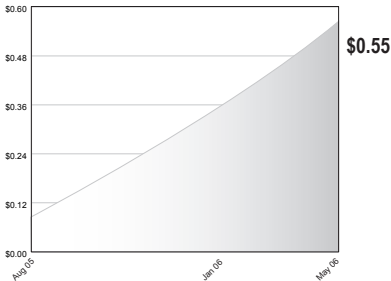
Distributions to both Class A shareholders and Preferred shareholders were made at the Canadian prime plus formula as outlined above in the Investment Objectives section. The Canadian prime rate which began the period in December at 4.75% increased by 1.25% to 6.00% as at May 31, 2006 which resulted in increases in distributions for both classes of shares. The net asset value per unit was \$23.15 (after all distributions paid) as at May 31, 2006. The dividend income in the portfolio was supplemented by a limited covered call writing program which provided some additional income to the portfolio and also some downside protection to the portfolio.

Distributions

Class A Shares – Distributions

Class A shareholders are entitled to receive regular monthly cash dividends initially targeted to yield a floating rate based on the Prime Rate in Canada plus 2% per annum on the original issue price. Distributions paid during the six months totaled \$0.55001 per share.

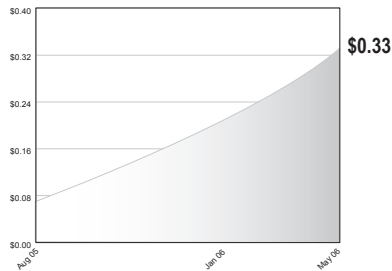
Cumulative Distributions since inception



Preferred Shares – Distributions

Preferred shareholders are entitled to receive regular monthly cash dividends initially targeted to yield a floating rate based on the Prime Rate in Canada plus 0.75% per annum on the original issue price. Distributions paid during the six months totaled \$0.3287 per share.

Cumulative Distributions since inception



Recent Developments

None

Related Party Transactions

None

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 \$143,633 paid for the period ended May 31, 2006 include the base management fee and the administration fee. The base management fee was used by the Investment Manager to pay costs for the managing of the investment portfolio, providing investment analysis and recommendations, making investment decisions, making brokerage arrangements for the purchase and sale of securities including the covered call writing program. The administration fee was used to provide or arrange administrative services required by the Company, which includes all operational requirements, financial accounting, shareholder reporting and all regulatory reporting requirements.

Summary of Investment Portfolio

All holdings as at May 31, 2006

Toronto-Dominion Bank	8.9	%
TSX Group Inc.	8.8	%
Canadian Imperial Bank of Commerce	8.8	%
AGF Management Ltd. NV	7.5	%
TransCanada Corp.	5.8	%
Manulife Financial Corp.	5.6	%
BCE Inc.	5.5	%
TransAlta Corp.	5.4	%
Sun Life Financial Inc.	5.3	%
Royal Bank of Canada	5.2	%
Bank of Nova Scotia	5.0	%
CI Financial Inc.	4.9	%
IGM Financial Inc.	4.8	%
Bank of Montreal	4.4	%
Power Financial Corp.	4.2	%
National Bank of Canada	3.7	%
Great-West Lifeco Inc.	2.5	%
Total long positions as a percentage of net assets	96.3	%
Other net assets	3.7	%

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

Financial Highlights

The following tables show selected financial information about the Company and are intended to help you understand the Company's financial performance. This information is derived from the Company's semi-annual (unaudited) and audited annual financial statements.

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

	Six months ended	
	May 31, 2006	2005 ⁽²⁾
Net asset value per unit, beginning of year ⁽¹⁾	23.90	23.57 ⁽³⁾
Increase (decrease) from operations		
Total revenue	0.33	0.01
Total expenses	(0.13)	(0.05)
Realized gains for the period	0.16	0.00
Unrealized gains for the period	<u>(0.22)</u>	<u>0.37</u>
Total increase (decrease) from operations ⁽⁴⁾	<u>0.14</u>	<u>0.33</u>
Distributions ⁽⁵⁾		
Taxable Dividends	(0.72)	-
Capital gains	<u>(0.16)</u>	<u>-</u>
Total annual distributions	<u>(0.88)</u>	<u>-</u>
Net asset value per unit, end of period	<u>23.15</u>	<u>23.90</u>
Net asset value per Preferred share	10.00	10.00
Net asset value per Class A share	<u>13.15</u>	<u>13.90</u>
Net asset value per unit, end of period	<u>23.15</u>	<u>23.90</u>

⁽¹⁾ Net asset value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities excluding the Preferred shares of the Fund on that date divided by the number of units then outstanding

⁽²⁾ Initial period was from November 16, 2005 to November 30, 2005

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

Ratios And Supplemental Data

	Six months ended	
	May 31, 2006	2005 ⁽¹⁾
Net assets (millions)	\$55.2	\$52.6
Number of units outstanding ⁽²⁾	2,385,500	2,200,000
Base Management expense ratio excluding one time initial offering expenses ⁽³⁾	1.50%	N/A ⁽⁴⁾
Management expense ratio including one time initial offering expenses ⁽⁵⁾	1.92%	N/A ⁽⁴⁾
Portfolio turnover rate ⁽⁶⁾	8.4%	0.00%
Trading expense ratio ⁽⁷⁾	0.03%	0.06%
Closing market price (TSX): Preferred shares	\$11.34	\$11.00
Closing market price (TSX): Class A shares	\$12.08	\$14.50

⁽¹⁾ Results for the period November 16, 2005 (inception) to November 30, 2005

⁽²⁾ This information is at May 31 or November 30 as applicable

⁽³⁾ A separate base management expense ratio has been presented to reflect the normal operating expenses of the Fund excluding the one time initial offering expenses. 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⁾ The Company had only been in operation for 14 days and as such, Management does not believe that annualizing the expenses for such a brief period of time will be representative of an entire year. Further information on actual expenses occurred can be found in the 2005 annual financial statements

⁽⁵⁾ Share issue expenses, representing all Agents' fees and other offering expenses can be found in the attached annual financial statements

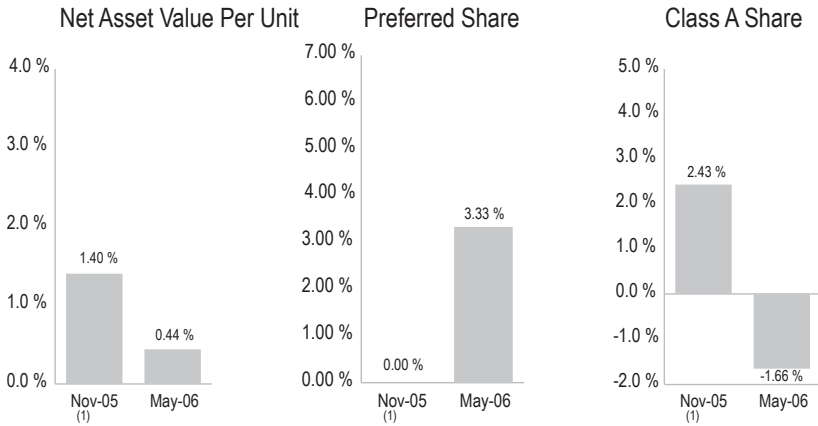
⁽⁶⁾ The Company's portfolio turnover rate indicates how actively the Company's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Company buying and selling all of the securities in its portfolio once in the course of the year. The Company employs a covered call writing strategy which can cause the portfolio turnover rate to be higher than conventional mutual funds

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

Past Performance

The past performance of (1) the net asset value per unit (1 Preferred share and 1 Class A share), (2) the Preferred share on net asset value basis, and (3) the Class A share on a net asset value basis for the six month period ended May 31 and for each 12 month period ended November 30 since inception are presented in the bar charts below. In respect to the charts displayed below, please note the following:

- the performance information shown assumes that all cash distributions made by the Company during the periods shown were reinvested in the applicable additional securities of the Fund;
- 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.



⁽¹⁾ Based on initial period from November 16, 2005 to November 30, 2005

Prime Dividend Corp.

Statement of Financial Position

As at May 31, 2006 (unaudited) and November 30, 2005 (audited)

	May 31, 2006	November 30, 2005
Assets	(\$)	(\$)
Investments* - at market value	53,169,644	38,116,969
Cash	2,576,596	20,932,404
Interest, dividends and other receivables	77,648	10,710
Receivable in respect of investments sold	8,950	-
Total Assets	<u>55,832,838</u>	<u>59,060,083</u>
Liabilities		
Fees and other accounts payable	208,204	434,491
Capital tax payable	33,000	33,000
Payable in respect of investments purchased	-	6,011,102
Distributions payable	360,330	-
Preferred shares (note 3)	23,855,000	22,000,000
	<u>24,456,534</u>	<u>28,478,593</u>
Shareholders' Equity		
Class A and Class B shares (note 4)	32,412,055	29,861,000
Retained earnings (deficit)	(1,035,751)	720,490
	<u>31,376,304</u>	<u>30,581,490</u>
Total Liabilities & Shareholders' Equity	<u>55,832,838</u>	<u>59,060,083</u>
*cost \$52,890,910; \$37,319,733 (November 30, 2005)		
Number of units (1 Preferred share and 1 Class A share) outstanding	2,385,500	2,200,000
Net asset value per unit	\$23.15	\$23.90
Net asset value per Preferred share	\$10.00	\$10.00
Net asset value per Class A share	\$13.15	\$13.90

Approved on behalf of the Board of Directors



Wayne Finch
Chairman and
Chief Investment Officer



Peter Cruickshank
Managing Director and
Chief Financial Officer

Prime Dividend Corp.

Statement of Operations and Retained Earnings

For the six month period ended May 31, 2006

	May 31, 2006 (\$)
Income	
Dividends	770,802
Interest	11,685
	<u>782,487</u>
Expenses (note 5)	
Management fees	143,633
Service fees	59,945
Directors' fees	15,372
Custodian fees	12,368
Legal fees	8,449
Shareholder reporting costs	11,187
Other operating expenses	30,593
Capital tax	5,926
Goods and services tax	15,512
	<u>302,985</u>
Net investment income before distributions on Preferred shares	479,502
Distributions on Preferred shares (note 3 and 6)	(788,143)
Net investment loss for the period	<u>(308,641)</u>
Realized and unrealized gain on investments and options	
Net realized gain on investments and options	389,521
Change in unrealized (depreciation) of investments	(518,502)
Net gain on investments and options for the period	(128,981)
Decrease in net assets from operations for the period	(437,622)
Retained earnings - Beginning of period	720,490
Distributions on Class A shares (note 4 and 6)	(1,318,619)
Retained earnings - End of period	(1,035,751)
Increase in net assets from operations per Class A share	(0.18)

Prime Dividend Corp.

Statement of Changes in Shareholders' Equity

For the six month period ended May 31, 2006

	May 31, 2006 (\$)
Shareholders' equity - Beginning of period	30,581,490
Increase in net assets from operations	(437,622)
Gross proceeds from issue of Class A shares	3,000,000
Agents' fees and filing costs in connection with the initial public offering	(240,000)
Net proceeds from issue of Class A shares (note 4)	2,760,000
Redemptions of Class A shares	(208,945)
Distributions on Class A shares	
From net realized gains	(80,881)
From return of capital	(1,237,738)
	(1,318,619)
Increase in net assets for the period	794,814
Shareholders' equity - End of period	31,376,304

Prime Dividend Corp.

Statement of Cash Flow

For the six month period ended May 31, 2006

	May 31, 2006
Cash flow from Operating activities	(\$)
Net investment (loss)	(308,641)
Proceeds from sale of investments	4,138,849
Purchase of investments	(19,320,505)
Net change in receivable balances	(75,888)
Net change in payable balances	(5,877,059)
Cash flow from operations	(21,443,244)
Cash flow from Shareholder activities	
Gross proceeds from the issue of Class A shares and Preferred shares*	5,000,000
Agents' fee and filing costs in connection with the initial public offering	(240,000)
Amount paid on redemption of Class A shares and Preferred shares	(353,945)
Distribution on Class A shares	(1,318,619)
Cash flow from Shareholder activities	3,087,436
Net increase in cash	(18,355,808)
Cash, beginning of period	20,932,404
Cash, end of period	<u>2,576,596</u>

*includes 1,000 Class B shares

Prime Dividend Corp.

Statement of Portfolio Investments

As at May 31, 2006

No. of shares	Description	Average cost/ (Premiums received) (\$)	Market value(\$)
Canadian Core Common Equities			
194,100	AGF Management Ltd.	4,048,887	4,151,799
39,000	Bank of Montreal	2,308,482	2,418,390
62,800	Bank of Nova Scotia	2,892,470	2,774,504
115,000	BCE Inc.	3,105,608	3,053,250
60,000	Canadian Imperial Bank of Commerce	4,801,138	4,837,800
87,700	CI Financial Inc.	2,067,046	2,721,331
51,000	Great-West Lifeco Inc.	1,493,699	1,409,640
57,600	IGM Financial Inc.	2,559,682	2,635,200
85,000	Manulife Financial Corp.	2,959,154	3,081,250
34,000	National Bank of Canada	2,120,586	2,084,540
72,800	Power Financial Corp.	2,382,418	2,306,304
64,000	Royal Bank of Canada	2,856,991	2,880,000
65,000	Sun Life Financial Inc.	3,029,065	2,936,700
82,200	Toronto-Dominion Bank	4,910,663	4,909,806
126,900	TransAlta Corp.	3,071,247	2,956,770
95,100	TransCanada Corp.	3,416,558	3,185,850
108,200	TSX Group Inc.	4,937,666	4,847,360
Total Canadian Core Common Equities (100%)		<u>52,961,360</u>	<u>53,190,494</u>
No. of shares Call Options written (100 shares per contract)			
contracts Canadian call options written			
(100)	Bank of Nova Scotia, July 2006 @ \$46	(3,350)	(3,500)
(100)	Canadian Imperial Bank of Commerce, June 2006 @ \$85	(11,200)	(1,500)
(100)	Canadian Imperial Bank of Commerce, July 2006 @ \$85	(5,600)	(6,000)
(200)	Manulife Financial Corp., June 2006 @ \$37	(10,900)	(6,000)
(200)	Royal Bank of Canada, June 2006 @ \$49	(12,700)	(1,600)
(150)	Sun Life Financial Inc., June 2006 @ \$48	(6,150)	(600)
(300)	Toronto-Dominion Bank, June 2006 @ \$64	(20,550)	(1,650)
Total Canadian call options written (0.0%)		<u>(70,450)</u>	<u>(20,850)</u>
Total Investments (100%)		<u>52,890,910</u>	<u>53,169,644</u>

The Statement of Portfolio Investments is at May 31, 2006 and may or may not be indicative of the current portfolio.

Prime Dividend Corp.

Notes to Financial Statements

For the six month period ended May 31, 2006

1. Incorporation

Prime Dividend Corp. (the "Company") is a mutual fund corporation established under the laws of the Province of Ontario on September 27, 2005 and began investment operations on November 16, 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, include estimates and assumptions by management that affect the reported amount of assets, liabilities, income and expenses during the reporting periods. The following is a summary of the significant accounting policies followed by the Company. Actual results could differ from these estimates.

Valuation of investments

Investments are recorded in the financial statements at their market values at the end of the period, determined as follows:

- Shares or other securities for which market quotations are readily available are valued at the closing sale price or, if there is no sale price, the average of the closing bid and ask prices. Shares or other securities for which market quotations are not readily available are valued at fair market values as determined by the Manager.
- Listed options are valued at market values as reported on recognized exchanges. Over the counter options are valued using an appropriate valuation model.

Investment transactions and income recognition

- Investment transactions are accounted for on the trade date.
- Realized gains and losses on investment sales and unrealized appreciation or depreciation in investment values are calculated on the average cost basis.
- Option fees paid or received are deferred and included in investments on the statements of financial position. Realized capital gains or losses are recognized in the statements of operations when options are exercised, expire or are closed out.
- Deferred gains and losses on options are recognized in investments and as a component of net unrealized appreciation (depreciation) in the value of investments in shareholders' equity.
- Dividend income is recognized on the ex-dividend date. Interest income is recognized when earned.
- Net realized gains and losses on investments include net realized gains or losses from foreign currency changes.



Prime Dividend Corp.

Notes to Financial Statements

For the six month period ended May 31, 2006

3. Preferred shares

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

<u>Issued and outstanding</u>	May 31, 2006
2,385,500 Preferred shares	<u>23,855,000</u>

Preferred share transactions

Beginning of period	2,200,000
Issued during the period	200,000
Redemptions during the period	<u>(14,500)</u>
End of period	2,385,500

On November 16, 2005, 2,200,000 Preferred Shares were issued at \$10 per share. An additional 200,000 Preferred shares were issued on December 1, 2006 for proceeds of 2,000,000.

Preferred shares are entitled to cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the Prime Rate in Canada plus 0.75% with a minimum annual rate of 5.0% and a maximum annual rate of 7% (based on the original issue price). 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 3860 of the CICA Handbook.

Preferred shares trade under the symbol "PDV.PR.A" on the Toronto Stock Exchange (TSX). Preferred shares trading price on the TSX was \$11.34 as at May 31, 2006. 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 April in each year will be entitled to receive an amount equal to the net asset value per unit on the last day of April. Preferred shares retracted in any other month will receive a retraction price based on a discounted specified retraction formula. The net asset value per unit as at May 31, 2006 was \$23.15. Under the terms of a Recirculation Agreement, the Company may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Preferred shares or Class A shares tendered for retraction.

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

4. Class A shares and Class B shares

Authorized

An unlimited number of Class A shares
1,000 Class B shares

<u>Issued and outstanding</u>	May 31, 2006
2,385,500 Class A shares	\$32,411,055
1,000 Class B shares	<u>\$1,000</u>
	<u>\$32,412,055</u>

Prime Dividend Corp.

Notes to Financial Statements

For the six month period ended May 31, 2006

4. Class A shares and Class B shares (continued)

<u>Class A share transactions</u>	May 31, 2006
Beginning of period	2,200,000
Issued during the period	200,000
Redemptions during the period	<u>(14,500)</u>
End of period	2,385,500

Class A shares were issued at \$15 per share. Class A distributions are regular floating rate monthly cash distributions targeted to be at a rate per annum equal to the Prime Rate in Canada plus 2.0% with a minimum targeted annual rate of 5% and a maximum targeted annual rate of 10% (based on the original issue price). 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 "PDV" on the Toronto Stock Exchange (TSX). Class A shares trading price on the TSX was \$12.08 as at May 31, 2006. Class A shares may be surrendered at any time for retraction at specified retraction amounts, but will be retracted only on the last day of each month. Shareholders who concurrently retract a Class A share and an Preferred share (together, a "unit") in the month of April in each year will be entitled to receive an amount equal to the net asset value per unit on the last day of April. Class A shares retracted in any other month will receive a retraction price based on a discounted specified retraction formula. The net asset value per unit as at May 31, 2006 was \$23.15. 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 net asset value per unit less \$10 (the redemption value of the Preferred shares).

On November 16, 2005, the Company issued 2,200,000 Class A shares for a gross proceeds of \$33,000,000. Agents' fees of \$2,640,000 and filing costs of \$500,000 were incurred in connection with this offering. An additional 200,000 Class A shares were issued on December 1, 2005 for gross proceeds of \$3,000,000. Agents fees of \$240,000 were incurred in connection with this offering.

The holders of Class B shares are not entitled to receive dividends. The Class B shares are retractable at a price of \$1.00 per share. Class B shareholders are entitled to one vote per share. On November 16, 2005, the Company issued \$1,000 Class B shares to Quadravest Capital Management Inc., the Company's investment manager, for cash consideration of \$1,000.

5. Expenses

The Company is responsible for all expenses incurred in connection with the operation and administration of the Company, including, but not limited to, ongoing custodian, transfer agent, legal and audit expenses.

Pursuant to the administration agreement, the Manager is entitled to an administration fee payable monthly in arrears at an annual rate of 0.20% of the net assets of the Fund, 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.

Prime Dividend Corp.

Notes to Financial Statements

For the six month period ended May 31, 2006

5. Expenses (continued)

Pursuant to the terms of the investment management agreement, Quadravest is entitled to a base management fee payable in arrears at an annual rate equal to 0.65% of the net assets of the Company, which 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 \$143,633, incurred during the period, include the administration fee and base management fee.

The brokerage commissions paid during the period by the Company for its portfolio transactions were \$19,431.

6. Distributions

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

Distributions per share were as follows:

	May 31, 2006
Preferred shares	\$0.3287
Class A shares	\$0.5500

7. 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.

8. Financial instruments and risk management

The fair values of the Company's assets and liabilities are affected by changes in interest rates and equity markets. The Company manages these risks through the use of various risk limits and trading strategies.

Notes



Notes

Notes



Quadravest Capital Management Inc.

Quadravest Capital Management Inc. was formed in 1997 and is focused on the creation and management of enhanced yield products for retail investors. Guided by four key principles, Quadravest sets attainable investment objectives that allow the team to stay focused on a long-term investment strategy.

The four principles – innovation in financial products, discipline in investment management, solid results for investors, and excellence in client service – form the foundation of Quadravest. Each member of the firm's tight-knit team is committed to upholding these principles, ensuring a coherence and dedication that is unique to Quadravest.

Quadravest's investment strategy combines equity investments with covered call writing. Quadravest has completed initial public offerings for fifteen products in excess of \$2.0 billion.

Board of Directors

Wayne Finch,
Chairman and
Chief Investment Officer

Peter Cruickshank,
Managing Director and
Chief Financial Officer

Laura Johnson,
Managing Director and
Portfolio Manager

William Thornhill,
President, William C.
Thornhill Consulting Inc.

Michael W. Sharp
Blake, Cassels & Graydon LLP

John Steep
Consultant

Corporate Details

Auditors

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