



05039364

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

BTB 3/18

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: October 31, 2004  
Estimated average burden  
hours per response: 12.00

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER  
8- 50649

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 1 / 1 / 04 AND ENDING 12 / 31 / 04  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Zenon Capital LP  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
1010 - 2269 Lakeshore Blvd., W.

OFFICIAL USE ONLY  
FIRM I.D. NO.

Toronto Ontario M8V 3X6  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
George Z. Tatarsky (416) 255-9020  
(Area Code - Telephone Number)

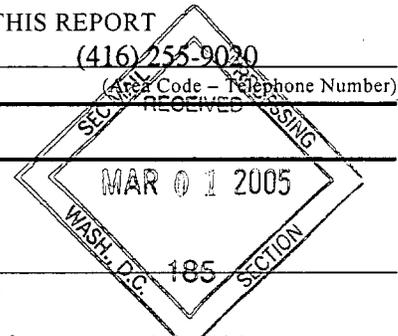
**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Hawley & Company LLP, Chartered Accountants

(Name - if individual, state last, first, middle name)

225 Watline Avenue Mississauga Ontario L4Z 1P3  
(Address) (City) (State) (Zip Code)



**CHECK ONE:**

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 23 2005

**FOR OFFICIAL USE ONLY**

THOMSON  
FINANCIAL

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

BTB 3/18

109

**ZENON CAPITAL LP**  
ANNUAL FINANCIAL STATEMENTS  
DECEMBER 31, 2004



**CONTENTS**

	<b>Page</b>
<b>AUDITORS' REPORT</b>	1
<b>FINANCIAL STATEMENTS</b>	
Balance Sheet	2
Statement of Earnings	3
Statement of Changes in Financial Position	4
Notes to Financial Statements	5 - 12

**Partners:**

Mark E. Hawley, B. Comm., C.A.  
Thomas G. Stacy, B. Math., C.A.

**Principal:**

Jim E. Moorhead, B. Comm., CMA

**AUDIT REPORT ON FORM X-17A-5, PART III**

We have audited the attached form X-17A-5, Part III (Statement of Financial Position) of Zenon Capital LP as at December 31, 2004, 2003 and 2002 and the Statements of Earnings (Statement of Income), Partners' Capital, Cash Flows for the three year period then ended, Computation of Net Capital Under Rule 15c3-1, as indicated in the Oath or affirmation (the "form"). This form is the responsibility of the partnership management. Our responsibility is to express an opinion on this form based on our audit.

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

In our opinion, this form presents fairly, in all material respects, the financial position of the partnership as at December 31, 2004, 2003 and 2002 and the results of its operations and the changes in its financial position for the three year period then ended in accordance with generally accepted accounting principles in the United States of America.

Mississauga, Ontario, Canada  
February 26, 2005

*Hawley & Company LLP*  
HAWLEY & COMPANY LLP  
Chartered Accountants

ZENON CAPITAL LP  
 STATEMENT OF FINANCIAL POSITION (US\$)  
 DECEMBER 31, 2004

ASSETS

	2004	2003	2002
<b>CURRENT</b>			
Cash and short term deposits	\$ 56,458	\$ 59,870	\$ 56,750
Restricted cash (note 3)	1,128,624	1,072,089	1,426,976
Inventory of securities owned (note 4)	1,109,908	1,235,569	1,892,009
Dividends and fees receivable	7,859	4,370	3,636
	<b>\$ 2,302,849</b>	<b>\$ 2,371,898</b>	<b>\$ 3,379,371</b>

LIABILITIES

<b>CURRENT</b>			
Accounts payable and accrued expenses	\$ 32,512	\$ 33,341	\$ 36,177
Margin accounts payable (note 6)	260,319	464,826	1,080,939
Securities sold, not yet purchased (note 7)	1,137,588	1,075,275	1,437,657
	<b>1,430,419</b>	<b>1,573,442</b>	<b>2,554,773</b>

PARTNERS' CAPITAL

	General Partner	Limited Partner			
Beginning balance	\$ 56,774	\$741,682	798,456	824,598	757,131
Add: Contributions	66,000	-	66,000	31,625	107,418
Net earnings for the year	68,414	102,206	170,620	137,781	178,514
	191,188	843,888	1,035,076	994,004	1,043,063
Less: Withdrawals	78,646	84,000	162,646	195,548	218,465
	\$ 112,542	\$759,888	872,430	798,456	824,598
			<b>\$ 2,302,849</b>	<b>\$ 2,371,898</b>	<b>\$ 3,379,371</b>

**ZENON CAPITAL LP**  
**STATEMENT OF EARNINGS (US\$)**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

	2004	2003	2002
<b>REVENUE</b>			
Gross trading profit	\$ 426,781	\$ 318,755	\$ 365,191
Interest income	80,559	113,780	128,151
Dividend income	14,556	29,718	32,704
Knight rebates	-	690	4,251
Good faith interest	444	326	609
	<b>522,340</b>	<b>463,269</b>	<b>530,906</b>
<b>EXPENSES</b>			
Clearing charges	271,991	225,030	261,021
Dividends paid	43,816	52,108	32,546
Interest charges	11,910	22,809	28,059
Communication charges	13,616	16,346	16,596
Professional fees	6,566	5,680	5,161
Administration expenses	3,242	2,147	7,589
Foreign taxes paid	579	1,368	1,420
	<b>351,720</b>	<b>325,488</b>	<b>352,392</b>
<b>NET EARNINGS</b>	<b>\$ 170,620</b>	<b>\$ 137,781</b>	<b>\$ 178,514</b>

**ZENON CAPITAL LP**  
**STATEMENT OF CHANGES IN FINANCIAL POSITION (US\$)**  
**DECEMBER 31, 2004**

	2004	2003	2002
<b>OPERATING ACTIVITIES</b>			
Net earnings	\$ 170,620	\$ 137,781	\$ 178,514
Adjustments for			
Increase (decrease) in dividends fees receivable	(3,489)	(734)	2,554
Decrease (increase) in inventory of securities owned	125,661	656,440	(399,263)
Increase (decrease) in accounts payable and accrued liabilities	(829)	(2,835)	14,499
Increase (decrease) in margin accounts payable	(204,507)	(616,114)	304,916
Increase (decrease) in securities sold, not yet purchased	62,313	(362,382)	242,833
	<b>149,769</b>	<b>(187,844)</b>	<b>344,053</b>
<b>FINANCING ACTIVITIES</b>			
Contributions	66,000	31,625	107,419
Withdrawals	(162,646)	(195,548)	(218,466)
	<b>(96,646)</b>	<b>(163,923)</b>	<b>(111,047)</b>
<b>CASH, beginning of year</b>	<b>1,131,959</b>	1,483,726	1,250,720
<b>CASH, end of year</b>	<b>\$ 1,185,082</b>	<b>\$1,131,959</b>	<b>\$1,483,726</b>
<b>COMPRISED OF</b>			
Cash	\$ 56,458	\$ 59,870	\$ 56,750
Restricted cash	1,128,624	1,072,089	1,426,976
	<b>\$1,185,082</b>	<b>\$1,131,959</b>	<b>\$1,483,726</b>

1. NATURE OF BUSINESS AND FINANCIAL STATEMENTS

The company is engaged in securities trading including hedging convertible securities, preferred stock and closed-end bond funds. Zenon Capital LP is a US broker-dealer registered with the Securities and Exchange Commission (SEC).

These financial statements reflect the accounts of the limited partnership only and consequently, do not include all assets, liabilities, income and expenses of the partners. Income taxes are accounted for by each of the partners individually and therefore no provision for income taxes is made in the accounts of the partnership.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Inventory of Securities Owned

Inventory of securities owned is stated at current market value. Current market value of financial instruments is determined by quoted market closing prices at year end, when available. When a quoted market price is not readily available, alternative valuation methods may be used. For derivative financial instruments, current market is determined by quoted market closing prices, when available, prevailing market rates for instruments with similar characteristics and maturities or net present value analysis.

(b) Revenue Recognition

Revenue reflects the trading activity of the limited partnership. Revenue is recognized on settlement date.

(c) Translation of Foreign Currencies

The financial statements are presented in U.S. dollars.

Translations recorded in currencies other than US dollars are translated on the following basis:

Current monetary assets and liabilities at exchange rates prevailing on the balance sheet dates. Revenues and expenses at the average exchange rate for the year.

2. **SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

(d) Measurement Uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

(e) Security Transaction Charges

Security transaction charges are accrued for all transactions occurring up to the end of the reporting period.

(f) Financial Instruments

Fair value of financial assets and liabilities has been disclosed where fair value is readily obtainable and materially different than carrying value.

3. **RESTRICTED CASH**

Restricted cash consists of segregated funds on account with securities clearing firms from the short sale of securities and are not available for general operations. No interest is paid or accrued on restricted cash balances.

## 4. INVENTORY OF SECURITIES OWNED

Inventory of securities owned consists of:

	<u>Symbol</u>	<u>Quantity</u>	<u>Market Price</u>
ABBAY NATIONAL PLC 7.375% PFD CUM PERP	ANBPRC	3,000	\$ 81,150
AMBAC FINANCIAL GROUP INC 5.95% DEB DUE 2/28/2103	AKF	300	7,542
ASBC CAPITAL I TR ORIGINATED PFD SECS 7.625% TOPRS DUE 6/15/32	ABWPRA	2,000	53,700
ALBERTSONS INC CORPORATE UNIT DUE 05/16/2007	ABSPR	2,200	55,880
BAC CAPITAL TRUST III 7% TRUST PFD SEC DUE 8/15/32	BACPRX	800	21,480
BANK OF AMERICA CORP 5.5 % PFD SER 07/15/2033	IKL	1,800	44,712
COUNTRYWIDE CAPITAL IV 6.75% TRUST PFD SECS DUE 4/1/33 B/E	CFCPRA	200	5,142
ENTERGY ARKANSAS INC 6.7% FIRST MTG BDS DUE 4/1/2032 AMBAC	EHA	2,400	63,672
EVEREST RE CAP TRUST II 6.20% TR PFD SER D DUE 3/29/34	REPRB	1,600	37,504
FINANCIAL SECURITY ASSURANCE HOLDINGS 5.60% SENIOR NTS DUE 07/15/2103	FSF	1,800	43,272
GENERAL MOTORS CORP 7.375% SR NTS DUE 5/15/48	BGM	1,400	35,378
GREAT PLAINS ENERGY INC	GXP	800	24,224
GREAT PLAINS ENERGY INC INCOME PRIDES PFD SHS 8% DUE 02/16/07	GXPPR	800	21,480
ING GROEP NV 6.2% PERP DEBT SECS	ISP	1,100	27,907
INTERPUBLIC GROUP COS INC PFD CONV SER A	IPGPRA	200	9,800
JP MORGAN CHASE CAP XII 6.25% TR PFD SECS DUE 10/15/33	JPMPRX	300	7,710

## Notes to Financial Statements

Year Ended December 31, 2004

LEHMAN BROS HLDGS INC CONV PFD 6.25% PREMIUM INC EXCHANGEABLE GENERAL MILLS INC SERIES GIS	GIZ	4,000	\$ 108,000
MERRILL LYNCH PREFERRED CAP TR III-7% TR ORIGINATED PFD SECS (TOPRS) (BOOK ENTRY)	MERPRD	500	13,410
MORGAN STANLEY CAPITAL TRUST IV 6.25% CAPITAL SECS DUE 4/1/33 BOOK ENTRY	MWG	100	2,533
MORGAN STANLEY CAP TR III 6.25% CAP SECS DUE 03/01/2033	MWR	200	5,086
NATIONAL RURAL UTILITY CFC 6.75% SUB NTS DUE 02/15/43	NRN	2,600	67,496
NATIONAL RURAL UTILITIES CFC 6.10% SUBORDINATED DEFERRABLE INTEREST NTS DUE 2/01/44	NRC	800	20,056
PUBLIC STORAGE INC DEPOSITARY SH 1/1000 PFD SER V	PSAPRV	1,000	26,500
PROLOGIS 6.75% CUM RED PERP PFD SHS LIQUIDATION PRF \$25.00 PER SH	PLDPRG	200	5,046
PNC CAPITAL TRUST D 6.125% CAP SECS DUE 12/15/33	PNU	800	20,096
PUBLIC STORAGE INC 6.25% PFD SER Z	PSAPRZ	1,000	24,650
PUBLIC STORAGE INC 7.125% SHS REPSTG 1/1000TH PFD SER B PERPETUAL	PSAPRB	3,500	91,315
UNITED STATES CELLULAR CORP SR NT 8.75 % DUE 11/01/2032	UZG	300	8,394
VIRGINIA POWER CAPITAL TR II 7.375% TRUST PFD DUE 7/30/42	VELPRA	2,000	53,900
WELLS FARGO CAPITAL VIII 5.625% TRUST PFD SECS DUE 8/1/33	GWF	1,200	29,640
WELLS FARGO CAPT TRUST VI 6.95% TRUST PFD SEC DUE 4/15/32 B/E	WPD	1,000	26,630

## Notes to Financial Statements

Year Ended December 31, 2004

XL CAPITAL LTD 7.625% SER B PREFERENCE ORDINARY SHARES	XLPRB	2,100	\$	56,553
WARRANTS TO PURCHASE COMMON STOCK OF NASDAQ STOCK MARKET INC. (AT CARRYING VALUE)				<u>10,050</u>
<b>Total</b>				<b><u>\$ 1,109,908</u></b>

The cost of the inventory of securities owned is \$1,018,075 (2003 - \$1,216,016, 2002 - \$1,845,909).

#### 5. PARTNERSHIP AGREEMENT

The partnership entered into an agreement dated June 10, 1996 whereby the General Partner Zenon Capital Inc., operates a securities and investment business for the partnership, for consideration of a share of the income generated by the partnership.

#### 6. MARGIN ACCOUNTS PAYABLE

The margin accounts payable is due on demand. Interest charged on margin accounts is variable and set by the margin lender and the rate at December 31, 2004 is 4.0% (December 31, 2003 - 4.0%). Margin accounts payable are secured by all assets held by the lender, which includes inventory of securities owned held by securities clearing firms.

## 7. SECURITIES SOLD, NOT YET PURCHASED

Securities sold, not yet purchased are stated at market and is secured by all assets held by the lender, which includes inventory of securities owned held by securities clearing firms.

Securities sold, not yet purchased consists of:

	<u>Symbol</u>	<u>Quantity</u>	<u>Market Price</u>
AMBAC FINANCIAL GROUP INC 5.95% DEB DUE 2/28/2103	AKF	400	\$ 10,056
AMERICAN FINANCIAL GROUP INC 7.125% SR DEB DUE 02/03/2034	AFE	300	7,752
ABN AMRO CAPT FDNG TR VII 6.08% PERP NON CUM GTD TRUST PFD SECS	ABNPRG	1,400	35,126
ALBERTSONS INC WITH RIGHTS TO PURCHASE COMMON STK UNDER CERTAIN CIRCUMSTANCE	ABS	1,500	35,820
BAC CAPITAL TRUST II GTD CAP SECS 7% DUE 2/1/32	BACPRV	200	5,344
BAC CAPITAL TRUST IV 5.875% TRUST PFD SECS DUE 5/3/33	BACPRU	1,200	29,988
BANK OF AMERICA CORP 5.875% PFD DUE 12/15/2033	IKM	1,800	45,072
CITIGROUP CAPITAL IX 6.00% TRUST PFD SECS (TRUPS) DUE 2/14/2033 B/E	CPRS	1,000	25,200
ENTERGY MISSISSIPPI INC 6% INSURED 1ST MTG BONDS PFD DUE 11/1/2032	EMQ	2,600	68,146
GENERAL ELECTRIC CAPITAL CORP 5.875% SR NTS DUE 2/18/33	GED	200	5,102
GENERAL ELECTRIC CAPITAL CORP 6.10% PUBLIC INCOME NOTES DUE 11/15/32	GEC	2,600	68,146
GREAT PLAINS ENERGY INC INCOME PRIDES PFD SHS 8% DUE 02/16/07	GXPPR	2,300	61,755
GENERAL MOTORS CORP 7.5% SR NTS DUE 7/01/2044	GMS	2,000	51,180
GEORGIA POWER CO 6% PFD 8/15/44 SERIES W ELECTRIC INTEGRATED	GPU	1,400	36,596

## Notes to Financial Statements

Year Ended December 31, 2004

GENERAL MILLS INC WITH RIGHTS TO PURCHASE PREFRD STK UNDER CERTAIN CIRCUMSTANCE	GIS	1,400	\$ 69,594
ING GROUP N V 7.05% NON CUM PERPETUAL PFD	IND	1,000	26,900
ING GROEP NV 6.2% PERP DEBT SECS	ISP	100	2,537
INTERPUBLIC GROUP OF COS INC WITH RIGHTS TO PURCHASE PREFRD STK UNDER CERTAIN CIRCUMSTANCE	IPG	600	8,040
JP MORGAN CHASE CAPITAL X 7% TRUST PFD DUE 02/15/2032	JPMPRJ	1,400	37,422
LINCOLN NATL CAP VIL VI TR PFD SECS SER F %	LNCPRF	400	10,716
MERRILL LYNCH PREFERRED CAP TR III-7% TR ORIGINATED PFD SECS (TOPRS)	MERPRD	500	13,410
METLIFE INC 5.875% PFD DUE 11/21/2033	MLG	1,000	24,960
MORGAN STANLEY CAP TRUST V 5.75% CAPITAL SECS DUE 7/15/33	MWO	2,000	49,020
NEXEN INC 7.35% PFD SUB NTS DUE 11/01/43	NXYPRB	2,900	78,097
NATIONAL RURAL UTILITIES CFC 6.10% SUBORDINATED DEFERRABLE INTEREST NTS DUE 2/01/44	NRC	1,800	45,126
PUBLIC STORAGE INC 6.125% DEP SHS REP 1/1000 OF CUM PFD STOCK	PSAPRA	2,700	67,041
PNC CAPITAL TRUST D 6.125% CAP SECS DUE 12/15/33	PNU	1,000	25,120
PUBLIC STORAGE INC 6.25% PFD SER Z	PSAPRZ	1,000	24,650
ROYAL BK SCOTLAND GROUP PLC SPONSORED ADR REPSTG SER L	RBSPRL	1,400	34,314
WELLS FARGO CAPITAL VII 5.85% TRUST PFD SECS DUE 5/1/33	WPK	2,400	59,808
WELLS FARGO CAP TRUST IX 5.625% TRUST PFD SECS DUE 4/8/2034	JWF	2,000	48,240

---

XL CAPITAL LTD 8% SER A PREFERENCE ORD SHS	XLPRA	1,000	\$ <u>27,310</u>
<b>Total</b>			<b>\$ <u>1,137,588</u></b>

#### 8. PARTNERSHIP DISTRIBUTIONS AND CONTRIBUTIONS

During the year, the partnership received contributions of \$66,000 (2003 - \$31,625, 2002 - \$75,600) from the general partner and \$NIL (2003 - \$NIL 2002 - \$31,819) from the limited partners and made distributions of \$78,646 (2003 - \$110,133, 2002 - \$69,466) and \$84,000 (2003 - \$85,415, 2002 - \$153,507) respectively. The partnership agreement provides for contributions and distributions and the general partner maintains the liquidity of the partnership to meet obligations for distributions as required.

#### 9. CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF CREDITORS

This statement has not been prepared as there are no liabilities of this nature.

#### 10. NET CAPITAL REQUIREMENTS

As a result of its activities as a broker-dealer, the partnership is subject to the Net Capital provisions of Rule 15c3-1 of the Securities Exchange Act of 1934. Under those rules the partnership must maintain minimum Net Capital equal to a minimum of \$100,000, in addition to meeting other Net Capital provisions. As at the year end the partnership met the minimum Net Capital provisions.



# Zenon Capital

## TRIAL BALANCE AND NET CAPITAL COMPUTATION

December 31, 2004.

<b>Assets</b>	<b>DEBIT</b>	<b>CREDIT</b>	
Canada Trust - Cash	683	0	
US Clearing - Good Faith Deposit	52,226	0	
US Clearing - Cash Account	29	0	
US Clearing - Margin Account	0	(260,319)	
US Clearing - Short Account	1,128,624	0	
US Clearing - Stocks Long	1,099,858	0	
US Clearing - Stocks Short	0	(1,137,588)	
Lind-Waldock - Futures Account	3,548	0	830,605 Equity
NASD Private Placement	10,050	0	-37,730 Priced Portfolio
Dividends Receivable	7,859	0	7,859 Receivable
<b>Liabilities</b>			
Dividends Payable	0	(1,265)	-32,541 Payable
US Clearing Payable	0	(26,397)	
Other Payable	0	(4,879)	
<b>Equity</b>			
Equity at Start of Year	798,456	0	
Capital Deposits	66,000	0	
Capital Withdrawals - General Partner	0	(78,646)	
Capital Withdrawals - Limited Partners	0	(84,000)	
<b>Gross Profit</b>	<b>181,273</b>		
Limited Partnership Expenses	(10,074)		
Withholding Tax	(579)		
<b>Net Profit</b>	<b>170,620</b>		
<b>NET EQUITY</b>	<b>872,430</b>		
Less NASD Private Placement	10,050		
Less Receivables	7,859		
Less Good Faith Deposit Surplus	2,226		
Less Haircut	117,198		
<b>NET CAPITAL</b>	<b>735,097</b>		
Required Net Capital	100,000		
Required Net Capital plus 20%	120,000		
<b>EXCESS NET CAPITAL</b>	<b>635,097</b>		



# Zenon Capital

## HAIRCUT WORKOUT

December 31, 2004.

LONG Positions	SEP	Market	Shares for	Net Value	Haircut	Percent	Concentration/Conversion	Shares		
Symbol	Class	Rating	Quantit	Price	Value	for	Haircut	Zero		
						Haircut	Percent	Haircut		
L01	ANB.PR.C	PI	A+	3,000	27,050	3,000	81.150	0.10	8.30	0
L02	ADW.PR.A	PI	BBB+	2,000	26,850	2,000	53.700	0.10	5.370	0
L03										0
L04	BAC.PR.X	PI	AA-	800	26,550	800	21,480	0.10	2,148	0
L05	KL	PI	BBB	1,800	24,840	1,800	44,712	0.10	4,471	0
L06	CFC.PR.A	PI	A-	200	25,710	200	5,142	0.10	514	0
L07	EMA	PI	AAA	2,400	26,930	2,400	83,872	0.10	8,387	0
L08	RE.PR.B	PI	BBB+	1,800	23,460	1,800	37,504	0.10	3,750	0
L09										0
L10	FFP	PI	AA-	1,800	24,060	1,800	43,272	0.10	4,327	0
L11	BGM	PI	BBB	1,400	25,270	1,400	35,378	0.10	3,538	0
L12	SP	PI	A+	1,000	25,370	1,000	25,370	0.10	2,537	0
L13	JPM.PR.X	PI	A	300	25,700	300	7,710	0.10	771	0
L14										0
L15	MWG	PI	A+	100	25,330	100	2,533	0.10	253	0
L16	MWR	PI	A+	200	25,430	200	5,088	0.10	509	0
L17	NRN	PI	A	2,000	25,960	2,000	67,496	0.10	6,750	0
L18	PSA.PR.V	PI	BBB+	1,000	26,500	1,000	26,500	0.10	2,650	0
L19	PLD.PR.G	PI	BBB	200	25,230	200	5,048	0.10	505	0
L20	WPD	PI	AA-	1,000	26,830	1,000	26,830	0.10	2,683	0
L21	XL.PR.B	PI	A-	2,100	26,950	2,100	56,553	0.10	5,655	0
L22	PSA.PR.B	PI	BBB	3,500	26,000	3,500	91,315	0.10	9,122	611
L23	UZG	PI	BBB+	300	27,850	300	8,394	0.10	839	0
L24	VEL.PR.A	PI	BBB+	2,000	26,950	2,000	53,900	0.10	5,390	0
L25	GWFF	PI	AA-	1,200	24,700	1,200	29,640	0.10	2,964	0
L26										0
L27	ABS.PR	PI	BBB	2,200	25,400	2,200	55,880	0.10	5,588	0
L28	GXP	C		800	30,280	800	24,224	0.15	3,634	278
L29	GZ	PI	A	4,000	27,000	4,000	108,300	0.10	10,800	1,124
L30	PO.PR.A	PI	BB	200	49,000	200	9,800	0.15	1,470	0
L31										0
L32										0
L33										0
L34										0
L35										0
L36										0
L37										0
L38										0
L39										0
L40										0
L41										0

LONG 890,087

SHORT Positions	Moody's	Market	Net Value	Haircut	Percent	Concentration			
Symbol	Class	Rating	Quantit	Price	Value	for			
						Haircut			
S01	AKF	PI	AA-	100	25,140	2,514	0.10	0.29	
S02	AFF	PI	BBB	300	25,640	7,752	0.10	0.89	
S03	ABN.PR.G	PI	AA-	1,400	25,090	35,126	0.10	3,513	
S04	BAC.PR.V	PI	AA-	200	26,720	5,344	0.10	534	
S05	BAC.PR.U	PI	AA-	1,200	24,980	29,958	0.10	2,998	
S06	KM	PI	AA-	1,800	25,040	45,072	0.10	4,507	
S07	C.PR.S	PI	AA	1,000	25,200	25,200	0.10	2,520	
S08	EMO	PI	A	2,800	28,210	69,148	0.10	6,915	
S09	CEC	PI	AA-	2,800	28,210	69,148	0.10	6,915	
S10	GMS	PI	BBB	2,000	25,580	51,180	0.10	5,118	
S11	GPU	PI	A+	1,400	28,140	39,598	0.10	3,960	
S12	IND	PI	AA-	1,000	25,900	25,900	0.10	2,590	
S13	JPM.PR.J	PI	A	1,400	23,730	37,422	0.10	3,742	
S14	LNC.PR.F	PI	A-	400	26,780	10,718	0.10	1,072	
S15	PSA.PR.A	PI	BBB+	2,700	24,830	67,041	0.10	6,704	
S16	PHU	PI	A-	200	25,120	5,024	0.10	502	
S17	MLG	PI	A	1,000	24,960	24,960	0.10	2,496	
S18	MWC	PI	A+	2,000	24,510	49,020	0.10	4,902	
S19	NYX.PR.B	PI	BBB-	2,900	28,830	78,997	0.10	7,810	
S20	RBS.PR.L	PI	AA-	1,400	24,510	34,314	0.10	3,431	
S21	WPK	PI	AA-	2,400	24,920	59,808	0.10	5,981	
S22	JWF	PI	AA-	2,000	24,120	48,240	0.10	4,824	
S23	XL.PR.A	PI	A-	1,000	27,310	27,310	0.10	2,731	
S24	GED	PI	A	200	25,100	5,102	0.10	510	
S25	NRC	PI	A	1,000	25,070	25,070	0.10	2,507	
S26									0
S27	ABS	C		1,900	23,860	35,829	0.15	5,373	
S28	GXP.PR	PI	BBB-	1,500	26,650	40,275	0.10	4,028	
S29	GIS	C		1,400	49,710	89,594	0.15	10,439	
S30	PG	C		800	13,400	8,040	0.15	1,208	
S31									0
S32									0
S33									0
S34									0
S35									0
S36									0

Check Pref Total SHORT 1,027,817  
 Long 426,709 Total -29,550  
 Short -843,918

INVESTMENT GRADE PREFERRED Long Market Value 958,083  
 INVESTMENT GRADE PREFERRED Short Market Value 914,363  
 INVESTMENT GRADE PREFERRED Haircut 95,806

15% Total Market Value 147,478  
 15% Long Market Value 34,024  
 15% Short Market Value 113,454  
 GREATER LONG/SHORT Haircut 17,018  
 LONG/SHORT EXCEEDS 25% Haircut 849

UNDE CONCENTRATION Haircut 3,724

TOTAL STOCK HAIRCUT 117,198

Futures Positions 0

FUTURES HAIRCUT 0

TOTAL HAIRCUT 117,198

### EXPLANATORY NOTES

- Positions are assigned to a CLASS as follows:
- PI - Investment Grade Preferred Stock
- PJ - Junk Grade Preferred Stock
- M - Closed-End Municipal Bond Fund
- B - Closed-End Bond Fund
- V - Convertible Preferred Stock
- C - Common Stock

### Algorithm for LONG Convertible Preferred Haircuts

- (1) No haircut if converted position is offset by short common.
- (2) Find matching short position for long convertible preferred.
- (3) Using conversion ratio, calculate amount of shares that are offset by short position.
- (4) Apply 0% haircut to (1) and 15% haircut to QUANTITY-(2).

### Offsetting Positions

1	ISP	100	25,370	2,537
2	NRC	800	25,070	20,056
3	MER.PR.D	500	26,820	13,410
4	PHU	800	25,120	20,095
5	PSA.PR.Z	1,000	24,520	24,650
6	AKF	300	25,140	7,542
7	GXP.PR	800	26,850	21,480
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				

Total 169,771



## AGGREGATE INDEBTEDNESS COMPUTATION

VALUES FROM TRIAL BALANCE    December 31, 2004.

	AI	Non-AI
US Clearing - Margin Account	0	
US Clearing - Stocks Short		1,027,817
Dividends Payable	0	
Accrued Liabilities	31,276	
<b>AGGREGATE INDEBTEDNESS</b>	<b>31,276</b>	
<b>NET CAPITAL</b>	<b>872,430</b>	
Required Net Capital at 1500%	2,085	
<b>EXCESS NET CAPITAL</b>	<b>870,345</b>	

**ZENON CAPITAL LP**

**RECONCILIATION OF NET CAPITAL COMPUTATIONS**

**DECEMBER 31, 2004**

*per Securities and Exchange Commission (SEC) Rule 17a-5(d)*

	<u>Dec 31, 2004</u>
<b>NET CAPITAL - Focus Report Part IIA, December 31, 2004</b>	<b>\$753,328</b>
<b>Reconciling items:</b>	
Total Ownership Equity (note 1)	-16,226
Good faith deposit surplus (note 2)	-2,226
Haircuts on securities:	
Other securities (note 3)	-7,410
Undue concentration (note 4)	-4,769
<b>NET CAPITAL - Audited Form X-17A-5 Part III, December 31, 2004</b>	<b><u>\$722,697</u></b>

**Notes:**

1. Total ownership equity Audited Form X-17A-5 Part III, December 31, 2004	\$872,430
Total ownership equity Focus Report Part IIA, December 31, 2004	<u>888,656</u>
Difference	<u><u>-\$16,226</u></u>
Accounts payable & accrued expenses, understated	-\$3,750
Inventory of securities owned (offset)	594,236
Securities sold, not yet purchased (offset)	-384,978
Margin account overstated	-211,684
Inventory of securities - valuation difference (not marketable securities)	<u>-10,050</u>
	<u><u>-\$16,226</u></u>
2. This item was not recognized in the Focus Report Part IIA.	
3. Haircuts -Other securities- Focus Report Part IIA, December 31, 2004	\$105,999
Haircuts -Other securities- Audited Form X-17A-5 Part III, December 31, 2004	<u>113,409</u>
Difference in Haircuts - Other securities	<u><u>-\$7,410</u></u>
4. Undue concentration Focus Report Part IIA, December 31, 2004	\$1,370
Undue concentration Audited Form X-17A-5 Part III, December 31, 2004	<u>6,139</u>
Difference in Haircuts - Undue concentration	<u><u>-\$4,769</u></u>





**HAWLEY & COMPANY** LLP  
*Chartered Accountants*

**Partners:**

Mark E. Hawley, B. Comm., C.A.  
Thomas G. Stacy, B. Math., C.A.

**Principal:**

Jim E. Moorhead, B. Comm., CMA

ACCOUNTANT'S REPORT ON MATERIAL INADEQUACIES - RULE 17A-5(j)

In accordance with Rule 17a-5(d) and 17a-5(j) we provide the following supplemental report to our annual audit report on form X-17A-5, Part III, describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

Our annual audit on form X-17A-5, Part III did not disclose any material inadequacies.

Mississauga, Ontario, Canada

February 26, 2005

Chartered Accountants

OATH OR AFFIRMATION

I, GEORGE Z. TATARSKY, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of ZENON CAPITAL LP, as of DECEMBER 31, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

G. Z. Tatarsky  
Signature

GENERAL PARTNER  
Title

[Signature]  
Notary Public

This report\*\* contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- N/A  (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- N/A  (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital
- N/A  (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- N/A  (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- N/A  (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- N/A  (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).