

NB SPLIT CORP.

**ANNUAL INFORMATION FORM
for the year ended
DECEMBER 31, 2007**

March 28, 2008

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Unless otherwise indicated herein, the information set out in this Annual Information Form is current as of December 31, 2007.

NAME, FORMATION AND HISTORY OF THE COMPANY

NB Split Corp. (the “**Company**”) is a mutual fund corporation incorporated under the laws of the Province of Ontario pursuant to articles of incorporation dated December 15, 2006. The Company’s principal office is located at 130 King Street West, Suite 3200, Toronto, Ontario, M5H 3T9.

The Company was formed to hold common shares of the National Bank of Canada (the “**National Bank Shares**”) in order to generate quarterly fixed cumulative preferential distributions for the holders of the Company’s class A preferred shares (the “**Preferred Shares**”) and to enable the holders of the Company’s class A capital shares (the “**Capital Shares**”) to participate in any capital appreciation in the National Bank Shares and to benefit from any increase in the dividends payable on the National Bank Shares.

While the Company is technically considered to be a mutual fund corporation under the securities legislation of certain provinces of Canada, the Company is not a conventional mutual fund and has received exemptions from certain requirements of National Instrument 81-102 – *Mutual Funds* (“**NI 81-102**”).

The Company differs from conventional mutual funds in a number of respects, most notably as follows: (i) while the Preferred Shares and the Capital Shares of the Company may be surrendered at any time for redemption, the redemption price is payable monthly whereas the securities of most conventional mutual funds are redeemable daily; (ii) the Preferred Shares and Capital Shares of the Company have a stock exchange listing whereas the securities of most conventional mutual funds do not; and (iii) unlike most conventional mutual funds, the Preferred Shares and Capital Shares are not offered on a continuous basis.

On, February 22, 2007, pursuant to a prospectus dated January 30, 2007 (the “**Prospectus**”) and an agency agreement (the “**Agency Agreement**”) dated January 30, 2007 among National Bank Financial Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Canaccord Capital Corporation, Desjardins Securities Inc., Raymond James Ltd., Blackmont Capital Inc. and Wellington West Capital Inc. (collectively, the “**Agents**”) and the Company, 1,436,369 Preferred Shares were issued at a price of \$32.72 per Preferred Share and 2,872,738 Capital Shares were issued at a price of \$18.45 per Capital Share raising gross proceeds of approximately \$100,000,000. On March 12, 2007, an additional 85,319 Preferred Shares and 170,638 Capital Shares were issued pursuant to the Prospectus upon partial exercise of the over-allotment option granted to the Agents who offered the shares for sale raising gross proceeds of approximately \$5,940,000. The Agents received a fee equal to \$0.982 for each Preferred Share sold and \$1.107 for each Capital Share sold and were reimbursed for reasonable out-of-pocket expenses incurred by them.

The Preferred Shares are listed on the Toronto Stock Exchange (“**TSX**”) under the symbol “NBF.PR.A” and the Capital Shares are listed on the TSX under the symbol “NBF”.

On January 30, 2007, FA Administration Services Inc. (the “**Administrator**”) entered into an administration agreement (the “**Administration Agreement**”) with the Company to provide administrative services to, and administer the ongoing operations of, the Company.

The Company entered into a revolving credit facility with a Canadian chartered bank which may be used, among other things, to fund the payment of a portion of the distributions on the Preferred Shares on a temporary basis, if necessary. The interest rate, fees and expenses under the revolving credit facility

is typical of similar credit facilities of this nature. If utilized, the Company will repay any amounts borrowed under the revolving credit facility within one year of the date of such borrowing. Any amount outstanding under the revolving credit facility will be repaid using one or more of the following: (i) dividends received on the National Bank Shares held by the Company; (ii) the sale of such National Bank Shares; or (iii) revenue from securities lending. To the extent that the revolving credit facility is used, the Company will pledge National Bank Shares as collateral for amounts borrowed thereunder. The amount outstanding under the revolving credit facility at any time will not exceed 5.0% of the aggregate market value of the National Bank Shares held by the Company at the time of borrowing.

The Company's investment objectives with respect to Preferred Shares are (i) to provide holders of Preferred Shares with fixed cumulative preferential quarterly cash distributions in the amount of \$0.3886 per Preferred Share to yield 4.75% per annum on the original issue price of the Preferred Shares and (ii) on or about February 15, 2012 (the "**Redemption Date**"), to pay the holders of Preferred Shares an amount equal to the lesser of the original issue price of \$32.72 and the Unit Value (as defined under "*Calculation of Unit Value*"), through the redemption of each Preferred Share held on the Redemption Date.

The Company's investment objectives with respect to Capital Shares are (i) to enable holders of Capital Shares to participate in any capital appreciation in the National Bank Shares and (ii) to enable holders of Capital Shares to benefit from any increase in the dividends paid on the National Bank Shares in the event that the dividends on the National Bank Shares exceed the amount of the fixed Preferred Share distributions and all expenses of the Company. The investment objectives with respect to the Preferred Shares and the Capital Shares are collectively referred to as the "**Investment Objectives**").

INVESTMENT RESTRICTIONS

The Company is subject to certain investment criteria that, among other things, limit the equity securities that the Company may acquire to National Bank Shares. The Company's investment criteria may not be changed without the approval of the holders of the Preferred Shares and the Capital Shares voting together as a class by a two-thirds majority vote of such holders who vote in person or by proxy at a meeting called for such purpose. In addition, subject to the restriction above, the Company has adopted the standard investment restrictions and practices set forth in NI 81-102.

DESCRIPTION OF THE SECURITIES OF THE COMPANY

Description of Share Capital

The authorized capital of the Company consists of an unlimited number of Capital Shares, an unlimited number of Preferred Shares, an unlimited number of Class B, Class C, Class D and Class E capital shares, issuable in series, an unlimited number of Class B, Class C, Class D and Class E preferred shares, issuable in series, and an unlimited number of Class J shares (the "**Class J Shares**"). The classes of capital shares other than the Capital Shares and the classes of preferred shares other than the Preferred Shares are collectively referred to as the "subsequent classes". If shares of the subsequent classes are issued, the holders of any such shares will have no rights in respect of the National Bank Shares.

References in this Annual Information Form to a "Shareholder" means, unless the context otherwise requires, the owner of the beneficial interest in such shares.

Class J Shares

The holders of the Class J Shares are entitled to receive dividends, if, as and when declared by the Board of Directors. However, holders of Class J Shares are not entitled to receive any dividends on the Class J Shares at any time when there are any Capital Shares or Preferred Shares issued and outstanding unless approved by all of the independent directors of the Company.

The holders of the Class J Shares are entitled to one vote per share. The Class J Shares of the Company are retractable at any time. For retractions occurring at a time when any Capital Shares or Preferred Shares are outstanding, the retraction price will be \$1.00 per share; for other retractions, the retraction price will be based on the net asset value of the Company. The Class J Shares are redeemable by the Company at any time for a redemption price equal to \$1.00 per share, being the amount paid-up thereon. The Class J Shares rank subsequent to both the Capital Shares and the Preferred Shares with respect to dividends and with respect to distributions upon a retraction, redemption or reduction of capital and distributions on the dissolution, liquidation or winding-up of the Company. Each Class J Share entitles the holder thereof to participate in the distribution of the remaining net assets of the Company on a dissolution, liquidation or winding-up of the Company.

NB Split Holdings Corp. owns the 150 issued and outstanding Class J Shares of the Company. As at February 29, 2008 there were issued and outstanding 3,043,376 Capital Shares and 1,521,688 Preferred Shares.

Subsequent Classes of Shares

The subsequent classes are issuable in series. Subject to the Company's articles, the Board of Directors is authorized to fix, before issuance, the designation, rights, privileges, restrictions and conditions attaching to the shares of each series. Except with respect to matters as to which the holders of capital shares and holders of preferred shares are entitled by law to vote or as otherwise provided in the Company's articles, the holders of capital shares and holders of preferred shares will not be entitled to vote at meetings of shareholders.

Certain Provisions of the Capital Shares

Investment Objective

The Capital Shares provide their holders with a leveraged investment, the value of which is linked to changes in the market price of the National Bank Shares held by the Company. Holders of Capital Shares will be entitled on redemption to the benefit of any capital appreciation in the market price of the National Bank Shares after accrual for administrative and operating expenses of the Company and to benefit from any increase in the dividends payable on the National Bank Shares. The fixed distributions on the Preferred Shares will be funded from the dividends received on the National Bank Shares. If necessary, any shortfall in the distributions on the Preferred Shares will be funded by proceeds from the sale of National Bank Shares. In the event that the dividends paid on the National Bank Shares exceed the amount of the fixed Preferred Share distributions and all expenses of the Company, the excess amount will be paid as dividends on the Capital Shares, as determined by the Board of Directors. If the Unit Value is less than or equal to \$32.72 on the Redemption Date (as defined below), the Capital Shares will have no value on redemption.

Retraction

The Capital Shares may be surrendered for retraction at any time by the holders. Holders may surrender their Capital Shares for retraction by exercising a Regular Retraction, a Concurrent Retraction or a Special Annual Retraction, all as described below. Retraction payments for Capital Shares will be made on the 15th day of each month or, where such day is not a business day, the preceding business day (a “**Retraction Payment Date**”) provided the Capital Shares have been surrendered for retraction on or before the tenth business day before such Retraction Payment Date (the “**Valuation Date**”). As used herein, the term "business day" means any day, except for a Saturday or Sunday, which is not a statutory or civic holiday in Toronto, Ontario.

Each retraction privilege described below must be exercised by causing written notice to be received by the Company within the notice periods prescribed herein and in the manner described. Each notice must indicate whether the Capital Shares are being retracted pursuant to a Regular Retraction, Concurrent Retraction or a Special Annual Retraction and, where there is an option, how the holder wishes to be paid for his or her Capital Shares retracted. Capital Shares (and Preferred Shares in the case of a Concurrent Retraction or a Special Annual Retraction) will be irrevocably surrendered for retraction upon the delivery of such notice to CDS Clearing and Depository Services Inc. (“**CDS**”) through a CDS Participant (defined below under “*Book-Entry Only System*”).

Regular Retraction

A holder who surrenders Capital Shares under a regular retraction (a “**Regular Retraction**”) will receive for every two Capital Shares retracted on the Retraction Payment Date the amount, if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing a Preferred Share in the market; and (ii) \$0.40. The retraction price of a Capital Share may be more or less than the market price of a Capital Share at the time of retraction.

Concurrent Retraction

A holder who surrenders two Capital Shares together with one Preferred Share under a concurrent retraction (a “**Concurrent Retraction**”) will receive on the Retraction Payment Date an amount equal to 95% of the Unit Value less \$0.40.

Special Annual Retraction

A holder of Capital Shares who surrenders two Capital Shares under a special annual retraction (a “**Special Annual Retraction**”) for the Retraction Payment Date occurring on December 15 in each year commencing in 2008 or, where such day is not a business day, the preceding business day (each such date being an “**Annual Retraction Payment Date**”) will receive on the applicable Annual Retraction Payment Date the amount, if any, by which the Unit Value exceeds \$32.72.

A holder who surrenders two Capital Shares together with one Preferred Share under a Special Annual Retraction will receive on the applicable Annual Retraction Payment Date an amount equal to the Unit Value.

Provided a holder of Capital Shares surrenders 10,000 or more Capital Shares for retraction under a Special Annual Retraction and tenders either one Preferred Share for every two Capital Shares retracted or a cash amount equal to \$32.72 for every two Capital Shares retracted plus in each case a \$0.025 delivery charge for every two Capital Shares retracted payable to the Administrator, such holder may elect to receive

his or her *pro rata* share of the National Bank Shares (rounded down to the nearest whole share) represented by the Capital Shares retracted plus (minus) the Residual Amount (payable at the Company's discretion in cash or by adjustment to the number of National Bank Shares to be delivered to the holder) as at the relevant Valuation Date, all as determined by the Board of Directors. For greater certainty, the Preferred Shares will not be treated as liabilities and any tax loss carryforwards will not be treated as an asset for these purposes. Any cash so tendered is to be tendered to CDS through a CDS Participant.

General

If any Capital Shares are surrendered for retraction (other than in the event of a Concurrent Retraction or a Special Annual Retraction where Preferred Shares are surrendered to the Company), the Company will as soon as practicable thereafter redeem or purchase for cancellation that number of Preferred Shares as is equal to one-half the number of Capital Shares so retracted. The Company will sell National Bank Shares owned by the Company to the extent required to fund such redemptions or purchases and to pay the retraction price for the Capital Shares so retracted. Any and all Capital Shares which have been surrendered to the Company for retraction prior to the relevant Valuation Date are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Payment Date or Annual Retraction Payment Date, unless not redeemed thereon, in which event such Capital Shares shall remain outstanding and be considered to be surrendered for retraction on the following Retraction Payment Date.

The Company will be obligated to redeem Capital Shares only to the extent that the redemption would not be contrary to any applicable law. If the Company is unable for this reason to redeem all of the Capital Shares surrendered for payment on a Retraction Payment Date or Annual Retraction Payment Date, it will redeem on each Retraction Payment Date thereafter, on a *pro rata* basis from shareholders who so surrendered shares, disregarding fractions, such number of Capital Shares not so redeemed as the Company determines it is then permitted to redeem, having regard to its obligation to concurrently redeem or otherwise acquire one Preferred Share for every two Capital Shares so redeemed. The Company will repeat such process on each successive Retraction Payment Date until all such Capital Shares have been redeemed.

Redemption

Any Capital Shares outstanding on the Redemption Date will be redeemed by the Company on such date. On such redemption, each holder will receive for every two Capital Shares redeemed, at the holder's option, either:

- (a) the amount, if any, by which the Unit Value exceeds \$32.72; or
- (b) provided the holder tenders to the Company at least 20 business days prior to the Redemption Date, a cash amount of \$32.72 for every two Capital Shares redeemed, such holder's *pro rata* share of the National Bank Shares (rounded down to the nearest whole share) plus (minus) the Residual Amount (payable at the Company's discretion in cash or by adjustment to the number of National Bank Shares to be delivered to the holder) as at the Redemption Date, all as determined by the Board of Directors. For greater certainty, the Preferred Shares will not be treated as liabilities and any tax loss carryforwards will not be treated as an asset for these purposes. Any cash so tendered is to be tendered to CDS through a CDS Participant.

Notice of redemption will be given to CDS Participants holding Capital Shares on behalf of the beneficial owners thereof at least 45 days prior to the Redemption Date. A holder of Capital Shares must give written notice to CDS through a CDS Participant at least 20 business days prior to the Redemption

Date indicating how the holder chooses to be paid for his or her redeemed Capital Shares. Holders who do not give the required business days' notice will be deemed to have chosen to be paid in cash.

Automatic Redemption

If for two consecutive Valuation Dates the aggregate market value of the National Bank Shares held by the Company is \$15,000,000 or less, then the Board of Directors has the right to redeem at the next Annual Retraction Payment Date: (i) all Capital Shares then outstanding for a cash amount for every two shares equal to the redemption price of the Capital Shares calculated as if such date was the Redemption Date; and (ii) all Preferred Shares then outstanding for a cash amount per share equal to \$32.72. In such circumstances, the Company will not provide holders of Capital Shares and Preferred Shares with 45 days' prior notice of the redemption but will forthwith issue a press release and will provide holders of Capital Shares and Preferred Shares with notice of the redemption as soon as practicable.

Distributions

Holders of Capital Shares are entitled to receive any dividends that the Board of Directors may declare subject to the prior rights of the holders of the Preferred Shares. It will be the policy of the Board of Directors to declare and pay quarterly dividends in an amount equal to the dividends received by the Company on the National Bank Shares minus the distributions payable on the Preferred Shares and accruals for all administrative and operating expenses. The amount of quarterly distributions actually paid on the Capital Shares will vary depending upon the prices at which the National Bank Shares are acquired and the actual dividends paid on the National Bank Shares from time to time.

In addition, if the Company realizes capital gains on the sale of National Bank Shares and would be liable to pay tax thereon, the Company may declare a capital gains dividend on the Capital Shares. Such dividend will minimize any tax payable by the Company and, as such, should benefit the Company and its shareholders. If such dividend was to be payable, the Company expects that such dividend would be payable in Capital Shares rather than in cash. As a result, the cash which would otherwise have been distributed or used to pay tax will remain invested in National Bank Shares for the benefit of the holders of Capital Shares. A capital gains dividend payable in Capital Shares will increase the aggregate adjusted cost base to the holders of Capital Shares of their Capital Shares. Immediately following payment of such dividend in Capital Shares, the number of Capital Shares outstanding will be automatically consolidated such that the number of Capital Shares outstanding will be equal to the number of Capital Shares outstanding immediately prior to such payment.

Voting Rights

Except as required by law, holders of Capital Shares will not be entitled to receive notice of, to attend or to vote at any meetings of shareholders of the Company (including with respect to reductions of capital and share consolidations) other than meetings of the holders of Capital Shares. Holders of Capital Shares will not be entitled to vote any of the National Bank Shares held by the Company. The independent directors of the Company will determine the manner in which the National Bank Shares will be voted at any meeting of the shareholders of National Bank.

In addition, the articles of the Company provide that the Company shall not, without the prior approval of the holders of Capital Shares, (i) amend the rights, privileges, restrictions and conditions attached to the Capital Shares; (ii) amend the provisions in the articles of the Company relating to the restrictions on the business that the Company may carry on; (iii) change (other than a change permitted by applicable law without the consent of securityholders of a mutual fund) any contract or enter into any

contract as a result of which the basis for calculating the fees or other expenses that are charged to the Company could result in an increase in charges to the Company; (iv) change the Company's auditors; or (v) wind up or dissolve voluntarily.

Modifications

Approval of amendments to the provisions of the Capital Shares may be given by a special resolution carried by an affirmative vote of not less than two thirds of the votes cast at a meeting of the holders of Capital Shares duly called and held for such purpose at which the holders of 10% of the outstanding Capital Shares are present in person or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Capital Shares then present would constitute the quorum.

Priority

The Capital Shares will rank subsequent to the Preferred Shares and prior to the Class J Shares with respect to the payment of dividends, distributions upon a redemption, retraction or return of capital and distributions upon a dissolution, liquidation or winding-up of the Company.

Certain Provisions of the Preferred Shares

Distributions

Holders of the Preferred Shares will be entitled to receive quarterly fixed cumulative preferential distributions equal to \$0.3886 per Preferred Share. On an annualized basis, this would represent a yield on the Preferred Share offering price of approximately 4.75%. Quarterly distributions on the Preferred Shares are expected to be paid by the Company on or before the 15th day of March, June, September and December in each year. Such distributions are expected to consist of Ordinary Dividends (as defined under "*Income Tax Considerations – Tax Treatment of Distributions on Preferred Shares and Capital Shares*") but may include non-taxable returns of capital and capital gains dividends.

Preferred Share distributions will be funded from the dividends received on the National Bank Shares. If necessary, any shortfall in the distributions on the Preferred Shares will be funded by proceeds from the sale of National Bank Shares. Based on the current dividends paid on the National Bank Shares, it is not expected that the Company would have to sell any National Bank Shares to fund the Preferred Share distributions.

Any portion of Preferred Share distributions which is derived from the proceeds of sale of the National Bank Shares will, for tax purposes, consist of a non-taxable return of capital or a combination of a capital gains dividend and a non-taxable return of capital.

Retraction

The Preferred Shares may be surrendered for retraction at any time. Retraction payments for Preferred Shares will be made on the Retraction Payment Date provided the Preferred Shares have been surrendered for retraction on or before the Valuation Date.

The retraction privilege described below must be exercised by causing written notice to be received by the Company within the notice period prescribed herein and in the manner described under "*Book-Entry*

Only System". Preferred Shares will be irrevocably surrendered for retraction upon the delivery of such notice to CDS through a CDS Participant.

A holder who surrenders a Preferred Share for retraction will receive on the Retraction Payment Date the amount, if any, by which 95% of the Unit Value exceeds the aggregate of (i) the average cost to the Company, including commissions, of purchasing two Capital Shares in the market; and (ii) \$0.40.

General

If any Preferred Shares are surrendered for retraction (other than in the event of a Concurrent Retraction or a Special Annual Retraction where Capital Shares are surrendered to the Company), the Company will as soon as practicable thereafter purchase for cancellation that number of Capital Shares which is equal to twice the number of Preferred Shares so retracted. The Company will sell National Bank Shares owned by the Company to the extent required to fund such redemptions or purchases and to pay the retraction price for the Preferred Shares so retracted. Preferred Shares which have been surrendered to the Company for retraction prior to the relevant Valuation Date are deemed to be outstanding until (but not after) the close of business on the relevant Retraction Payment Date, unless not redeemed thereon, in which event such Preferred Shares shall remain outstanding and be considered to be surrendered for retraction on the following Retraction Payment Date.

The Company will be obligated to redeem Preferred Shares only to the extent that such redemption would not be contrary to any applicable law. If the Company is unable for this reason to redeem all of the Preferred Shares surrendered for payment on a Retraction Payment Date, it will redeem on each Retraction Payment Date thereafter, on a *pro rata* basis from shareholders who so surrendered shares, disregarding fractions, such number of Preferred Shares not so redeemed as the Company determines it is then permitted to redeem, having regard to its obligation to concurrently redeem or otherwise acquire two Capital Shares for each Preferred Share redeemed. The Company will repeat such process on each successive Retraction Payment Date until all such Preferred Shares have been redeemed.

Redemption

Any Preferred Shares still outstanding on the Redemption Date will be redeemed by the Company on such date at a price per share equal to the lesser of \$32.72 and the Unit Value.

In addition, the Company may redeem Preferred Shares on any Annual Retraction Payment Date for \$32.72 per share. The Company will only redeem Preferred Shares in these circumstances to the extent that unmatched Capital Shares have been tendered for retraction under the Special Annual Retraction. Where less than all the Preferred Shares are to be so redeemed, Preferred Shares shall be redeemed on a *pro rata* basis or in such other manner as is approved by the Board of Directors.

Notice of redemption will be given to CDS Participants holding Preferred Shares on behalf of the beneficial owners thereof at least 45 days prior to the Redemption Date and at least seven business days prior to any other date of redemption.

Redemption at Premium

Preferred Shares may be redeemed by the Company at any time prior to the Redemption Date at a price which, beginning February 15, 2008, will equal \$34.03 and which will decline by \$0.33 each year to be equal to \$32.72 after February 15, 2011.

Notice of such redemption will be given to CDS Participants holding Preferred Shares on behalf of the beneficial owners thereof at least seven business days prior to the date of redemption.

Automatic Redemption

If for two consecutive Valuation Dates the aggregate market value of the National Bank Shares held by the Company is \$15,000,000 or less, then the Board of Directors has the right to redeem at the next Annual Retraction Payment Date: (i) all Capital Shares then outstanding for a cash amount per share equal to the redemption price of two Capital Shares calculated as if such date was the Redemption Date; and (ii) all Preferred Shares then outstanding for a cash amount per share equal to \$32.72. In such circumstances, the Company will not provide holders of Capital Shares and Preferred Shares with 45 days' prior notice of the redemption but will forthwith issue a press release and will provide holders of Capital Shares and Preferred Shares with notice of the redemption as soon as practicable.

Voting Rights

Except as required by law, holders of Preferred Shares will not be entitled to receive notice of, to attend or to vote at any meeting of shareholders of the Company (including with respect to reductions of capital and share consolidations of the Capital Shares) other than meetings of the holders of Preferred Shares. Holders of Preferred Shares will not be entitled to vote any of the National Bank Shares held by the Company. The independent directors of the Company will determine the manner in which the National Bank Shares will be voted at any meeting of the shareholders of National Bank.

In addition, the articles of the Company provide that the Company shall not, without the prior approval of the holders of Preferred Shares, (i) amend the rights, privileges, restrictions and conditions attaching to the Preferred Shares; (ii) amend the provisions in the articles of the Company relating to the restrictions on the business that the Company may carry on; (iii) change (other than a change permitted by applicable law without the consent of securityholders of a mutual fund) any contract or enter into any contract as a result of which the basis for calculating the fees or other expenses that are charged to the Company could result in an increase in charges to the Company; (iv) change the Company's auditors; or (v) wind up or dissolve voluntarily.

Modification

Approval of amendments to the provisions of the Preferred Shares may be given by a special resolution carried by an affirmative vote of not less than two thirds of the votes cast at a meeting of the holders of Preferred Shares duly called and held for such purpose at which the holders of 10% of the outstanding Preferred Shares are present in person or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Preferred Shares then present would constitute the quorum.

Priority

The Preferred Shares will rank prior to the Capital Shares and the Class J Shares with respect to the payment of dividends, distributions upon a redemption, retraction or return of capital and distributions upon a dissolution, liquidation or winding-up of the Company.

Credit Rating

The Preferred Shares have been provisionally rated Pfd-2 (low) by DBRS Limited (“**DBRS**”). Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. DBRS' rating of the Preferred Shares is on a preferred security rating scale that ranges from Pfd-1 to Pfd-5, which represents the range from highest to lowest quality of rated securities. The assignment of a “(high)” or “(low)” modifier within each of the five preferred security rating categories indicates relative standing within such category. Securities rated in the Pfd-2 rating category by DBRS are of satisfactory credit quality. On March 19, 2008, DBRS announced that the rating of certain structured preferred shares with significant exposure to the financial sector, which includes the Company's Preferred Shares, have been placed “Under Review with Developing Implications”. The credit rating accorded to the Preferred Shares by DBRS is not a recommendation to purchase, hold or sell Preferred Shares as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by DBRS in the future if in its judgment circumstances so warrant.

The rating assigned by DBRS represents an evaluation of the Preferred Shares based solely on credit related factors. It does not reflect the risk that market related factors, such as fluctuations in the value of underlying securities, may affect the valuation of the Preferred Shares. See *"Risk Factors — Maintaining a Credit Rating"*.

Book-Entry Only System

Registration of interests in and transfers of the Capital Shares and Preferred Shares are made only through a book-entry only system administered by CDS. Capital Shares and Preferred Shares must be purchased, transferred and surrendered for retraction or redemption through a participant in the CDS Depository System (a “**CDS Participant**”). All rights of an owner of Capital Shares or Preferred Shares must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS or the CDS Participant through which the owner holds such Capital Shares or Preferred Shares. Upon purchase of any Capital Shares or Preferred Shares, the owner will receive only the customary confirmation. References in this Annual Information Form to a holder of Capital Shares or Preferred Shares mean, unless the context otherwise requires, the owner of the beneficial interest in such shares.

The ability of a beneficial owner of Capital Shares or Preferred Shares to pledge the Capital Shares or Preferred Shares or otherwise take action with respect to such owner's interest in such shares (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

An owner of Capital Shares or Preferred Shares who desires to exercise retraction privileges thereunder must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto), on behalf of the owner, a written notice (the “**Retraction Notice**”) of the owner's intention to retract shares sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. Any expenses associated with the preparation and delivery of a Retraction Notice shall be for the account of the owner exercising the retraction privilege. Where a beneficial owner of Capital Shares is required to tender cash to the Company in connection with a Special Annual Retraction or a redemption of Capital Shares, such cash must be tendered to CDS through the relevant CDS Participant.

By causing a CDS Participant to deliver a Retraction Notice to CDS, an owner shall be deemed to have irrevocably surrendered his or her shares for retraction and appointed such CDS Participant to act as

his or her exclusive settlement agent with respect to the exercise of the retraction privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any Retraction Notice which CDS determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect, and the retraction privilege to which it relates shall be considered for all purposes not to have been exercised thereby. In the event of a determination that a Retraction Notice is incomplete, not in proper form or not duly executed, CDS shall promptly notify the CDS Participant which delivered the Retraction Notice. A failure by a CDS Participant to exercise retraction privileges or to give effect to the settlement thereof in accordance with the owner's instructions will not give rise to any obligations or liability on the part of the Company to the CDS Participant or the owner.

The Company has the option to terminate registration of the Capital Shares and Preferred Shares through the book-entry only system, in which case certificates for Capital Shares and Preferred Shares in fully registered form will be issued to beneficial owners of such shares or their nominees.

Securities Lending

The Company may lend National Bank Shares to securities borrowers acceptable to the Company pursuant to the terms of a securities lending agreement under which (i) the borrower will pay to the Company a negotiated securities lending fee and will make compensation payments to the Company equal to any distributions received by the borrower on the securities borrowed; (ii) the securities loans must qualify as "securities lending arrangements" for the purposes of the Tax Act; and (iii) the Company will receive collateral security. The Custodian (as defined below) as securities lending agent for the Company, will be responsible for the ongoing administration of the securities loans, including the obligation to mark-to-market the collateral on a daily basis. All securities lending arrangements will comply with the provisions of NI 81-102 and will be approved by all of the independent directors of the Company.

CALCULATION OF UNIT VALUE

A "**Unit**" is considered to consist of two Capital Shares and one Preferred Share. The "**Unit Value**" is defined as:

- (a) the amount received by the Company on the disposition of that number of National Bank Shares represented by the Unit's *pro rata* share of the National Bank Shares. In respect of any retraction by a holder on a Valuation Date (as defined herein) and the calculation of Unit Value under this paragraph for such purpose, the number of National Bank Shares to be disposed of will be rounded down to the nearest whole share; or
- (b) in the event that the Administrator determines that it is not practicable to sell a *pro rata* share of the National Bank Shares (for example, where a relatively small number of shares are tendered for cash retraction), the Company may fund such retractions in whole or in part out of cash on hand. Unit Value in this case will be calculated using, and paid on the basis of, the closing price for National Bank Shares on the TSX on the trading day immediately preceding the relevant Valuation Date (as defined below) or the date on which Unit Value is calculated; or, if no trading in National Bank Shares occurred on such day on the TSX, the closing price for National Bank Shares on such other exchange or market as the Administrator may select on such day; or, if no closing price is available from any exchange or market for National Bank Shares, the average of the bid and ask prices for such shares at close of trading on the TSX on such day;

less, in either case, brokerage fees, commissions and all other transaction costs relating to such sale plus (minus) the *pro rata* share of the amount (the “**Residual Amount**”) by which the value of the other assets of the Company (excluding any refundable taxes not then available to the Company) exceed (are less than) the liabilities (including any extraordinary liabilities and accrued termination costs) of the Company as at the relevant Valuation Date and the redemption value of the Class J Shares, all as determined by the Board of Directors. For greater certainty, the Preferred Shares will not be treated as liabilities and the amount of any tax loss carryforwards will not be treated as an asset for these purposes.

If, on the Redemption Date, the Company is entitled to a refund of refundable taxes but such refund is not immediately available, the Company will either defer payment of a portion of the redemption price until the refund is received by the Company or take steps to monetize or otherwise convert the refund into cash. In any event, for purposes of calculating the Residual Amount for redemptions on the Redemption Date, any refundable taxes not then available to the Company will be treated as an asset equal to the net realizable value thereof as determined by the Board of Directors.

Any net capital or non-capital losses available to the Company on the Redemption Date will not be treated as an asset either on or subsequent to the Redemption Date, in the calculation of Unit Value.

If it is not possible to sell National Bank Shares due to the cessation or suspension of trading of the National Bank Shares on the stock exchanges or markets on which National Bank Shares are normally traded, the Company will sell those National Bank Shares, which can then be lawfully sold and the applicable portion of such proceeds from such sale will be paid on the Retraction Payment Date (as defined herein) and the remaining National Bank Shares required to be sold to fund the cash retraction of the relevant shares will be sold by the Company as soon as possible following the resumption of trading of such National Bank Shares and the applicable portion of such proceeds therefrom paid within five business days following such sale.

The Unit Value is calculated once each week, other than the last week of each month, in which case the Unit Value will be calculated on the last day of the month. Such information is provided by the Administrator to holders of the Preferred Shares and Capital Shares on request by calling 1-877-642-1289 or by accessing the Company’s website at www.nbsplit.com.

National Instrument 81-106 – *Investment Fund Continuous Disclosure* (“**NI 81-106**”) requires an investment fund, such as the Company, to calculate its net asset value in accordance with Canadian generally accepted accounting principles (“**GAAP**”). Canadian GAAP was recently modified by the introduction of section 3855 Financial Instruments – Recognition and Measurement of the handbook of the Canadian Institute of Chartered Accountants. Section 3855 redefines fair value as being the closing bid price for long positions and the closing ask price for short positions, in lieu of the closing or last trade price for all positions. Section 3855 applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2006. Therefore, the combined effect of NI 81-106 and section 3855 would require the Company to determine the value of securities listed on a recognized public securities exchange or on NASDAQ using the fair value as defined by section 3855, instead of the valuation principles described above. However, the Canadian securities regulatory authorities have issued a related decision (the “**CSRA Decision**”) which permits investment funds, such as the Company, to calculate its Unit Value in accordance with Canadian GAAP without giving effect to section 3855 (“**Modified GAAP**”) for purposes other than issuing annual or interim financial statements, such as the issue and redemption of Units.

Financial statements of the Company contain a reconciliation of the Unit Value that is reported in such financial statements in accordance with Canadian generally accepted accounting principles (“**GAAP**”) to the Unit Value used by the Company for all other purposes as determined in accordance with modified

GAAP. Unless the CSRA Decision is extended, the exemptive relief granted by it will terminate on the earlier of September 30, 2008 and the date on which amendments to NI 81-106 come into effect with respect to the calculation of Unit Value.

RESPONSIBILITY FOR OPERATIONS

Directors and Officers

The names, municipality of residence, position with the Company and principal occupation of each of the directors and officers of the Company are as follows:

<u>Name and Municipality of Residence</u>	<u>Office with the Company</u>	<u>Principal Occupation</u>
DAVID LEGRESLEY Toronto, Ontario	Chairman	Vice Chair, National Bank Financial
BRIAN DAVIS ⁽²⁾ Toronto, Ontario	Director	Executive Vice President, Corporate Development and Governance, National Bank Financial
MICHAEL SHUH Toronto, Ontario	Director, Chief Executive Officer	Managing Director, Group Head Retail Structured Products Investment Banking, National Bank Financial Inc.
TIM EVANS ⁽³⁾ Oakville, Ontario	Chief Financial Officer	Director, National Bank Financial Inc.
Z. EDWARD AKKAWI Toronto, Ontario	Vice-President, Operations	Chief Operating Officer, General Counsel, Corporate Secretary and Director of First Asset Funds Inc. (“ First Asset ”)
DOUGLAS CARR ⁽¹⁾⁽⁴⁾ Toronto, Ontario	Director	Corporate Director
DAVID TAYLOR ⁽¹⁾⁽⁵⁾ Toronto, Ontario	Director	Corporate Director
IAIN A. ROBB ⁽¹⁾ Toronto, Ontario	Director	Partner, Gowling Lafleur Henderson LLP

(1) Member of the Audit Committee.

(2) Mr. Davis was a lawyer at Torys LLP between June, 1986 and November, 2005.

(3) Mr. Evans was an Associate Vice President at AIC Investment Services Inc. between June, 2002 and March, 2003 and a Vice President at Berkshire Securities Inc. between March, 2003 and July, 2005.

(4) Prior to September 1, 2007, Mr. Carr was Senior Vice-President, Finance and Chief Financial Officer of the Hospitals of Ontario Pension Plan.

(5) Mr. Taylor was a partner at KPMG LLP between October 1975 and September 2005.

All of the directors and officers of the Company have held their principal occupation for the five years preceding the date hereof, except as indicated in notes above.

The Administrator

Pursuant to the Administration Agreement, the Administrator provides administrative services to, and administers the ongoing operations of, the Company. The Administrator's principal office is located at 95 Wellington Street West, Suite 1400, Toronto, Ontario M5J 2N7. The Administrator can be contacted by phone at (416) 642-1289, e-mail at info@firstasset.com or the Internet at www.firstasset.com.

In consideration for the services provided by the Administrator, the Company will pay the Administrator a monthly fee of $\frac{1}{12}$ of 0.25% of the market value of the National Bank Shares held by the Company. The Administrator may pay operating expenses on behalf of the Company as and when incurred for which the Administrator will be reimbursed.

Holders of Capital Shares and Preferred Shares, by a two-thirds majority vote at a meeting called and held for such purpose, may cause the Administration Agreement to be terminated upon not less than six months' notice. On such termination, the Administrator will be entitled to a termination payment from the Company equal to the average monthly fee paid to the Administrator for the four months immediately preceding the date of termination multiplied by the number of months remaining in the term of the Administration Agreement. The Administration Agreement may also be terminated by the Company if the Administrator has committed certain events of bankruptcy or insolvency or is in material breach of the terms thereof and such breach has not been cured within 60 days after notice thereof has been given to the Administrator. The Administrator will not be entitled to a termination payment under such circumstances.

Officers and Directors of the Administrator

The name, municipality of residence, position with the Administrator and principal occupation of each of the directors and officers of the Administrator are set out below.

<u>Name and Municipality of Residence</u>	<u>Position with the Administrator</u>	<u>Principal Occupation</u>
BARRY H. GORDON Toronto, Ontario	President, Chief Executive Officer and Director	Chief Executive Officer, President and Director of First Asset
KAREN WAGMAN Toronto, Ontario	Chief Financial Officer	Chief Financial Officer of First Asset
PAUL V. DINELLE Toronto, Ontario	Executive Vice-President and Director	Executive Vice-President and Director of First Asset
Z. EDWARD AKKAWI Toronto, Ontario	Chief Operating Officer, General Counsel, Corporate Secretary and Director	Chief Operating Officer, General Counsel, Corporate Secretary and Director of First Asset
CHARLENE A. SCHIKOWSKY Toronto, Ontario	Senior Vice President, Administration and Operations	Senior Vice-President, Administration and Operations of First Asset

All of the directors and officers of the Administrator have held their principal occupation for the five years preceding the date hereof.

Auditors

The auditors of the Company are Deloitte & Touche LLP, 181 Bay Street, Suite 1400, Toronto, Ontario, M5J 2V1.

Custodian, Registrar and Transfer Agent

State Street Trust Company of Canada (“**State Street**”) is Custodian for the Company in respect of the National Bank Shares pursuant to a custodian agreement dated as of February 22, 2007 between the Company and State Street.

Computershare Investor Services Inc., at its principal office in the City of Toronto, is the registrar and transfer agent for the Capital Shares and Preferred Shares of the Company.

CONFLICTS OF INTEREST

National Bank Financial Inc. (“**NBF**”) may receive certain fees at normal market rates for the purchase and sale of the National Bank Shares or the purchase for cancellation of Capital Shares and Preferred Shares. Certain of the officers and directors of the Company are currently employees of NBF. The Company and its senior officers and directors have undertaken to file insider trading reports, as if the Company was not a mutual fund, in accordance with applicable provincial securities legislation, for themselves. The Company has undertaken to use all reasonable efforts to cause all future senior officers and directors to file insider trading reports as if the Company was not a mutual fund, in accordance with applicable provincial securities legislation and to deliver to each applicable provincial securities regulatory authority an undertaking to file insider trading reports in accordance with applicable provincial securities legislation. Each of National Bank of Canada and the Company have severally agreed to advise promptly each of the provincial securities regulatory authorities in the event it is unsuccessful in causing any of its applicable officers or directors to comply with the foregoing reporting requirements. The foregoing undertakings shall remain in full force until such time as all of the Capital Shares and Preferred Shares have been redeemed, retracted or purchased for cancellation.

Additionally, the Administrator is engaged in a variety of investment management, investment advisory and other business activities. The services of the Administrator under the Administration Agreement are not exclusive and nothing in the Administration Agreement prevents the Administrator or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Company), or from engaging in other activities.

Principal Holders of Securities

As of February 29, 2008, Clarke Inc. owned 380,000 Capital Shares, representing approximately 12.49% of the total outstanding Capital Shares.

GOVERNANCE OF THE COMPANY

The Company has appointed Messrs. Douglas A. S. Mills, Carl M. Solomon and Henry J. Knowles as members of its Independent Review Committee (“**IRC**”) in accordance with National

Instrument 81-107 – *Independent Review Committee for Investment Funds* (“**NI 81-107**”), which came into force on November 1, 2006. Mr. Mills is the Chair of the IRC.

The Company shares its IRC with GlobalBanc Advantaged 8 Split Corp. (“**Global Corp.**”). The relationship with the IRC is administered by the Administrator. The costs and expenses associated with the IRC are shared with Global Corp. The Company has agreed to indemnify each IRC member as permitted under NI 81-107 and has entered into an indemnity agreement to that effect with each IRC member.

The IRC is responsible for overseeing conflicts of interest matters relating to the Company, which are identified by the Company. The mandate of the IRC is to review and provide input or recommendations to the Company on all conflict of interest matters that have been referred to the IRC. NI 81-107 also imposes obligations upon the Company to establish written policies and procedures for dealing with conflict of interest matters, maintain records in respect of these matters and provide assistance to the IRC in carrying out its functions. The IRC has adopted a written charter which it will follow when performing its functions and will be subject to requirements to conduct regular assessments and provide reports to the Company and its Shareholders in respect of its functions. In performing their duties, members of the IRC are required to act honestly, in good faith and in the best interests of the Company and to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

INCOME TAX CONSIDERATIONS

In the opinion of Blake, Cassels & Graydon LLP, the following summary presents the principal Canadian federal income tax considerations generally applicable to a holder of Capital Shares or Preferred Shares who, for purposes of the *Income Tax Act* (Canada) (the “**Tax Act**”), is resident in Canada, deals at arm's length and is not affiliated with the Company, and holds the Capital Shares or Preferred Shares as capital property.

This summary is based upon the current provisions of the Tax Act, the Regulations thereunder (the “**Regulations**”), the specific proposals for amendments to the Tax Act and the Regulations which have been publicly announced by the Minister of Finance prior to the date hereof (the “**Proposed Amendments**”) and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the “**CRA**”). This summary also relies on a certificate of the Company as to certain factual matters. This summary is not applicable to holders of an interest which would be a tax shelter investment for the purposes of the Tax Act. This summary does not deal with the mark-to-market rules in the Tax Act and holders that are “financial institutions” as defined in the Tax Act for purposes of these rules should consult their own tax advisors. This summary assumes that holders have not elected to compute the taxpayer's Canadian tax results using a currency other than Canadian dollars. This summary is not exhaustive of all possible Canadian federal income tax consequences and, except for the Proposed Amendments, does not take into account or anticipate any changes in law or in the administrative policies and assessing practices of the CRA, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations.

This summary is of a general nature only and is not intended to be, and should not be construed to be, legal or tax advice to any prospective investor. Accordingly, prospective investors should consult their own tax advisors for advice with respect to the income tax consequences of investing in Capital Shares or Preferred Shares having regard to their own particular circumstances, including the advisability and effect of electing, pursuant to subsection 39(4) of the Tax Act, to have all Canadian securities (including the Capital

Shares and Preferred Shares) owned by them deemed to be capital properties and the deductibility of interest on monies borrowed to acquire Capital Shares or Preferred Shares.

This summary is based on the assumptions that the Capital Shares and Preferred Shares will at all times be listed on a designated stock exchange in Canada (such as the TSX) and that the Company will elect in accordance with the Tax Act to have each “Canadian security” (as defined in the Tax Act) treated as capital property. It is also based on the assumption the Company was not established and will not be maintained primarily for the benefit of non-residents of Canada and that at no time will the fair market value of shares of the Company held by persons who are non-residents of Canada and or partnerships (other than Canadian partnerships under the Tax Act) exceed 50% of the fair market value of all outstanding shares of the Company.

Tax Treatment of the Company

Status

Following the closing of the offerings, the Company qualified as a “mutual fund corporation” and a “financial intermediary corporation”, as defined in the Tax Act. The Company has advised counsel that it intends to file the necessary election under the Tax Act so that it will be deemed to be a “public corporation” effective from the beginning of its first taxation year, and therefore qualify as a mutual fund corporation throughout its first taxation year. The Company has further advised counsel that it intends to continue to so qualify throughout each subsequent taxation year in which any Capital Shares or Preferred Shares remain outstanding and this summary assumes this will be the case.

Dividends

Dividends received by the Company on the National Bank Shares held by it will be included in its income but will be deductible in computing its taxable income. The Company will generally be liable to pay a 33 ¹/₃% refundable tax under Part IV of the Tax Act on all such dividends received by it on the National Bank Shares. However, any Part IV tax that is paid will be fully refunded to the Company on the payment by the Company of sufficient dividends (other than capital gains dividends as defined below) in the year or in subsequent taxation years in accordance with the provisions of the Tax Act in that regard.

As the Company will be a “financial intermediary corporation” as defined in the Tax Act, it will not be subject to tax under Part VI.1 of the Tax Act on dividends that it pays on the Preferred Shares or Capital Shares.

Capital Gains

The Company has advised counsel that it intends to elect, pursuant to subsection 39(4) of the Tax Act, to have National Bank Shares (and any other Canadian securities) deemed to be capital properties.

The Company may realize a capital gain (or sustain a capital loss) upon the disposition of a National Bank Share (including the disposition of a National Bank Share if required to fund the fixed quarterly distributions payable on the Preferred Shares) to the extent that the proceeds of disposition therefor, net of reasonable costs of disposition, exceed (or are less than) the Company's adjusted cost base of such share. The amount of any such capital loss otherwise determined may, in certain circumstances described in the Tax Act, be reduced by the amount of dividends previously received by the Company on the National Bank Shares. One half of any capital gain will be a taxable capital gain and one half of any capital loss will be an allowable capital loss. Any allowable capital loss realized by the Company in a taxation year from the disposition of a National Bank Share may be deducted against taxable capital gains realized by the

Company in the year, in any of the three preceding taxation years or in any subsequent taxation year to the extent and under the circumstances described in the Tax Act. As a mutual fund corporation, the Company maintains a capital gains dividend account in respect of net capital gains realized by the Company and from which it may elect to pay dividends (“**capital gains dividends**”) which are treated as capital gains in the hands of the shareholders of the Company. See “*Tax Treatment of Distributions on Preferred Shares and Capital Shares*” below.

The Company, being a mutual fund corporation, will be entitled to refunds in accordance with the provisions of the Tax Act of substantially all tax payable by it with respect to net taxable capital gains upon payment of sufficient capital gains dividends or in respect of sufficient redemptions of Capital Shares or Preferred Shares.

Other Income

Interest income and securities lending fees earned by the Company will be included in computing its income.

Issue and Other Expenses

The Company is entitled to deduct an amount equal to the reasonable expenses that it incurred in the course of issuing Capital Shares and Preferred Shares. Such issue expenses, including the Agents' fees, will be deductible by the Company rateably over a five-year period subject to reduction in any taxation year which is less than 365 days. Generally, the Company will also be entitled to deduct administrative expenses and interest payable by it on money borrowed to purchase the National Bank Shares. Any non-capital losses incurred by the Company may generally be carried forward or back in accordance with the rules and limitations contained in the Tax Act and deducted in computing the taxable income of the Company.

On October 31, 2003, the Department of Finance released draft proposals regarding the deductibility of interest and other expenses (the “**October 31 Proposed Amendments**”) for public comment. The October 31 Proposed Amendments propose that the Tax Act be amended to require, for taxation years commencing after 2004, that there be a “reasonable expectation of cumulative profit”, determined without reference to capital gains, from a business or property in order for a taxpayer to have a loss from the business or property resulting from the deductibility of interest and other expenses. If the October 31 Proposed Amendments were to apply to the Company, losses of the Company from a particular business or property could be limited. The Administrator has advised counsel that it expects the Company to have cumulative profit from the National Bank Shares held by it and accordingly the October 31 Proposed Amendments, in their current form, should not apply to limit losses, if any, of the Company. On February 23, 2005 the Minister of Finance announced that a more modest legislative proposal to replace the October 31 Proposed Amendments would be released for comment at an early opportunity. No such proposal has been released to date.

Net Tax Liability

As a result of the deductions and refunds of tax described above, the Company has advised counsel that it does not anticipate that it will be subject to any material net non-refundable tax liability.

Tax Treatment of Distributions on Preferred Shares and Capital Shares

Taxable dividends (“**Ordinary Dividends**”) received by a holder will be included in computing the holder's income.

In the case of a holder that is an individual, Ordinary Dividends will be subject to the gross-up and dividend tax credit rules under the Tax Act applicable to taxable dividends received from a taxable Canadian corporation. An enhanced gross-up and credit will apply for eligible dividends paid to shareholders. The Administrator expects that Ordinary Dividends will qualify as eligible dividends for this purpose.

An Ordinary Dividend on the Preferred Shares or Capital Shares received by a corporation other than a “specified financial institution” (as defined in the Tax Act) will normally be deductible by the corporation in computing its taxable income.

In the case of a holder that is a specified financial institution, Ordinary Dividends received on the Preferred Shares or Capital Shares will only be deductible in computing its taxable income if either:

- (a) the specified financial institution did not acquire the Preferred Shares or Capital Shares, as applicable, in the ordinary course of its business; or
- (b) at the time of receipt of the dividend by the specified financial institution,
 - (i) the Preferred Shares or Capital Shares, as applicable, are listed on a designated stock exchange in Canada, and
 - (ii) dividends are received in respect of not more than 10% of the issued and outstanding Preferred Shares or Capital Shares, as applicable, by
 - (A) the specified financial institution, or
 - (B) the specified financial institution and persons with whom it does not deal at arm's length.

For these purposes, a beneficiary of a trust will be deemed to receive the amount of any dividend received by the trust and designated to that beneficiary, effective at the time the dividend was received by the trust, and a member of a partnership will be considered to have received that partner's share of a dividend received by the partnership, effective at the time the dividend was received by the partnership.

A holder of Preferred Shares which is a corporation other than a private corporation or a financial intermediary corporation will generally be subject to a 10% tax under Part IV.1 of the Tax Act in respect of any Ordinary Dividends received by it on the Preferred Shares to the extent that such dividends are deductible in computing its taxable income.

A holder which is a “private corporation” (as defined in the Tax Act) or any other corporation controlled, whether because of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts) will generally be liable to pay a refundable tax under Part IV of the Tax Act, generally imposed at the rate of 33 ¹/₃%, on Ordinary Dividends received on the Preferred Shares or Capital Shares to the extent that such dividends are deductible in computing its taxable income. When tax under Part IV.1 of the Tax Act also applies to an Ordinary Dividend received by a particular corporation on the Preferred Shares or Capital Shares, the rate of tax under Part IV of the Tax Act payable by such corporation is reduced to 23 ¹/₃%.

The amount of any capital gains dividend received by a holder of Preferred Shares or Capital Shares from the Company will be considered to be a capital gain of such holder from the disposition of capital property in the taxation year of the holder in which the capital gains dividend is received. See “*Redemptions, Retractions and Other Dispositions of Preferred Shares or Capital Shares*” below.

Returns of capital to a holder of Preferred Shares or Capital Shares are not subject to tax but will reduce the adjusted cost base of such Preferred Shares or Capital Shares to the holder. Where reductions to a holder's adjusted cost base of Preferred Shares or Capital Shares for a taxation year would result in the adjusted cost base becoming a negative amount, such amount will be treated as a capital gain realized by the holder in that taxation year, and the holder's adjusted cost base of such Preferred Shares or Capital Shares, as the case may be, will then be nil immediately after the time when the capital gain is realized.

Capital Shares received by a holder of Capital Shares as payment of a capital gains dividend will be deemed to have been acquired by such holder at a cost equal to the amount of such dividend. For the purpose of determining the adjusted cost base to a holder of Capital Shares, when Capital Shares are acquired, the cost of the newly acquired Capital Shares will be averaged with the adjusted cost base of any Capital Shares owned by the holder as capital property immediately before that time.

Redemptions, Retractions and Other Dispositions of Preferred Shares or Capital Shares

A holder who disposes of or who is deemed to dispose of a Capital Share or a Preferred Share, including a disposition to the Company (whether on a retraction, redemption or otherwise), will realize a capital gain (or sustain a capital loss) equal to the amount by which the proceeds of disposition, net of reasonable costs of disposition, exceed (or are less than) the holder's adjusted cost base of such share.

Where the holder of a Preferred Share or Capital Share is a corporation, a trust of which a corporation is a beneficiary or a partnership of which a corporation is a member, in certain circumstances the amount of any capital loss otherwise determined may be reduced by the amount of Ordinary Dividends previously received on the share. These rules may also apply where a trust or partnership is a member of a partnership or a beneficiary of a trust that owns Preferred Shares or Capital Shares.

The portion of a capital gain that must be included in income as a taxable capital gain and the portion of a capital loss that is an allowable capital loss is one half. A holder of Capital Shares or Preferred Shares that is a “Canadian-controlled private corporation” (as defined in the Tax Act) throughout a taxation year may be liable to pay an additional refundable tax of $6\frac{2}{3}\%$ on its “aggregate investment income” for the year, which is defined to include taxable capital gains.

The proceeds of disposition to a holder of Capital Shares who elects an *in specie* distribution of a *pro-rata* share of National Bank Shares upon a qualifying retraction of 10,000 or more Capital Shares will be the fair market value of such National Bank Shares and that amount will be the cost to the holder of such National Bank Shares.

Individuals (other than certain trusts) realizing net capital gains or receiving dividends may be subject to an alternative minimum tax under the Tax Act.

Tax Exempt Purchasers

Provided the Capital Shares or Preferred Shares are listed on a designated stock exchange (such as the TSX), the Capital Shares and Preferred Shares, as the case may be, will be qualified investments for

trusts governed by a registered retirement saving plan, a deferred profit sharing plan, a registered retirement income fund, a registered education savings plan and a registered disability savings plan.

FEES AND EXPENSES

Administration Fee

Pursuant to the terms of the Administration Agreement, the Administrator is entitled to a monthly fee of $\frac{1}{12}$ of 0.25% of the market value of the National Bank Shares held by the Company. The administration fee is calculated and payable monthly in arrears on or before the 10th business day following the last day of each month. The Administrator may pay operating expenses on behalf of the Company as and when incurred for which the Administrator will be reimbursed.

Ongoing Expenses

The Company is responsible for all expenses incurred in connection with the operation and administration of the Company. These expenses include, without limitation: (a) mailing and printing expenses for periodic reports to holders of Preferred Shares and Capital Shares; (b) fees payable to the custodian for acting as custodian of the assets of the Company; (c) fees payable to the registrar and transfer agent with respect to the Preferred Shares and Capital Shares; (d) fees payable to members of the Board of Directors of the Company; (e) fees payable to the members of the IRC and expenses in connection with the IRC, fees payable to the auditors and legal advisors of the Company; (g) regulatory filing, stock exchange and licensing fees; and (h) expenditures incurred upon the termination of the Company. Such expenses also include expenses of any action, suit or other proceedings in which or in relation to which the Administrator or others are entitled to indemnity by the Company. The aggregate annual amount of these fees and expenses is approximately \$210,000. The Company is also responsible for all commissions and other costs of portfolio transactions. All such expenses are subject to an independent audit and report thereon to the custodian and the Administrator provides reasonable access to its books and records for such purpose.

Fees and Expenses of Independent Directors

For his services as an independent director on the board of directors of the Company, Mr. Douglas Mills received \$5,053 for the 8-months ending September 1, 2007. Mr. Iain Robb received \$8,900 for the 12-months ending December 31, 2007, and Messrs. David Taylor and Douglas Carr each received \$2,833 for the 4-month period ending December 31, 2007.

Fees and Expenses of the Independent Review Committee

For their services as members of the IRC for the Company and GlobalBanc Advantaged 8 Split Corp., for the year-ended 2007, Douglas Mills received \$23,937, Carl Solomon received \$20,833 and Henry Knowles received \$20,833 in fees and in reimbursement of expenses.

MATERIAL CONTRACTS

The only material contracts entered into by the Company or the Administrator with respect to the Company, other than during the ordinary course of business, are as follows:

- (a) the Administration Agreement; and
- (b) the Agency Agreement.

Copies of the foregoing documents may be examined during normal business hours at the principal office of the Company.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

Neither the Company nor the Administrator is involved in any material legal proceedings, nor is the Company nor Administrator aware of existing or pending legal or arbitration proceedings involving the Company or the Administrator.

ADDITIONAL INFORMATION - RISK FACTORS

There are risks and other considerations which investors should carefully consider before investing (or continuing to invest) in Shares of the Company. Some of these are described in this section.

Risks Related to Both Classes of Shares

Operating History

The Company does not have a prolonged operating history.

Changes in Legislation

There can be no assurance that income tax laws and government incentive programs relating to the treatment of mutual fund corporations under the Tax Act will not be changed in a manner which adversely affects the distributions received by the holders of Preferred Shares or Capital Shares.

Mutual Fund Policies

The Company is considered to be a mutual fund but does not generally operate in accordance with the policies of Canadian securities regulators applicable to conventional mutual funds.

Conflicts of Interest

The Administrator is engaged in a variety of investment management, investment advisory and other business activities. The services of the Administrator under the Administration Agreement are not exclusive and nothing in the Administration Agreement prevents the Administrator or any of its affiliates from providing similar services to other investment funds and other clients (whether or not their investment objectives, strategies and policies are similar to those of the Company), or from engaging in other activities.

Securities Lending

The Company may engage in securities lending. Although the Company will receive collateral for the loans and such collateral will be marked-to-market, the Company will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral be insufficient to reconstitute the portfolio of loaned securities.

No Ownership Interest

An investment in Capital Shares or Preferred Shares does not constitute an investment in the National Bank Shares. Holders of Capital Shares and Preferred Shares will not own the National Bank Shares held by the Company or have any voting rights in respect of the National Bank Shares.

Static Portfolio

The Company's portfolio is a static portfolio consisting of the National Bank Shares. The Company's portfolio is not "actively" managed and would not necessarily be modified or adjusted to mitigate the effect of National Bank experiencing financial difficulty or a substantial change in its core businesses.

No Assurances on Achieving Objectives

There is no assurance that the Company will be able to achieve its Investment Objectives. There is no assurance that the Company will be able to pay distributions on the Preferred Shares and the Capital Shares. The funds available for distribution to holders of Preferred Shares and Capital Shares will depend, in part, on the dividends paid on the National Bank Shares.

Loss of Investment

An investment in the Company is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

No Guaranteed Return

There is no guarantee that an investment in the Company will earn any positive return in the short or long term.

Trading Price of Shares

The Preferred Shares and Capital Shares may trade in the market at a premium or discount to the Unit Value and there can be no assurance that Preferred Shares and Capital Shares will trade at a price equal to the Unit Value. This risk is separate and distinct from the risk that the Unit Value may decrease.

Concentration Risk

The Company's portfolio will consist only of the National Bank Shares and, as a result, will not be diversified and the value of the Preferred Shares and Capital Shares may be more volatile than the value of a more broadly diversified portfolio and may fluctuate substantially over short periods of time in response to economic conditions and regulatory changes that specifically affect National Bank.

The value of the Capital Shares and Preferred Shares will vary with the value of the National Bank Shares. The value of the National Bank Shares will be influenced by factors which are not within the control of the Company or the Administrator including the financial performance of National Bank, interest rates and other financial market conditions. Accordingly, the value of Capital Shares and Preferred Shares will vary from time to time.

Fluctuations in Net Asset Value

The Unit Value and the funds available for distribution will vary according to, among other things, the value of National Bank Shares acquired by the Company, the dividends paid and interest earned thereon and the volatility of such securities. Fluctuations in the market value of the National Bank Shares may occur for a number of reasons beyond the control of the Administrator or the Company.

Sensitivity to Interest Rates

The market price of the Preferred Shares and Capital Shares may be affected by the level of interest rates prevailing from time to time. In addition, any decrease in the value of the Preferred Shares and Capital Shares resulting from an increase in interest rates may also negatively affect the market price of the Preferred Shares or Capital Shares. Holders of Preferred Shares or Capital Shares who wish to redeem or sell their Preferred Shares or Capital Shares prior to the Redemption Date will therefore be exposed to the risk that the Unit Value or the market price of the Preferred Shares or Capital Shares may be negatively affected by interest rate fluctuations.

Retractions

If holders of a substantial number of Preferred Shares or Capital Shares exercise their retraction rights, the number of such shares outstanding and the net asset value of the Company could be significantly reduced with the effect of decreasing the liquidity of the Preferred Shares and Capital Shares in the market and increasing the management expense ratio of the Company.

Tax Proposals Regarding Mutual Fund Corporation Status

The tax treatment of the Company and its shareholders depends, in part, upon the Company being a “mutual fund corporation” under the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released certain proposals to amend the Tax Act (the “**September 2004 Tax Proposals**”) pursuant to which a corporation, such as the Company, would lose its status as a mutual fund corporation if at any time after 2004 the aggregate fair market value of all issued and outstanding shares of the corporation held by one or more non-resident persons and/or by partnerships (other than Canadian partnerships under the Tax Act) is more than 50% of the aggregate fair market value of all the issued and outstanding shares of the corporation, unless no more than 10% (based on fair market value) of the corporation's property is, at any time, “taxable Canadian property” under the Tax Act and certain other types of “specified property” (as defined under the September 2004 Tax Proposals). The September 2004 Tax Proposals currently do not provide any means of rectifying the loss of mutual fund corporation status. On December 6, 2004, the Minister tabled a Notice of Ways and Means Motion to implement measures proposed in the 2004 Federal Budget. Such motion was incorporated into Bill C-33, which received Royal Assent on May 13, 2005. Such notice did not include the September 2004 Tax Proposals and this fact was specifically referred to in the accompanying release.

The Preferred Shares and Capital Shares of the Company are marketed only in Canada and it is not anticipated that more than 10% of the fair market value of the Company's assets will, at any time, consist of taxable Canadian property and other specified property, with the result that the Administrator does not anticipate that the September 2004 Tax Proposals (even if enacted in their current form) would lead to a loss of mutual fund corporation status for the Company.

Tax Proposals Regarding Losses and Expenses

On October 31, 2003, the Department of Finance released, for public consultation, proposed amendments (the “**October 31 Proposed Amendments**”) that would require, for taxation years commencing after 2004, that there be a reasonable expectation of profit from a business or property for a taxpayer to realize a loss from such business or property, and that make it clear that profit in this sense does not include capital gains. As part of the February 23, 2005 Federal Budget, the Department of Finance announced that it has developed a more modest legislative initiative and that it will, at an early opportunity, release an alternative tax proposal for comment. No such proposal has been released to date. Under the October 31 Proposed Amendments, the taxpayer will have a loss for a taxation year from a particular source that is a business or property only if, in that year, it is reasonable to expect that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer carried on, and can reasonably be expected to carry on, the business, or has held, and can reasonably be expected to hold, the property. If the deduction of losses of the Company was limited in a particular year under the October 31 Proposed Amendments or any alternative tax proposals, the taxable income of the Company in future years would be increased, and the Company may increase the amount of capital gains dividends paid to shareholders in order to obtain a refund of tax with respect to net realized capital gains.

Risks Related to Preferred Shares

Maintaining a Credit Rating

There can be no assurance that the rating on the Preferred Shares of Pfd-2 (low) by DBRS will remain in effect or not be revised. If such rating is withdrawn or revised, there may be an adverse effect on the market price of the Preferred Shares.

Risks Related to Capital Shares

Leverage

An investment in Capital Shares is subject to the additional risk that the Capital Shares represent a leveraged investment and therefore the potential returns on such shares is amplified both to the benefit and detriment of the Capital Shares. Holders of the Capital Shares will enjoy a form of leverage in that any capital appreciation in the National Bank Shares (after payment of any accrued and unpaid distributions on the Preferred Shares, redemption or retraction values of the Preferred Shares and expenses) will be for the benefit of the holders of the Capital Shares. In the event of a decrease in the value of the Company's underlying investment in the National Bank Shares, this leverage will work to the disadvantage of holders of the Capital Shares, with the result that any net capital loss incurred by the Company on its investment in the National Bank Shares will effectively first be for the account of the holders of the Capital Shares. If the Unit Value is less than or equal to \$32.72 plus accrued and unpaid distributions on the Preferred Shares on the Redemption Date, the Capital Shares will have no value. An investment in Capital Shares is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

Readers may wish to consult their own investment advisors for advice in connection with an investment (or continuing to invest) in the Capital Shares or Preferred Shares.

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Additional information about the Company is available in the Company's management reports of fund performance and financial statements. You can get a copy of these documents at no cost by calling toll-free 1-877-642-1289 or by sending a request via e-mail to info@firstasset.com. These documents and other information about the Company, such as information circulars and material contracts, are also available on the Company's internet site at www.nbsplit.com or at www.sedar.com.