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# **NB Split Corp.**

Interim Financial Statements  
for the period  
January 1, 2009 to June 30, 2009

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**NOTICE TO READER:**

These interim financial statements and related notes for the six month period ended June 30, 2009 have been prepared by the Management of NB Split Corp. The external auditors of the Fund have not audited or reviewed these interim financial statements.

**NB SPLIT CORP.**  
**STATEMENTS OF NET ASSETS (Unaudited)**

As at	June 30, 2009 \$	December 31, 2008 \$
<b>ASSETS</b>		
Investment in National Bank Shares, at fair value	67,759,669	39,445,582
Cash and cash equivalents	360,191	73,611
Dividends receivable	781,602	781,600
Prepaid expenses	27,920	25,666
	<b>68,929,382</b>	<b>40,326,459</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	97,874	70,807
Preferred Shares <i>[note 5]</i>	40,010,209	39,864,561
	<b>40,108,083</b>	<b>39,935,368</b>
	<b>28,821,299</b>	<b>391,091</b>
<b>CAPITAL SHAREHOLDERS' EQUITY</b>		
Capital Shares <i>[note 5]</i>	50,238,777	50,238,777
Class J Shares <i>[note 5]</i>	150	150
Deficit	(21,417,628)	(49,847,836)
	<b>28,821,299</b>	<b>391,091</b>
<b>Number of units outstanding <i>[note 5]</i></b>	<b>1,246,415</b>	<b>1,246,415</b>
<b>Net Assets per two Capital Shares <i>[note 5]</i></b>	<b>\$23.12</b>	<b>\$0.31</b>
<b>Redemption value per Preferred Share <i>[note 5]</i></b>	<b>\$32.72</b>	<b>\$32.72</b>
<b>Net Assets per unit</b>	<b>\$55.84</b>	<b>\$33.03</b>

*See accompanying notes*

NB SPLIT CORP.

**STATEMENTS OF INVESTMENT OPERATIONS  
AND RETAINED EARNINGS (DEFICIT) (Unaudited)**

For six months ended June 30	2009 \$	2008 \$
<b>INVESTMENT INCOME</b>		
Dividends	1,563,200	1,905,954
Interest	1,097	8,531
	<b>1,564,297</b>	<b>1,914,485</b>
<b>EXPENSES</b>		
Securityholder reporting costs	69,127	58,016
Administration fees <i>[note 6]</i>	65,778	96,991
Legal fees	44,734	15,312
Independent review committee and directors' fees	26,259	7,919
Custodial fees	21,124	19,324
Goods and Services Tax	9,973	8,764
Audit fees	9,231	11,080
Other administration expense	3,082	6,258
	<b>249,308</b>	<b>223,664</b>
<b>Net investment income before the undernoted:</b>	<b>1,314,989</b>	<b>1,690,821</b>
Preferred Shares issue costs amortization <i>[note 5]</i>	(145,647)	(178,797)
Dividends paid on Preferred Shares <i>[note 7]</i>	(968,714)	(1,182,656)
Change in unrealized appreciation (depreciation) of investment	28,314,087	(2,628,372)
<b>Results of investment operations for the period</b>	<b>28,514,715</b>	<b>(2,299,004)</b>
<b>Results of investment operations per Capital Share</b>	<b>\$ 22.8774</b>	<b>\$ (0.7554)</b>
<b>Deficit, beginning of period</b>	<b>(49,847,836)</b>	<b>(19,537,655)</b>
Results of investment operations for the period	28,514,715	(2,299,004)
Dividends paid on Capital Shares <i>[note 7]</i>	(84,507)	(206,341)
<b>Deficit, end of period</b>	<b>(21,417,628)</b>	<b>(22,043,000)</b>
<b>Dividends paid per Preferred Share</b>	<b>\$ 0.7772</b>	<b>\$ 0.7772</b>
<b>Dividends paid per Capital Share</b>	<b>\$ 0.0339</b>	<b>\$ 0.0678</b>

See accompanying notes

**NB SPLIT CORP.**  
**STATEMENTS OF CHANGES IN**  
**SHAREHOLDERS' EQUITY (Unaudited)**

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For six months ended June 30	2009	2008
	\$	\$
<b>Shareholders' equity, beginning of period</b>	<b>391,091</b>	<b>32,952,592</b>
<b>Operations</b>		
Increase (decrease) in net assets from investment operations	28,514,715	(2,299,004)
<b>Distribution to Capital Shareholders [note 7]</b>		
Dividends paid on Capital Shares	(84,507)	(206,341)
<b>Net increase (decrease) in shareholders' equity</b>	<b>28,430,208</b>	<b>(2,505,345)</b>
<b>Shareholders' equity, end of period</b>	<b>28,821,299</b>	<b>30,447,247</b>

*See accompanying notes*

**NB SPLIT CORP.**  
**STATEMENTS OF CASH FLOWS (Unaudited)**

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For six months ended June 30	2009	2008
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net investment income	1,314,989	1,690,821
Adjustments to Reconcile Cash Flows from Operating Activities		
Change in other assets and liabilities	24,811	(16,927)
<b>Cash flows from operating activities</b>	<b>1,339,800</b>	<b>1,673,894</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid on Preferred Shares	(968,714)	(1,182,656)
Dividends paid on Capital Shares	(84,507)	(206,341)
<b>Cash flows used in financing activities</b>	<b>(1,053,221)</b>	<b>(1,388,997)</b>
<b>Net increase in cash and cash equivalents during the period</b>	<b>286,579</b>	<b>284,897</b>
Cash and cash equivalents, beginning of period	73,612	181,729
<b>Cash and cash equivalents, end of period</b>	<b>360,191</b>	<b>466,626</b>

*See accompanying notes*

NB SPLIT CORP.  
**SCHEDULE OF INVESTMENTS (Unaudited)**

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As at June 30, 2009

<b>Number of shares</b>	<b>Description</b>	<b>Average cost \$</b>	<b>Fair value \$</b>	<b>% of Portfolio</b>
<b>Canadian Equities</b>				
1,260,645	National Bank of Canada	82,373,485	67,759,669	
<b>Total Canadian Equities</b>		<b>82,373,485</b>	<b>67,759,669</b>	<b>100.00%</b>
<b>Total Investments</b>		<b>82,373,485</b>	<b>67,759,669</b>	<b>100.00%</b>

*See accompanying notes*

**NB SPLIT CORP.**  
**NOTES TO FINANCIAL STATEMENTS (Unaudited)**

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June 30, 2009

**1. INCORPORATION**

NB Split Corp. (the "Fund"), incorporated under the laws of Ontario on December 15, 2006, is a mutual fund corporation whose investment portfolio consists of common shares of the National Bank of Canada ("National Bank Shares").

On February 22, 2007, 1,436,369 Preferred Shares and 2,872,738 Capital Shares were issued by the Fund for gross proceeds of \$46,997,994 in respect of the Preferred Shares and \$53,002,016 in respect of the Capital Shares.

On March 12, 2007, an over allotment option was exercised for 85,319 Preferred Shares and 170,638 Capital Shares for gross proceeds of \$2,791,637 in respect of the Preferred Shares and \$3,148,271 in respect of the Capital Shares.

The Administrator of the Fund is FA Administration Services Inc. (the "Administrator")

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In applying Canadian GAAP, management may make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

**Adoption of new accounting standard**

On January 1, 2009, the Fund adopted EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, issued by the CICA's Emerging Issues Committee. The abstract requires that an entity's own credit risk and the risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities. The abstract did not affect the Fund's financial position or results of operations.

**Investments**

The investment in the National Bank Shares is categorized as held for trading and valued at fair value which means the latest bid price. The difference between the bid price and average cost, as recorded in the accounts, is reported as part of the Statements of Investment Operations and Retained Earnings (Deficit) as unrealized appreciation (depreciation) of investment. Average cost is used to determine the gain or loss on investments sold.

**Cash and cash equivalents**

Cash and cash equivalents are comprised of cash and short-term investments with a term to maturity of less than three months from the date of purchase. Cash and cash equivalents are categorized as held for trading and therefore are carried at fair value. Short-term investments are valued at cost plus accrued interest, which approximates fair value.

**Income recognition**

The accrual method of recording income and expenses is followed with dividend income being recorded on the ex-dividend date.

**Transaction costs**

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities, are expensed and are recognized in the Statements of Investment Operations and Retained Earnings (Deficit).

**Results of investment operations per Capital Share**

The results of investment operations per Capital Share in the Statements of Investment Operations and Retained Earnings (Deficit) represent the results of investment operations during the period, divided by the average number of Capital Shares outstanding during the period.

**Net Assets per unit**

The Net Assets per unit is calculated as net assets at fair value divided by the number of units outstanding of the Fund. The Preferred Shares are not treated as liabilities for this purpose. A unit is a notional unit comprising of one Preferred Share and two Capital Shares.

**Preferred Shares**

The Preferred Shares are carried at amortized cost using the effective interest method and are presented as liabilities in the Statements of Net Assets. The costs incurred to issue Preferred Shares are amortized over the term of the Preferred Shares using the effective interest method. On redemption or early retraction of the Preferred Shares or Capital Shares, any unamortized issue cost balance relating to these shares and included in Net Assets will be written off. The fair value of the Preferred Shares, which is based on the Toronto Stock Exchange ("TSX") market price on June 30, 2009, was \$40,520,952 (2008 – \$47,111,460).

**Other assets and liabilities**

Dividends receivable are designated as loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities are designated as other liabilities and reported as cost or amortized cost. Other assets and liabilities are short-term in nature and amortized cost approximates fair value

**3. NET ASSET VALUE**

The Canadian securities regulatory authorities have published amendments to NI 81-106 that remove the requirement that net asset value, for redemptions and subscriptions, ("Net Asset Value") be calculated in accordance with Canadian GAAP effective September 8, 2008. As a result of the amendments, the Net Asset Value of investment funds will continue to be calculated based on the fair value of investments using the close or last trade price. The Net Assets per unit for financial reporting purposes and Net Asset Value per unit (for redemptions and subscriptions) could be different due to the use of different valuation techniques. The Net Asset Value per unit calculated using the close or last traded price at June 30 is as follows and any difference between the Canadian GAAP Net Assets and Net Asset Value is on account of the use of the last bid price for the valuation of investments for Canadian GAAP:

	2009	2008
Capital Shares	\$23.12	\$20.19
Preferred Shares	\$32.72	\$32.72

**4. FINANCIAL RISK MANAGEMENT**

In the normal course of business, the Fund is exposed to various financial risks, including credit risk, liquidity risk and market risk (consisting of interest rate risk, currency risk and other price risk). To assist in managing risk, the Fund maintains a governance structure that oversees the investment activities and monitors compliance with the Fund's stated investment strategy, investment guidelines and securities regulations.

**Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As of June 30, 2009 the Fund does not have any significant credit risk exposure.

**Liquidity risk**

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligation on time or at a reasonable price. As at June 30, 2009, the Fund's investment in National Bank Shares is considered readily realizable as the shares are actively traded on a public exchange.

**Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

## NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

The majority of the Fund's financial assets and liabilities are non-interest bearing, accordingly, the Fund is not subject to significant amounts of risk due to fluctuations in prevailing levels of market interest rates.

The Fund is not exposed to interest rate risk on the Preferred Shares as these shares are entitled to a fixed cumulative preferential distribution of 4.75% per annum on the issue price of the Preferred Shares.

**Currency risk**

Currency risk is the risk that the value of investments which are denominated in a currency other than the functional currency of the Fund will fluctuate due to changes in foreign exchange rates. The Fund invests primarily in Canadian dollar securities, which represents the functional currency of the Fund. As of June 30, 2009, the Fund had no exposure to foreign currencies and consequently did not have any exposure to currency risk.

**Other price risk**

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

All investments in securities present a risk of loss of capital. The maximum market price risk resulting from these investments is equivalent to their fair value. The Fund's investment portfolio is passively managed and the value of the portfolio will be influenced by factors which are not within the control of the Fund including the financial performance of National Bank, the condition of the equity markets generally and other factors.

By utilizing a split share structure, holders of the Capital Shares receive leveraged exposure such that any capital appreciation or depreciation of the National Bank Shares will be borne by the Capital Shares. Accordingly, any increase or decrease in the value of the National Bank Shares will result in a greater proportionate increase or decrease in the Net Asset Value of the Capital Shares. If the decline in value of the National Bank Shares exceeds the amounts subscribed by the Capital Shares, then the value of the Capital Shares is nil and the Preferred Shares absorb the excess loss.

As at June 30, 2009, 97.4% of the Fund's net assets were invested in National Bank Shares which trades on the TSX. If the price of National Bank Shares had increased or decreased by 10% as at the period end, with all other factors remaining constant, net assets would have increased or decreased by \$6,775,967, respectively.

**5. SHARE CAPITAL**

The Fund is authorized to issue an unlimited number of Capital Shares (the "Capital Shares"), Preferred Shares (the "Preferred Shares"), Class B, C, D and E capital shares, issuable in series and Class B, C, D and E preferred shares, issuable in series and Class J Shares. The Fund issued 150 Class J Shares for a cash consideration of \$150.

A summary of the Fund's issued and outstanding share capital and related share issue costs is as follows:

	Class J Shares	Number of Units	Capital Shares	Preferred Shares	Preferred Shares Issue Costs
Issuance of shares on February 27, 2007	\$150	1,521,688	\$56,150,287	\$49,789,631	–
Issue costs	–	–	(\$3,660,190)	–	(\$1,786,130)
Amortization	–	–	–	–	\$305,662
Outstanding on December 31, 2007	\$150	1,521,688	\$52,490,097	\$49,789,631	(\$1,480,468)
Retraction of units	–	(275,273)	(\$2,249,487)	(\$9,006,933)	\$206,504
Issue costs	–	–	(\$1,833)	–	–
Amortization	–	–	–	–	\$355,827
Outstanding on December 31, 2008	\$150	1,246,415	\$50,238,777	\$40,782,698	(\$918,137)
Amortization	–	–	–	–	\$145,647
<b>Outstanding on June 30, 2009</b>	<b>\$150</b>	<b>1,246,415</b>	<b>\$50,238,777</b>	<b>\$40,782,698</b>	<b>(\$772,490)</b>

**Preferred Shares**

Holders of Preferred Shares are entitled to receive quarterly fixed cumulative preferential distributions of \$0.3886 per Preferred Share. Such quarterly distributions are paid on or before the 15th day of March, June, September and December in each year commencing June, 2007.

The Preferred Shares outstanding on February 15, 2012 will be redeemed by the Fund on such date for a redemption price per share equal to the lesser of \$32.72 and the Net Asset Value per unit of the Fund on that date. The Preferred Shares may be surrendered at any time for retraction.

Holders of Preferred Shares are not entitled to vote on any of the National Bank Shares and are not entitled to vote at any meeting of shareholders of the Fund, except as set forth in the Fund's articles and as provided by law.

The Preferred Shares rank in priority to the Capital Shares and Class J Shares with respect to the payment of dividends, distributions upon a redemption, retraction or reduction of capital and distributions upon a dissolution, liquidation or winding-up of the Fund.

**Capital Shares**

The Capital Shares outstanding on February 15, 2012 will be redeemed by the Fund on such date for an amount per share equal to the Net Asset Value per unit of the Fund less \$32.72 for each two Capital Shares redeemed (Note 2). If the Net Asset Value per unit is less than or equal to \$32.72 on February 15, 2012, the Capital Shares will have no value on redemption. The Capital Shares may be surrendered at any time for retraction and any unamortized issue cost relating to the Preferred Shares will be deducted from the Net Asset Value per unit on retraction.

Holders of Capital Shares are not entitled to vote on any of the National Bank Shares and are not entitled to vote at any meeting of shareholders of the Fund, except as set forth in the Fund's articles and as provided by law.

Holders of Capital Shares are entitled to receive dividends as and when declared by the Fund's board of directors (the "Board of Directors"). 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 Fund on the National Bank Shares minus the distributions payable on the Preferred Shares and all administrative and operating expenses.

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 redemption, retraction or reduction of capital and distribution upon a dissolution, liquidation or winding-up of the Fund.

**Class J Shares**

The Class J Shares of the Fund 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 Fund. The Class J Shares are redeemable at any time for \$1.00 per share.

Holders of Class J Shares are entitled to one vote per share.

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

**6. EXPENSES OF THE FUND**

The Administrator is entitled to a monthly fee of 1/12 of 0.25% of the fair value of the National Bank Shares.

The Fund is responsible for all costs relating to its administration.

No commissions or other transaction costs were paid by the Fund for its portfolio transactions during the periods.

**7. DISTRIBUTIONS**

An objective of the Fund is to provide quarterly fixed cumulative preferential distributions equal to of \$0.3886 per share to holders of Preferred Shares, as and when declared, to yield 4.75% per annum on the original issue price of the Preferred 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 may 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 Fund, the excess amount may be paid as dividends on the Capital Shares, as determined by the Fund's Board of Directors.

**8. INCOME TAXES**

The Fund qualifies and intends to continue to qualify as a mutual fund corporation under the Income Tax Act (Canada). Mutual fund corporations are generally subject to tax in the same manner as other public corporations except that income taxes payable on realized capital gains are refundable on a formula basis when shares of the Fund are redeemed or capital gains dividends are paid by the Fund to its shareholders.

The Fund is subject to a special tax at the rate of 33 1/3% on taxable dividends received from taxable Canadian corporations. This tax is refundable to the Fund upon the payment of taxable dividends to its shareholders at the rate of \$1 of tax for every \$3 of dividends paid.

**9. TAX LOSS CARRYFORWARD**

As at June 30, 2009, the Fund had non-capital loss carryforwards for income tax purposes which may be utilized to reduce taxable income of future periods and expire in the year indicated.

Non-Capital Losses	Expiration of Non-Capital Losses 2028
\$1,555,006	\$1,555,006

**10. CAPITAL MANAGEMENT**

The Fund considers its capital to consist of Capital, Class J and Preferred Shares.

The Fund's objectives in managing its capital are:

- (i) to provide holders of Preferred Shares with cumulative preferential quarterly cash distributions in the amount of \$0.3886 per Preferred Share, and
- (ii) to provide holders of Capital Shares with the opportunity for growth in net asset value per share and the benefit of any increase in the dividends paid on the National Bank Shares.

The Fund manages its capital in accordance with its investment objectives and strategies and the risk management practices outlined in Note 4. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to shareholders.