
NB Split Corp.

**Interim Management Report of Fund Performance
and Financial Statements
for the period
January 1, 2008 to June 30, 2008**



INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

FUND:
NB Split Corp.

SECURITIES:
Preferred Shares – Listed TSX: NBF.PR.A
Capital Shares – Listed TSX: NBF

PERIOD:
January 1, 2008 to June 30, 2008

ADMINISTRATOR:
FA Administration Services Inc.
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Toronto, Ontario M5J 2N7
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NOTES:

1. This interim management report of fund performance contains financial highlights, along with interim financial statements of the Fund. Holders may also contact us to request a free copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure. Our contact information is above.
2. This report may contain forward looking statements. Forward looking statements involve risks and uncertainties and are predictive in nature and actual results could differ materially from those contemplated by the forward looking statements.
3. Unless otherwise indicated all information is as at June 30, 2008.

Interim Management Report of Fund Performance

Results of Operations

For the six month period ending June 30, 2008, the net asset value per Capital Share of the Fund was \$10.01 after payment of distributions to holders compared to \$10.83 per Capital Share on December 31, 2007. The Fund distributed \$0.0678 per Capital Share during the period. As a result, total return for the Capital Shares was -6.1% over the period. During the same period, the Fund also distributed \$0.7773 per Preferred Share.

The Fund's net assets were \$80.2 million as at June 30, 2008, a decrease from \$82.7 million as at December 31, 2007. The largest factor contributing to this decrease was the increased unrealized loss position of the portfolio investment held by the Fund. There were no significant variances in investment income or expenses as compared to the prior period.

The Fund's only portfolio holding is the common shares ("National Bank Shares") of National Bank of Canada ("National Bank") and, consequently, the performance of the Fund is directly related to the performance of National Bank. The Fund's net asset value showed only a slight decline over the period as National Bank maintained a steady share price and dividend rate, despite the ongoing credit crisis.

Recent Developments

January 1, 2008: The Fund adopted the following new accounting standards: CICA Handbook Section 3862, *Financial Instruments – Disclosures* and CICA Handbook Section 3863, *Financial Instruments – Presentation*. These sections emphasize disclosure on how the Fund manages its financial risk exposure on financial instruments. The standards include new requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks. (See note 4 of financial statements.)

March 19, 2008: The Fund announced that it had been advised by DBRS Limited that the rating of certain structured preferred shares with significant exposure to the financial sector, including the Fund's Preferred Shares, had been placed "Under Review with Developing Implications".

While there have been no other developments affecting the Fund, the National Bank Shares are influenced by factors that are not within the control of the Fund, including the financial performance of National Bank and market conditions affecting the financial sector generally. Readers may wish to consult the continuous disclosure documents of National Bank for further information concerning recent developments pertaining to National Bank available on the Internet at www.sedar.com. For greater certainty, such documents are not incorporated by reference herein.

Related Party Transactions

In connection with its initial public offering, the Company engaged National Bank Financial Inc.

("NBF"), Scotia Capital Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., TD Securities Inc., HSBC Securities (Canada) Inc., Canaccord Capital Corp., Raymond James Ltd., Desjardins Securities Inc., Blackmont Capital Inc. and Wellington West Capital Inc. (collectively, the "Agents") as its Agents to offer for sale to the public the Capital Shares and the Preferred Shares pursuant to a prospectus dated January 30, 2007 (the "Offering"). In connection with their services, the Agents received \$0.982 per Preferred Share and \$1.107 per Capital Share. In connection with the Offering, NBF was also the promoter.

The Fund established a revolving credit facility dated May 11, 2007 in the aggregate amount of \$5,000,000 which may be used to fund the payment of a portion of the fixed distributions on the Preferred Shares on a temporary basis, if necessary. Amounts borrowed under the facility are collateralized by a security interest in the assets and undertakings of the Fund. The lender under the credit facility is National Bank, an affiliate of NBF. The terms, conditions, interest rates and expenses are typical for a loan of this nature. As at June 30, 2008, the loan had not yet been drawn on.

FA Administration Services Inc. ("FA"), which has been retained by the Fund to provide certain administrative services to it, is also considered a related party.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance since inception. This information is derived from the Fund's audited annual financial statements and latest unaudited interim financial statements.

The Fund's Net Asset Value (NAV) per Unit

	For the Six Months Ended June 30	For the Period Ended December 31
	2008	2007
Net Asset Value, beginning of period ⁽¹⁾	\$54.38	\$67.19
Increase (decrease) from operations		
Total revenue	0.63	1.21
Total expenses	(0.07)	(0.16)
Realized gains (losses) for the period	0.00	0.00
Unrealized gains (losses) for the period	(0.86)	(6.67)
Total increase (decrease) from operations ⁽²⁾	(0.30)	(5.62)
Distributions per Preferred Share:		
From income (excluding dividends)	0.00	0.00
From dividends	(0.78)	(1.22)
From capital gains	0.00	0.00
Return of capital	0.00	0.00
Total Preferred Share Distributions ^{(2) (3)}	(0.78)	(1.22)
Distributions per Capital Share:		
From income (excluding dividends)	0.00	0.00
From dividends	(0.07)	(0.09)
From capital gains	0.00	0.00
Return of capital	0.00	0.00
Total Capital Share Distributions ^{(2) (3)}	(0.07)	(0.09)
Net Asset Value, end of period ^{(4) (5)}	\$52.73	\$54.38

(1) The Net Asset Value reflects the issue prices of \$18.45 for Capital Shares and \$32.72 for Preferred Shares less share issue expenses. A unit represents one Preferred Share and two Capital Shares. Net asset value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities excluding the Preferred Shares of the Fund on that date divided by the number of units then outstanding.

(2) Distributions are based on the actual number of Preferred Shares and Capital Shares outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of Capital Shares outstanding over the financial period.

(3) Distributions were paid in cash.

(4) This information is derived from the Fund's audited annual and unaudited interim financial statements. The Net Asset Value presented in the financial statements (GAAP NAV) differs from the Net Asset Value calculated for fund pricing purposes (Transaction NAV) due to the provisions of CICA Handbook Section 3855. An explanation of the differences can be found in the notes to the financial statements.

(5) This is not a reconciliation of the beginning and ending Net Asset Value per unit.

Ratios and Supplemental Data

	2008	2007
Net assets (000's) ⁽¹⁾	\$80,237	\$82,742
Number of units outstanding (000's) ⁽¹⁾	1,522	1,522
Management expense ratio before share issue expense and interest on Preferred Shares ⁽²⁾	0.56%	0.52%
Management expense ratio ⁽²⁾	3.51%	8.40%
Management expense ratio before waivers or absorptions ⁽²⁾	3.51%	8.40%
Portfolio turnover rate ⁽³⁾	0.00%	0.00%
Trading expense ratio ⁽⁴⁾	0.00%	0.00%
Closing market price – Preferred Share	\$30.96	\$30.00
Closing market price – Capital Share	\$10.00	\$10.25

(1) This information is provided as at December 31 of the year shown, except 2008 which is provided as at June 30, and represents GAAP NAV. A unit represents one Preferred Share and two Capital Shares. Net Asset Value is equal to Net Asset Value per unit multiplied by the number of units outstanding.

(2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. Total expenses include interest on the Fund's Preferred Shares. The Preferred Shares form part of the Fund's dual security capital structure. The MER for the period ending December 31, 2007 annualizes expenses incurred from inception date to the end of the period and it also includes all Agents' fees and other offering expenses, which are one-time expenses and therefore are not annualized.

(3) The Fund's portfolio turnover rate indicates how actively the Fund's investment advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

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

Management Fees

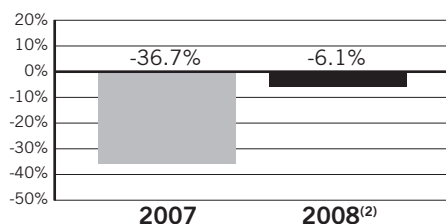
The Fund pays the Administrator a monthly fee of 1/12 of 0.25% of the fair value of National Bank Shares held by the Fund for the administrative services it provides.

Past Performance

Please note that the performance information shown in this section assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund. Also note that the performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns on performance. The performance of the Fund in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns ⁽¹⁾

The following bar chart shows the Fund's annual performance for the financial years shown, and illustrates how the Fund's performance has changed from year to year. The bar chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



(1) Calculation of year-by-year returns is determined using Transaction NAV.

(2) Total return for the period from January 1, 2008 to June 30, 2008

SUMMARY OF INVESTMENT PORTFOLIO

The following is a summary of the Fund's investment portfolio as at June 30, 2008. This is a summary only and will change due to ongoing portfolio transactions of the Fund. A quarterly update is available on www.nbsplit.com.

HOLDINGS as at June 30, 2008

DESCRIPTION	% NAV (1)
National Bank of Canada	96.68
Cash and Cash Equivalents	0.58
Total Net Asset Value	\$80,513,549

SECTOR ALLOCATION as at June 30, 2008

INDUSTRY	% of NAV (1)
Financials	96.68
Cash and Cash Equivalents	0.58
	97.26
Other Assets, Net of Liabilities	2.74
Total Net Assets	100.00

(1) Based on Transaction NAV.

STATEMENTS OF NET ASSETS (Unaudited)

As at	June 30, 2008 \$	December 31, 2007 \$
ASSETS		
Investment in National Bank Shares, at fair value	77,560,048	80,188,420
Cash and cash equivalents	466,626	181,729
Dividends receivable	953,010	952,977
	78,979,684	81,323,126
LIABILITIES		
Accounts payable and accrued liabilities	44,476	61,371
Preferred Shares <i>[note 5]</i>	48,487,960	48,309,163
	48,532,436	48,370,534
	30,447,247	32,952,592
CAPITAL SHAREHOLDERS' EQUITY		
Capital Shares <i>[note 5]</i>	52,490,097	52,490,097
Class J Shares <i>[note 5]</i>	150	150
Deficit	(22,043,000)	(19,537,655)
	30,447,247	32,952,592
Number of units outstanding <i>[note 5]</i>	1,521,688	1,521,688
Net Asset Value per two Capital Shares	\$20.01	\$21.66
Redemption value per Preferred Share <i>[note 5]</i>	\$32.72	\$32.72
Net Asset Value per unit	\$52.73	\$54.38

See accompanying notes

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

	For six months ended June 30, 2008 \$	Period from February 22 to June 30, 2007 \$
INVESTMENT INCOME		
Dividends	1,905,954	1,752,248
Interest	8,531	25,439
	1,914,485	1,777,687
EXPENSES		
Administration fees <i>[note 6]</i>	96,991	81,188
Securityholder reporting costs	58,016	31,660
Custodial fees	19,324	15,080
Legal fees	15,312	5,261
Audit fees	11,080	10,520
Goods and Services Tax	8,764	8,605
Directors' fees	7,919	-
Other administration expense	6,258	-
	223,664	152,314
Net investment income before the undernoted:	1,690,821	1,625,373
Preferred Shares issue costs amortization <i>[note 5]</i>	(178,797)	(124,900)
Dividends paid on Preferred Shares <i>[note 7]</i>	(1,182,656)	(680,347)
Change in unrealized depreciation of investment	(2,628,372)	(6,105,714)
Results of investment operations for the period	(2,299,004)	(5,285,588)
Results of investment operations per Capital Share	\$ (0.7554)	\$ (1.7368)
Retained earnings (deficit), beginning of period	(19,537,655)	-
Results of investment operations for the period	(2,299,004)	(5,285,588)
Dividends paid on Capital Shares <i>[note 7]</i>	(206,341)	(103,475)
Deficit, end of period	(22,043,000)	(5,389,063)
Dividends paid per Preferred Share	\$ 0.7772	\$ 0.4471
Dividends paid per Capital Share	\$ 0.0678	\$ 0.0340

See accompanying notes

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)

	For six months ended June 30, 2008 \$	Period from February 22 to June 30, 2007 \$
Shareholders' equity, beginning of period	32,952,592	-
Operations		
Decrease in net assets from investment operations	(2,299,004)	(5,285,588)
Shareholder transactions [note 5]		
Proceeds from issuance of Capital Shares	-	56,150,287
Proceeds from issuance of Class J Shares	-	150
Issue costs on Capital Shares	-	(3,698,131)
	-	52,452,306
Distribution to Capital Shareholders [note 7]		
Dividends paid on Capital Shares	(206,341)	(103,475)
Net increase (decrease) in shareholders' equity	(2,505,345)	47,063,243
Shareholders' equity, end of period	30,447,247	47,063,243

See accompanying notes

STATEMENTS OF CASH FLOWS (Unaudited)

	For six months ended June 30, 2008 \$	Period from February 22 to June 30, 2007 \$
OPERATING ACTIVITIES		
Net investment income	1,690,821	1,625,373
Net change in non-cash items		
Change in other assets and liabilities	(1,199,583)	(1,551,339)
Cash flows from operating activities	491,238	74,034
FINANCING ACTIVITIES		
Issuance of Preferred Shares	-	49,789,632
Issuance of Capital Shares	-	56,150,287
Issuance of Class J Shares	-	150
Issue costs on Preferred Shares	-	(1,786,130)
Issue costs on Capital Shares	-	(3,612,157)
Dividends paid on Capital Shares	(206,341)	(103,475)
Cash flows from (used in) financing activities	(206,341)	100,438,307
INVESTING ACTIVITIES		
Purchase of investment portfolio	-	(100,435,086)
Cash flows used in investing activities	-	(100,435,086)
Net increase in cash and cash equivalents during the period	284,897	77,255
Cash and cash equivalents, beginning of period	181,729	-
Cash and cash equivalents, end of period	466,626	77,255

See accompanying notes

SCHEDULE OF INVESTMENTS (Unaudited)

As at June 30, 2008

Number of shares	Description	Average cost \$	Fair value \$	% of Portfolio
Canadian Equities				
1,537,060	National Bank of Canada	100,435,086	77,560,048	
Total Canadian Equities		100,435,086	77,560,048	100.00%
Total Investments		100,435,086	77,560,048	100.00%

See accompanying notes

NOTES TO FINANCIAL STATEMENTS (Unaudited)

June 30, 2008

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 standards

On January 1, 2008, the Fund adopted the following new accounting standards: CICA Handbook Section 3862, *Financial Instruments – Disclosures* and CICA Handbook Section 3863, *Financial Instruments – Presentation*. These sections emphasize disclosure on how the Fund manages its financial risk exposure on financial instruments. The standards include new requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks. These standards did not affect the Fund's financial position or results of operations.

Changeover to International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed its plan to adopt all International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board, on or by January 1, 2011. The Fund will adopt all of the International Financial Reporting Standards in accordance with the AcSB's plan. The Administrator has presently determined that there will be no impact to net asset value per unit from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of additional note disclosure in the financial statements of the Fund.

Investments

Investment in the National Bank Shares is valued at the bid price. The difference between the bid price and average cost, as recorded in the accounts, is reported as part of Statement of Investment Operations as unrealized appreciation (depreciation) of investments. 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 date of purchase. 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.

Results of investment operations per Capital Share

The results of investment operations per unit in the statement 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.

NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

Net Asset Value per unit

The Net Asset Value 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 Statement of Net Assets.

The costs incurred to issue Preferred Shares are amortized over the term of the Preferred Shares. On redemption or early retraction of the Preferred Shares or Capital Shares, any unamortized issue cost balance relating to these shares will be written off.

3. NET ASSET VALUE PER UNIT

For financial statement reporting purposes, the fair value of the Fund's investments are measured in accordance with CICA Handbook Section 3855: *Financial Instruments – Recognition and Measurement* ("Section 3855"), which for publicly listed securities is based on the closing bid price on the recognized stock exchange on which the investments are listed or principally traded. However, pursuant to a temporary exemption provided by the Canadian securities regulatory authorities ("CSRA"), the Fund continues to calculate and report its Net Asset Value for purposes other than financial statements, such as issuance and redemption of units, using the closing sale price. Consequently, there is a difference between the Net Asset Value for financial reporting purposes ("GAAP NAV") and pricing purposes ("Transaction NAV").

The reconciliation of the Fund's Transaction NAV and GAAP NAV is as follows:

	As at June 30, 2008		As at June 30, 2007	
	Total NAV \$	NAV per unit \$	Total NAV \$	NAV per unit \$
Transaction NAV	80,513,549	52.91	96,852,874	63.65
Adjustment from closing price to last bid price	(276,670)	(0.18)	–	–
GAAP NAV*	80,236,879	52.73	96,852,874	63.65

*Excludes Preferred Shares as liabilities

4. FINANCIAL INSTRUMENTS

Fair value of financial instruments

The Fund's financial instruments include investments, cash and cash equivalents, dividends receivable, accounts payable and accrued liabilities. Investments and cash equivalents are valued at fair value, using the policies described in Note 2. Investments are all held for trading and changes in fair value are reflected in the Fund's Statements of Operations and Retained Earnings. The other financial instruments are carried at amortized cost. The fair value of the other financial instruments closely approximates their carrying values, given their short-term maturities.

Management of financial risks

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 Administrator maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy, investment guidelines and securities regulators.

NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

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, 2008 the Fund does not have a 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, 2008, the Fund's investment in National Bank Shares are considered readily realizable as they 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.

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.

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, 2008 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 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. Although the Fund's investment portfolio is passively managed, market price risk is mitigated through the daily monitoring of the Fund's investment portfolio by the Administrator.

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.

As at June 30, 2008, 96.7% of the Fund's net assets were invested in National Bank Shares which trades on the Toronto Stock Exchange ("TSX"). If equity prices on the TSX 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 \$7,756,005, 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.

NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

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 Share Issue Costs
Issued, beginning of period	\$150	1,521,688	\$52,490,097	\$49,789,631	(\$1,480,468)
Amortization	–	–	–	–	\$178,797
Outstanding, end of period	\$150	1,521,688	\$52,490,097	\$49,789,631	(\$1,301,671)

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 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 excess of the Net Asset Value per unit of the Fund less \$32.72 for each two Capital Shares redeemed. 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 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.

NOTES TO FINANCIAL STATEMENTS (Unaudited)

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 period.

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 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 Fund, the excess amount will 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, 2008, the Fund had non-capital loss carryforwards for income tax purposes which may be utilized to reduce taxable income of future years and expire in the year indicated.

Non-Capital Losses	Expiration of Non-Capital Losses 2027
\$1,027,568	\$1,027,568

10. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current period's presentation.

