

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or any securities laws of any state, territory or possession of the United States ("state securities laws"), and may only be offered or sold, directly or indirectly, within the United States pursuant to the registration requirements of the 1933 Act and applicable state securities laws or an exemption therefrom. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities in the United States of America, its territories or possessions. See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Secretary of First National Financial Corporation at 100 University Avenue, North Tower, Suite 700, Toronto, Ontario, M5J 1V6, telephone (416) 593-1100 or (800) 465-0039 and are also available electronically at www.sedar.com.

SHORT FORM PROSPECTUS

New Issue

January 18, 2011



FIRST NATIONAL FINANCIAL CORPORATION

\$100,000,000

4,000,000 Class A Preference Shares, Series 1

First National Financial Corporation (the "**Corporation**") is the company resulting from the conversion on January 1, 2011 of First National Financial Income Fund (the "**Fund**") from an income trust structure to a corporation. See "The Corporation". This prospectus qualifies the distribution by the Corporation (and on a consolidated basis with the Partnership (as defined herein), "**First National**") in all of the provinces and territories of Canada of 4,000,000 Class A Preference Shares, Series 1 ("**Series 1 Shares**") at a price of \$25.00 per Series 1 Share (the "**Offering**"). For the initial five year period commencing on the Closing Date (as defined herein) and ending on and including March 31, 2016 (the "**Initial Fixed Rate Period**"), the holders of Series 1 Shares will be entitled to receive fixed cumulative preferential cash dividends, as and when declared by the board of directors (the "**Board**") of the Corporation, payable quarterly on the last day of March, June, September and December in each year at an annual rate equal to \$1.1625 per Series 1 Share. The initial dividend if declared by the Board will be payable March 31, 2011 and will be \$0.2070, based on the anticipated closing date of January 25, 2011 (the "**Closing Date**"). See "Details of the Offering".

For each five-year period after the Initial Fixed Rate Period (each, a "**Subsequent Fixed Rate Period**"), the holders of the Series 1 Shares will be entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board, payable quarterly on the last day of March, June, September and December during the Subsequent Fixed Rate Period, in an annual amount per share determined by multiplying the Annual Fixed Rate Dividend Rate (as defined herein) applicable to such Subsequent Fixed Rate Period by \$25.00. The Annual Fixed Dividend Rate for each Subsequent Fixed Rate Period will be equal to the sum of the Government of Canada Yield (as defined herein) on the 30th day prior to the first day of such Subsequent Fixed Rate Period plus 2.07%. See "Details of the Offering".

(continued on next page)

(continued from cover)

Option to Convert Into Series 2 Shares

The holders of Series 1 Shares will have the right, at their option, to convert their Series 1 Shares into Class A Preference Shares, Series 2 (the “**Series 2 Shares**”) of the Corporation, subject to certain conditions, on March 31, 2016 and on March 31 every five years thereafter. The holders of Series 2 Shares will be entitled to receive floating rate cumulative preferential cash dividends, as and when declared by the Board, payable quarterly on the last day of each Quarterly Floating Rate Period (as defined herein), in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate (as defined herein) by \$25.00. The Floating Quarterly Dividend Rate will be equal to the sum of the T-Bill Rate (as defined herein) plus 2.07% (calculated on the basis of the actual number of days elapsed in the applicable Quarterly Floating Rate Period divided by 365) determined on the 30th day prior to the first day of the applicable Quarterly Floating Rate Period. See “Details of the Offering”.

The Series 1 Shares will not be redeemable by the Corporation prior to March 31, 2016. On March 31, 2016 and on March 31 every five years thereafter, subject to certain other restrictions set out in “Details of the Offering — Description of the Series 1 Shares — Restrictions on Dividends and Retirement and Issue of Shares”, the Corporation may, at its option, on at least 30 days and not more than 60 days prior written notice, redeem for cash all or from time to time any part of the outstanding Series 1 Shares for \$25.00 per Series 1 Share, in each case together with all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation). See “Details of the Offering”.

The Series 1 Shares and the Series 2 Shares do not have a fixed maturity date and are not redeemable at the option of the holders thereof. See “Risk Factors”.

DBRS Limited (“**DBRS**”) has assigned a provisional rating of Pfd-3 (Stable). See “Credit Rating”.

The Toronto Stock Exchange (the “**TSX**”) has conditionally approved the listing on the TSX of the Series 1 Shares distributed under this short form prospectus and the Series 2 Shares into which the Series 1 Shares are convertible. Listing of the Series 1 Shares and the Series 2 Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

There is currently no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See “Risk Factors”.

PRICE: \$25.00 per Series 1 Share to yield initially 4.65% per annum

RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc., TD Securities Inc., CIBC World Markets Inc., National Bank Financial Inc. and Jennings Capital Inc. are acting as underwriters (collectively, the “**Underwriters**”) of this Offering. The Underwriters, as principals, conditionally offer the Series 1 Shares, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under “Plan of Distribution” and subject to the approval of certain legal matters on behalf of the Corporation by Stikeman Elliott LLP, and on behalf of the Underwriters by Torys LLP. See “Plan of Distribution”.

	<u>Price to Public</u>	<u>Underwriters' Fee⁽¹⁾</u>	<u>Net Proceeds to the Corporation⁽²⁾</u>
Per Series 1 Share	\$25.00	\$0.75	\$24.25
Total	\$100,000,000	\$3,000,000	\$97,000,000

- (1) The Underwriters' fee is \$0.25 for each Series 1 Share sold to certain institutions and \$0.75 for all other Series 1 Shares sold. The totals set forth in the table represent the Underwriters' fee and net proceeds assuming no shares are sold to such institutions.
- (2) Before deducting the expenses of the Offering, estimated at \$450,000, which, together with the Underwriters' fee, the Corporation will pay from the proceeds of the Offering.

RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc. and TD Securities Inc. are, directly or indirectly, subsidiaries or affiliates of certain Canadian chartered banks that are lenders to the Partnership. Consequently, First National may be considered to be a connected issuer of RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc. and TD Securities Inc. under applicable Canadian securities legislation. First National intends to use the net proceeds of the Offering, estimated at approximately \$96.55 million, to repay current indebtedness as well as for general corporate purposes. See “Plan of Distribution”.

The principal and head offices of the Corporation are located at 100 University Avenue, North Tower, Suite 700, Toronto, Ontario, M5J 1V6.

Investing in the Series 1 Shares is subject to certain risks, certain of which are described under the heading “Risk Factors” on pages 19 through 37 of the revised annual information form of the Fund and under the heading “Risk and Uncertainties Affecting the Business” on pages 29 through 30 of management’s discussion and analysis for the nine months ended September 30, 2010. See “Risk Factors”.

The price of the Series 1 Shares offered hereby was established by negotiation between the Corporation and the Underwriters. In connection with this distribution, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series 1 Shares at levels other than those which otherwise might prevail on the open market. Such transactions, if commenced, may be discontinued at any time. **The Underwriters may offer the Series 1 Shares at a lower price than stated above. See “Plan of Distribution”.**

Subscriptions for the Series 1 Shares will be received by the Underwriters subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing of the Offering will occur on or about January 25, 2011 (the “**Closing Date**”), or on such other date as may be agreed upon by the Corporation and the Underwriters, but not later than February 28, 2011. A book entry only certificate representing the Series 1 Shares distributed hereunder will be issued in registered form to CDS Clearing and Depository Services Inc. or its nominee (“**CDS**”) and will be deposited with CDS on the Closing Date. No certificate evidencing the Series 1 Shares will be issued to purchasers, except in certain limited circumstances, and registration will be made in the depository service of CDS. The Corporation understands that a purchaser of Series 1 Shares will receive only a customer confirmation from an Underwriter or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Series 1 Shares are purchased. See “Book Entry Only System”.

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ELIGIBILITY FOR INVESTMENT

On the date of issue, provided that the shares of a class of the Corporation are then listed on a designated stock exchange (which includes the TSX), the Series 1 Shares will be qualified investments under the Tax Act (as defined herein) for trusts governed by registered retirement savings plans, registered retirement income funds, registered disability savings plans, registered education savings plans, deferred profit sharing plans, and tax-free savings accounts, and will not be a “prohibited investment” for a trust governed by a tax-free savings account if the holder thereof deals at arm’s length with the Corporation (for the purposes of the Tax Act) and does not have a “significant interest” (within the meaning of the Tax Act) in the Corporation or in any corporation, partnership or trust with which the Corporation does not deal at arm’s length (for the purposes of the Tax Act). See “Certain Canadian Federal Income Tax Considerations”.

NON-GAAP MEASURES

In this short form prospectus reference is made to certain measures to assist in assessing financial performance of the Fund. Following the Conversion (as defined herein — See “The Corporation”), the Corporation is a successor issuer (as such term is defined in National Instrument 44-101 *Short Form Prospectus Distributions*). References to “EBITDA” are to earnings before income taxes, depreciation and amortization. “Distributable Cash” and “Distributable Cash per Unit” are non-GAAP measures generally used by Canadian open-ended trusts as an indicator of financial performance. They are considered key measures as they demonstrate the cash available for distributions to the holders of units of the Fund. In the case of the Fund, “Distributable Cash” adjusts cash provided by (used in) operating activities by accounting for changes between periods in mortgages accumulated for sale and deducting capital expenditures.

EBITDA and Distributable Cash are not earnings measures recognized by generally accepted accounting principles in Canada (“GAAP”) and do not have standardized meanings prescribed by GAAP. Therefore,

EBITDA and Distributable Cash may not be comparable to similar measures presented by other entities. Prospective purchasers are cautioned that EBITDA should not be construed as an alternative to net income or loss determined in accordance with GAAP as indicators of the Fund's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

FORWARD-LOOKING STATEMENTS

Included in this short form prospectus and documents incorporated by reference herein is certain forward-looking information, as such term is defined under securities laws. This information relates to future events or future performance and reflects management's expectations and assumptions regarding the growth, results of operations, performance and business prospects and opportunities of the Corporation. Such forward-looking information reflects management's current beliefs which are based on information currently available to management of the Corporation and a number of assumptions that management believed were reasonable on the day such forward-looking information was presented. Refer, in particular, to the relevant sections of the documents incorporated by reference, for a discussion of certain assumptions management has made in presenting forward-looking information, which sections are incorporated by reference herein. In some cases, forward-looking information can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other similar expressions concerning matters that are not historical facts. In particular, information regarding the Corporation's future operating results and economic performance is forward-looking information. A number of factors could cause actual events or results to differ materially from the events and results discussed in the forward-looking information. See "Risk Factors".

Forward-looking information may relate to management's future outlook and anticipated events or results, and may include statements or information regarding the Offering and the Series 1 Shares, the rating assigned to the Series 1 Shares, the expected use of the net proceeds of the Offering, the future financial position, business strategy and strategic goals, product development activities, projected costs and capital expenditures, financial results, risk management strategies, hedging activities, geographic expansion, licensing plans, taxes and other plans and objectives of or involving the Corporation. Particularly, information regarding growth objectives, any increase in mortgages under administration, future use of securitization vehicles, industry trends and future revenues is forward-looking information. Forward-looking information is based on certain factors and assumptions regarding, among other things, interest rate changes and responses to such changes, the demand for institutionally placed and securitized mortgages, the status of the applicable regulatory regime and the use of mortgage brokers for single-family residential mortgages. This forward-looking information should not be read as providing guarantees of future performance or results, and will not necessarily be an accurate indication of whether or not, or the times by which, those results will be achieved. While management considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect. Forward looking-information is subject to certain factors, including risks and uncertainties, which could cause actual results to differ materially from what management currently expects. These factors include reliance on sources of funding, concentration of institutional investors, reliance on independent mortgage brokers and changes in interest rates outlined under "Uncertainty in the Asset-Backed Commercial Paper ("ABCP") Market", "Risks and Uncertainties Affecting the Business" and "Forward-Looking Information" in management's discussion and analysis for the nine-month period ended September 30, 2010 of the Fund and the Partnership. In evaluating this information, the reader should specifically consider various factors, including the risks outlined under the heading "Risk Factors" in this short form prospectus, under the heading "Risk Factors" in the AIF (defined below) and under the headings "Uncertainty in the Asset-Backed Commercial Paper ("ABCP") Market", "Risks and Uncertainties Affecting the Business" and "Forward-Looking Information" in management's discussion and analysis for the nine month period ended September 30, 2010 of the Fund and the Partnership. These and other risk factors that could cause actual results to differ materially from the Corporation's expectations expressed in or implied by such forward-looking information are discussed throughout this short form prospectus and the documents incorporated by reference herein.

Although the forward-looking information contained in this short form prospectus and the documents incorporated by reference herein are based on what management of the Corporation considers reasonable assumptions based on information currently available to it, there can be no assurance that actual events or

results will be consistent with this forward-looking information, and management's assumptions may prove to be incorrect.

Except as may be required by Canadian securities law, the Corporation disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed by the Fund or First National Financial LP (the "**Partnership**") prior to the conversion of the Fund's income trust structure into a public corporation named First National Financial Corporation, with the securities commissions or similar authorities in each of the provinces and territories of Canada, are specifically incorporated by reference in and form an integral part of this short form prospectus:

- (a) the Fund's revised annual information form dated April 30, 2010 (the "**AIF**");
- (b) the Partnership's audited financial statements and the notes thereto for the years ended December 31, 2009 and 2008, together with the auditors' report thereon;
- (c) the Fund's audited consolidated financial statements and the notes thereto for the years ended December 31, 2009 and 2008, together with the auditors' report thereon;
- (d) management's discussion and analysis of the Partnership's and the Fund's financial condition and results of operations for the year ended December 31, 2009 (the "**Annual MD&A**");
- (e) the Partnership's unaudited interim financial statements and the notes thereto for the nine months ended September 30, 2010;
- (f) the Fund's unaudited interim consolidated financial statements and the notes thereto for the nine months ended September 30, 2010;
- (g) management's discussion and analysis of the Partnership's and the Fund's financial conditions and results of operations for the nine months ended September 30, 2010 (the "**Interim MD&A**", together with the Annual MD&A, the "**MD&A**");
- (h) the Fund's management information circular dated March 31, 2010 relating to the Fund's annual and special meeting of unitholders held on May 4, 2010 (the "**Management Information Circular**"); and
- (i) the Fund's material change reports dated April 1, 2010 in respect of its conversion from an income fund to a corporate structure; May 7, 2010 in respect of the completion of its offering of \$175 million aggregate principal amount of senior secured debentures; and January 5, 2011 in respect of completion of its conversion from an income fund to a corporate structure.

Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for the purposes of this short form prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this short form prospectus, except as so modified or superseded.

Any documents of the types referred to in the preceding paragraphs as well as all other documents disclosing additional or updated information filed by the Corporation with the securities regulatory authorities in Canada after the date of this short form prospectus and prior to the termination of the Offering shall be deemed to be incorporated by reference into this short form prospectus, as prescribed by applicable securities laws.

Purchasers of Series 1 Shares hereunder should rely only on the information contained or incorporated by reference in this short form prospectus. The Corporation has not authorized any person to provide purchasers of Series 1 Shares hereunder with different information. The Corporation is offering to sell, and seeking offers to buy, the Series 1 Shares only in jurisdictions where offers and sales are permitted. This short form prospectus is not an offer to sell or a solicitation of an offer to buy the Series 1 Shares in any jurisdiction where it is unlawful. The information contained in this short form prospectus is accurate only as of the date of this short form prospectus, regardless of the time of delivery of this short form prospectus or of any sale of the Series 1 Shares.

All of the dollar amounts in this short form prospectus are expressed in Canadian dollars, except where otherwise indicated. References in this prospectus to “dollars” or “\$” are to Canadian dollars.

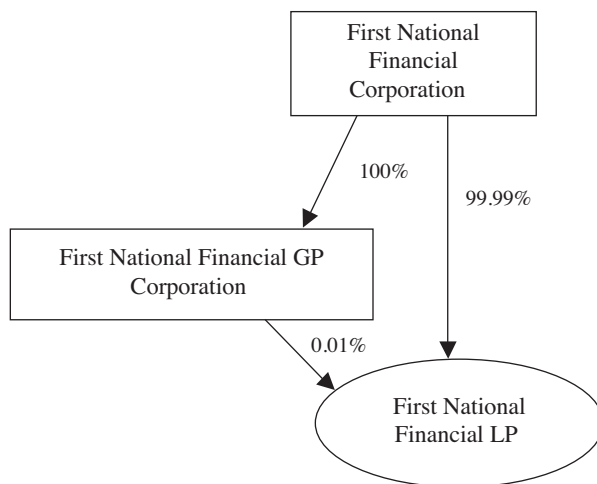
THE CORPORATION

The Corporation is a corporation incorporated and existing under the laws of the Province of Ontario. On January 1, 2011, the Corporation converted from an income trust structure to a dividend-paying corporation pursuant to a court approved plan of arrangement (the “**Conversion**”). On Conversion, unitholders of the Fund received, for each unit held, one common share of the Corporation. Since the Conversion, the Corporation’s common shares have been listed and quoted on the Toronto Stock Exchange under the symbol “FN”. The Corporation is directly or indirectly the sole interestholder of both the Partnership and the First National Financial GP Corporation (the “**General Partner**”).

The Partnership is a limited partnership established under the laws of the Province of Ontario pursuant to a limited partnership agreement dated as of April 19, 2006, as amended from time to time. The General Partner is a corporation incorporated under the laws of the Province of Ontario. The General Partner holds a 0.01% interest in the Partnership.

Corporate Organization Chart

The following chart illustrates the current structure of the Corporation.



OVERVIEW OF THE CORPORATION’S BUSINESS

The Corporation is directly or indirectly the sole interestholder of the Partnership and conducts all of its operations through the Partnership. Founded in 1988, First National is a Canadian-based originator, underwriter and servicer of predominantly prime single family residential and multi-unit residential and commercial mortgages. The Partnership sources its single family residential mortgages almost exclusively through independent mortgage brokers and its existing customer base and sources its multi-unit residential and commercial mortgages largely through its experienced in-house mortgage underwriters, who are employees of the Partnership. The Partnership funds the mortgages it originates primarily through institutional placements and a diversified range of securitization alternatives. Over the past ten years, the Partnership has experienced

consistently significant growth in revenue and EBITDA. The main reason for this is the Partnership's mortgage servicing business. The Partnership services virtually all mortgages generated through its mortgage origination activities and management believes that the Partnership is the largest third party servicer of multi-unit residential and commercial mortgages in Canada.

Mortgage servicing is a key component of the Partnership's overall business strategy, and revenues in this line of business are driven directly by the value of the Partnership's mortgages under administration. Mortgage servicing is a significant source of stable and recurring income as the Partnership benefits from servicing the original loan and the opportunity for renewals. Substantial value accrues to the Partnership upon the renewal of a mortgage relative to a new origination as generally no fees are payable to mortgage brokers on the renewal of an existing mortgage.

The value of the Partnership's mortgages under administration has grown from approximately \$835 million as at March 31, 1997 to \$52.0 billion as at September 30, 2010. The value of the Partnership's mortgages under administration has increased every year from 1990 through 2010. For the twelve months ended September 30, 2010, mortgages under administration grew to \$52.0 billion from \$45.9 billion as at September 30, 2009, an annual increase of 13%. This growth is primarily organic, created from new originations of \$10.6 billion in the twelve months ended September 30, 2010, net of normal run-off and the addition of mortgages serviced for third-parties. As at September 30, 2010, approximately 69% of the Partnership's total mortgages under administration (by value) were single family residential mortgages and 31% were multi-unit residential or commercial mortgages.

The Partnership's revenues and EBITDA are driven by the volume and value of the mortgages it originates as well as by the value of its mortgages under administration. During the nine months ended September 30, 2010, the Partnership generated revenues of approximately \$267.7 million, net income of approximately \$130.6 million and EBITDA of approximately \$131.8 million. The Partnership's origination activities are funded through a variety of sources that provide the Partnership with the opportunity to earn stable and recurring income from servicing mortgages it originates on behalf of institutional investors and others.

The Partnership offers a wide range of products in the single family residential and multi-unit residential and commercial mortgage markets. This permits the Partnership to take advantage of the cross-referral opportunities between the various markets (including enhanced broker convenience and increased product exposure) and to leverage operational synergies, such as shared management, risk analysis, information technology, accounting and finance, capital markets and servicing and administration, which support the Partnership's wide range of products.

Since its inception, management has sought to make the Partnership a leader in the Canadian mortgage industry in the development and utilization of proprietary software to enhance its operations both during the origination process and then subsequently during the servicing and administration phase. The Partnership has invested significant resources in business processes and technology, resulting in lower costs of origination, servicing and administration, providing the Partnership with an operational cost advantage. Management expects continued productivity improvements and lower per unit costs as the Partnership's mortgage origination volume and mortgages under administration continue to grow.

The Partnership employs various techniques to manage risk and is committed to the origination of high quality, low risk mortgages and the minimization of credit and interest rate risk to the Partnership. Approximately 98.5% of the Partnership's mortgages under administration as at September 30, 2010 are funded through sources that result in no residual credit risk to the Partnership. The Partnership also engages in an extensive interest rate management program with respect to all mortgages it originates with the objective of eliminating the impact of any changes in interest rates to which it may be exposed.

USE OF PROCEEDS

The estimated net proceeds to the Corporation from the Offering, after deducting the Underwriters' fee and the estimated offering expenses, will be approximately \$96.55 million. First National intends to use the net proceeds of the Offering to repay current indebtedness as well as for general corporate purposes.

CREDIT RATING

The Series 1 Shares are rated “Pfd-3 (Stable)” by DBRS. DBRS has six categories of preferred shares for which it will assign a rating. The “Pfd-3” rating is the third highest category available from DBRS for preferred shares and is considered to be of adequate credit quality. According to DBRS, preferred shares rated “Pfd-3” are of adequate credit quality and while protection of dividends and principal is still considered acceptable, the issuing entity is more susceptible to adverse changes in financial and economic conditions, and there may be other adverse conditions present which detract from debt protection. A rating trend that is “Stable” acts as a signal indicating that the rating is secure and that the trend is stable according to active surveillance and performance updates.

Credit ratings are intended to provide purchasers with an independent assessment of the credit quality of an issue or issuer of securities and do not speak to the suitability of particular securities for any particular purchaser. The DBRS rating represents an evaluation that is based solely on credit related factors and not market risk factors. The credit rating assigned to the Series 1 Shares may not reflect the potential impact of all risks on the value of the Series 1 Shares and is not a recommendation to buy, sell or hold the Series 1 Shares. It may be subject to revision or withdrawal at any time. Prospective purchasers should consult the relevant rating organization with respect to the interpretation and implications of the rating.

EARNINGS COVERAGE RATIO

The Corporation’s dividend requirements on all of its preferred shares, after giving effect to the issue of the Series 1 Shares to be distributed under this short form prospectus, and adjusted to a before-tax equivalent, amounted to \$6,481 using an effective income tax rate of 28.25%, and \$6,481, using an effective income tax rate of 28.25%, for each of the 12 months ended December 31, 2009 and the 12 months ended September 30, 2010, respectively assuming the Conversion occurred at the beginning of 2009.

The Corporation’s interest requirements assuming the Conversion occurred at the beginning of 2009 amounted to \$13,349 for the 12 months ended December 31, 2009 and \$14,357 for the 12 months ended September 30, 2010.

The Corporation’s earnings before interest and income tax, assuming the Conversion and the issue of the Series 1 Shares and \$175,000,000 of 5.07% senior secured debentures occurred at the beginning of 2009, for the 12 months ended December 31, 2009, was \$167,454, which is 8.2 times the Corporation’s interest and dividend requirements for such period and for the 12 months ended September 30, 2010 was \$180,240, which is 10.0 times the Corporation’s interest and dividend requirements for such period.

CONSOLIDATED CAPITALIZATION

Except pursuant to the Conversion, there have been no material changes in the equity or loan capital structure of the Corporation, the Fund or the Partnership since September 30, 2010.

The following table sets forth the indebtedness and total capitalization of the Corporation as at September 30, 2010, assuming that the Conversion had occurred at September 30, 2010. The capitalization information is presented (i) on an actual basis, assuming the Conversion had occurred at September 30, 2010 and (ii) on a *pro forma* as adjusted basis to give effect to, and assuming the issuance and sale of, \$100,000,000 aggregate principal amount of the Series 1 Shares and the application of the net proceeds of the Offering, as if these events occurred as at September 30, 2010.

This table should be read in conjunction with the Fund’s and the Partnership’s “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, respectively, the Fund’s unaudited interim consolidated financial statements and the related notes for the nine months ended September 30, 2010 and the Partnership’s unaudited interim financial statements and the related notes for the nine months ended September 30, 2010.

THE CORPORATION

	As at September 30, 2010 ⁽¹⁾	
	Actual	Pro Forma As Adjusted
	<i>(in thousands of dollars)</i>	
5.07% Senior Secured Debentures due May 7, 2015	182,323	182,323
Bank indebtedness	102,805	5,805
Obligations related to securities sold under repurchase agreements	161,777	161,777
Distributions/Dividends payable	7,496	7,496
Accounts payable and accrued liabilities	18,050	18,050
Servicing liability	26,700	26,700
Securities sold under repurchase agreements and sold short	206,016	206,016
Future income tax	57,773	57,773
Series 1 Shares	—	97,000
Common equity and Retained earnings	284,329	284,329
Total Capitalization	<u>1,047,269</u>	<u>1,047,269</u>

Note:

- (1) In February 2008, the Canadian Accounting Standards Board confirmed that all publically accountable enterprises would be required to report under IFRS for fiscal years beginning on or after January 1, 2011. The above is based on financial results from the fiscal year beginning January 1, 2010, and therefore such figures do not contemplate the impact of the Corporation's transition to IFRS.

DETAILS OF THE OFFERING

Description of the Series 1 Shares

The following is a summary of certain provisions attaching to the Series 1 Shares as a series.

Definition of Terms

The following definitions are relevant to the Series 1 Shares.

“**Annual Fixed Dividend Rate**” means, for any Subsequent Fixed Rate Period, the annual rate (expressed as a percentage rate rounded down to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the Government of Canada Yield on the applicable Fixed Rate Calculation Date plus 2.07%.

“**Bloomberg Screen GCAN5YR Page**” means the display designated as page “GCAN5YR<INDEX>” on the Bloomberg Financial L.P. service (or such other page as may replace the GCAN5YR page on that service) for purposes of displaying Government of Canada bond yields.

“**Fixed Rate Calculation Date**” means, for any Subsequent Fixed Rate Period, the 30th day prior to the first day of such Subsequent Fixed Rate Period.

“**Government of Canada Yield**” on any date means the yield to maturity on such date (assuming semi-annual compounding) of a Canadian dollar denominated non-callable Government of Canada bond with a term to maturity of five years as quoted as of 10:00 a.m. (Toronto time) on such date and which appears on the Bloomberg Screen GCAN5YR Page on such date; provided that, if such rate does not appear on the Bloomberg Screen GCAN5YR Page on such date, the Government of Canada Yield will mean the average of the yields determined by two registered Canadian investment dealers selected by the Corporation, as being the annual yield to maturity on such date (assuming semi-annual compounding) which a Canadian dollar denominated non-callable Government of Canada bond would carry if issued in Canadian dollars at 100% of its principal amount on such date with a term to maturity of five years.

“**Initial Fixed Rate Period**” means the period commencing on the Closing Date and ending on and including March 31, 2016.

“**Subsequent Fixed Rate Period**” means for the initial Subsequent Fixed Rate Period, the period commencing on April 1, 2016 and ending on and including March 31, 2021 and for each succeeding Subsequent Fixed Rate Period, the period commencing on the day immediately following the end of the immediately preceding Subsequent Fixed Rate Period and ending on and including March 31 in the fifth year thereafter.

Issue Price

The Series 1 Shares will have an issue price of \$25.00 per share.

Dividends

During the Initial Fixed Rate Period, the holders of the Series 1 Shares will be entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board, payable quarterly on the last day of March, June, September and December in each year during the Initial Fixed Rate Period (or if such date is not a business day, the immediately following business day), at an annual rate equal to \$1.1625 per share. The initial dividend will be payable March 31, 2011 and will be \$0.2070 per Series 1 Share, based on the anticipated Closing Date of January 25, 2011.

During each Subsequent Fixed Rate Period, the holders of Series 1 Shares will be entitled to receive fixed cumulative preferential cash dividends, as and when declared by the Board, payable quarterly on the last day of March, June, September and December in each year during the Subsequent Fixed Rate Period (or if such date is not a business day, the immediately following business day), in an annual amount per share determined by multiplying the Annual Fixed Dividend Rate applicable to such Subsequent Fixed Rate Period by \$25.00.

The Annual Fixed Dividend Rate applicable to a Subsequent Fixed Rate Period will be determined by the Corporation on the Fixed Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of Series 1 Shares. The Corporation will, on the Fixed Rate Calculation Date, give written notice of the Annual Fixed Dividend Rate for the ensuing Subsequent Fixed Rate Period to the registered holders of the then outstanding Series 1 Shares.

Payments of dividends and other amounts in respect of the Series 1 Shares will be made by the Corporation to CDS as registered holder of the Series 1 Shares. As long as CDS is the registered holder of the Series 1 Shares, CDS will be considered the sole owner of the Series 1 Shares for the purposes of receiving payment on the Series 1 Shares.

Redemption

The Series 1 Shares will not be redeemable by the Corporation prior to March 31, 2016. On March 31, 2016 and on March 31 every five years thereafter (or, if such date is not a business day, the immediately following business day), and subject to the restrictions set out in “Description of the Series 1 Shares — Restrictions on Dividends and Retirement and Issue of Shares”, the Corporation may, at its option, on at least thirty (30) days and not more than sixty (60) days prior written notice, redeem all or from time to time any part of the outstanding Series 1 Shares by payment in cash of a per share sum equal to \$25.00, in each case together with all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation).

If less than all of the outstanding Series 1 Shares are to be redeemed, the shares to be redeemed shall be selected on a pro rata basis disregarding fractions or, if such Series 1 Shares are at such time listed on such exchange, with the consent of the TSX, in such manner as the Board in its sole discretion may, by resolution, determine.

The Series 1 Shares do not have a fixed maturity date and are not redeemable at the option of the holders of Series 1 Shares. See “Risk Factors”.

Conversion of Series 1 Shares into Series 2 Shares

Holders of Series 1 Shares will have the right, at their option, on March 31, 2016 and on March 31 every five years thereafter (a “**Series 1 Conversion Date**”), to convert, subject to the restrictions on conversion described

below and the payment or delivery to the Corporation of evidence of payment of the tax (if any) payable, all or any of their Series 1 Shares registered in their name into Series 2 Shares on the basis of one Series 2 Share for each Series 1 Share. If a Series 1 Conversion Date falls on a day that is not a business day, such Series 1 Conversion Date shall be the immediately following business day. The conversion of Series 1 Shares may be effected upon written notice given by the registered holders of the Series 1 Shares not earlier than the thirtieth (30th) day prior to, but not later than 5:00 p.m. (Toronto time) on the fifteenth (15th) day preceding, a Series 1 Conversion Date. Once received by the Corporation, an election notice is irrevocable.

The Corporation will, at least thirty (30) days and not more than sixty (60) days prior to the applicable Series 1 Conversion Date, give notice in writing to the then registered holders of the Series 1 Shares of the above-mentioned conversion right. On the thirtieth (30th) day prior to each Series 1 Conversion Date, the Corporation will give notice in writing to the then registered holders of the Series 1 Shares of the Annual Fixed Dividend Rate for the next succeeding Subsequent Fixed Rate Period and the Floating Quarterly Dividend Rate (as defined herein) applicable to the Series 2 Shares for the next succeeding Quarterly Floating Rate Period.

If the Corporation gives notice to the registered holders of the Series 1 Shares of the redemption on a Series 1 Conversion Date of all the Series 1 Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series 1 Shares of the Annual Fixed Dividend Rate, the Floating Quarterly Dividend Rate or the conversion right of holders of Series 1 Shares and the right of any holder of Series 1 Shares to convert such Series 1 Shares will cease and terminate in that event.

Holders of Series 1 Shares will not be entitled to convert their Series 1 Shares into Series 2 Shares if the Corporation determines that there would remain outstanding on a Series 1 Conversion Date less than 1,000,000 Series 2 Shares, after having taken into account all Series 1 Shares tendered for conversion into Series 2 Shares and all Series 2 Shares tendered for conversion into Series 1 Shares. The Corporation will give notice in writing to all affected holders of Series 1 Shares of their inability to convert their Series 1 Shares at least seven days prior to the applicable Series 1 Conversion Date.

Furthermore, if the Corporation determines that there would remain outstanding on a Series 1 Conversion Date less than 1,000,000 Series 1 Shares, after having taken into account all Series 1 Shares tendered for conversion into Series 2 Shares and all Series 2 Shares tendered for conversion into Series 1 Shares, then, all, but not part, of the remaining outstanding Series 1 Shares will automatically be converted into Series 2 Shares, on the basis of one Series 2 Share for each Series 1 Share, on the applicable Series 1 Conversion Date and the Corporation will give notice in writing to this effect to the then registered holders of such remaining Series 1 Shares at least seven days prior to the Series 1 Conversion Date.

Upon exercise by a registered holder of its right to convert Series 1 Shares into Series 2 Shares (and upon an automatic conversion), the Corporation reserves the right not to deliver Series 2 Shares to any person whose address is in, or whom the Corporation or the Transfer Agent (as defined herein) has reason to believe is a resident of, any jurisdiction outside Canada, to the extent that such issue would require the Corporation to take any action to comply with the securities or analogous laws of such jurisdiction.

Purchase for Cancellation

Subject to applicable law and to the provisions described under “Description of the Series 1 Shares — Restrictions on Dividends and Retirement and Issue of Shares” below, the Corporation may at any time purchase for cancellation the whole or any part of the Series 1 Shares at the lowest price or prices at which in the opinion of the Board such shares are obtainable.

Rights on Liquidation

In the event of the liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series 1 Shares will be entitled to receive \$25.00 per Series 1 Share, together with all accrued and unpaid dividends up to but excluding the date of payment or distribution (less any tax required to be deducted and withheld by the Corporation), before any amount is paid or any assets of the Corporation are distributed to the holders of any shares ranking junior as to capital to the Series 1 Shares. Upon payment of such amounts, the

holders of the Series 1 Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Priority

The Series 1 Shares rank senior to the common shares of the Corporation with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs. The Series 1 Shares rank on a parity with every other series of Class A Preference Shares with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series 1 Shares are outstanding, the Corporation will not, without the approval of the holders of the Series 1 Shares:

- (a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series 1 Shares) on any shares of the Corporation ranking as to dividends junior to the Series 1 Shares;
- (b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series 1 Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series 1 Shares;
- (c) redeem or call for redemption, purchase or otherwise pay off or retire or make any return of capital in respect of less than all of the Series 1 Shares then outstanding; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire or make any return of capital in respect of any shares ranking as to dividends or capital on a parity with the Series 1 Shares;

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series 1 Shares and on all other shares of the Corporation ranking prior to or on a parity with the Series 1 Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

In addition to any other approvals required by law, the approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series 1 Shares as a series and any other approval to be given by the holders of the Series 1 Shares may be given by a resolution carried by an affirmative vote of at least 66 $\frac{2}{3}$ % of the votes cast at a meeting at which the holders of a majority of the outstanding Series 1 Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series 1 Shares then present would form the necessary quorum. At any meeting of holders of Series 1 Shares as a series, each such holder shall be entitled to one vote in respect of each Series 1 Share held.

Voting Rights

Except as set out below, the holders of the Series 1 Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of Class A Preference Shares as a class and meetings of all holders of Series 1 Shares as a series) to receive notice of, attend, or vote at any meeting of shareholders of the Corporation unless and until the Corporation shall have failed to pay eight quarterly dividends on the Series 1 Shares, whether or not consecutive. In the event of such nonpayment, and for only so long as any such dividends

remain in arrears, the holders of the Series 1 Shares will be entitled to receive notice of and to attend each meeting of the Corporation's shareholders, other than meetings at which only holders of another specified class or series are entitled to vote, and to one vote for each Series 1 Share held.

The holders of Series 1 Shares will be entitled to vote separately as a series or to dissent upon a proposal to amend the articles of the Corporation to:

- (a) increase or decrease any maximum number of authorized Series 1 Shares, or increase any maximum number of authorized shares of a class or series having rights or privileges equal to or superior to the Series 1 Shares; or
- (b) effect an exchange, reclassification or cancellation of the Series 1 Shares.

The holders of Series 1 Shares will be entitled to vote, together with all other series of Class A Preference Shares, or to dissent upon a proposal to amend the articles of the Corporation to create a new class of shares equal or superior to the Class A Preference Shares.

Tax Election

The Corporation will elect, in the manner and within the time provided under Part VI.1 of the Income Tax Act (Canada) (the "**Tax Act**"), to pay or cause payment of the tax under Part VI.1 at a rate such that the corporate holders of Series 1 Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

Description of the Series 2 Shares

The following is a summary of certain provisions attaching to the Series 2 Shares as a series.

Definition of Terms

The following definitions are relevant to the Series 2 Shares.

"Floating Quarterly Dividend Rate" means, for any Quarterly Floating Rate Period, the rate (expressed as a percentage rate rounded down to the nearest one hundred-thousandth of one percent (with 0.000005% being rounded up)) equal to the sum of the T-Bill Rate on the applicable Floating Rate Calculation Date plus 2.07% (calculated on the basis of the actual number of days elapsed in such Quarterly Floating Rate Period divided by 365).

"Floating Rate Calculation Date" means, for any Quarterly Floating Rate Period, the 30th day prior to the first day of such Quarterly Floating Rate Period.

"Quarterly Commencement Date" means the first (1st) day of each of April, July, October and January in each year.

"Quarterly Floating Rate Period" means, for the initial Quarterly Floating Rate Period, the period commencing on April 1, 2016 and ending on and including June 30, 2016, and thereafter the period from and including the day immediately following the end of the immediately preceding Quarterly Floating Rate Period to but excluding the next succeeding Quarterly Commencement Date.

"T-Bill Rate" means, for any Quarterly Floating Rate Period, the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the applicable Floating Rate Calculation Date.

Issue Price

The Series 2 Shares will have an issue price of \$25.00 per share.

Dividends

The holders of the Series 2 Shares will be entitled to receive floating rate cumulative preferential cash dividends, as and when declared by the Board, payable quarterly on the last day of each Quarterly Floating Rate

Period (or if such date is not a business day, the immediately following business day), in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate by \$25.00.

The Floating Quarterly Dividend Rate for each Quarterly Floating Rate Period will be determined by the Corporation on the Floating Rate Calculation Date. Such determination will, in the absence of manifest error, be final and binding upon the Corporation and upon all holders of Series 2 Shares. The Corporation will, on the Floating Rate Calculation Date, give written notice of the Floating Quarterly Dividend Rate for the ensuing Quarterly Floating Rate Period to the registered holders of the then outstanding Series 2 Shares.

Payments of dividends and other amounts in respect of the Series 2 Shares will be made by the Corporation to CDS as the case may be, as registered holder of the Series 2 Shares. As long as CDS is the registered holder of the Series 2 Shares, CDS will be considered the sole owner of the Series 2 Shares for the purposes of receiving payment on the Series 2 Shares.

Redemption

Subject to the restrictions set out in “Description of the Series 2 Shares — Restrictions on Dividends and Retirement and Issue of Shares”, the Corporation may, at its option, on at least thirty (30) days and not more than sixty (60) days prior written notice, redeem all or from time to time any part of the outstanding Series 2 Shares by payment in cash of a per share sum equal to (i) \$25.00 in the case of redemptions on March 31, 2021 and on March 31 every five years thereafter (each a “**Series 2 Conversion Date**”), or (ii) \$25.50 in the case of redemptions on any date which is not a Series 2 Conversion Date or any other date after March 31, 2016, in each case together with all accrued and unpaid dividends up to but excluding the date fixed for redemption (less any tax required to be deducted and withheld by the Corporation). If a Series 2 Conversion Date falls on a day that is not a business day, such Series 2 Conversion Date shall be the immediately following business day.

If less than all of the outstanding Series 2 Shares are to be redeemed, the Series 2 Shares to be redeemed shall be selected on a pro rata basis disregarding fractions or, if such Series 2 Shares are at such time listed on such exchange, with the consent of the TSX, in such manner as the Board in its sole discretion may, by resolution, determine.

The Series 2 Shares do not have a fixed maturity date and are not redeemable at the option of the holders of Series 2 Shares. See “Risk Factors”.

Conversion of Series 2 Shares into Series 1 Preference Shares

Holders of Series 2 Shares will have the right, at their option, on each Series 2 Conversion Date, to convert, subject to the restrictions on conversion described below and the payment or delivery to the Corporation of evidence of payment of the tax (if any) payable, all or any of their Series 2 Shares registered in their name into Series 1 Shares on the basis of one Series 1 Share for each Series 2 Share. The conversion of Series 2 Shares may be effected upon written notice given by the registered holders of the Series 2 Shares not earlier than the thirtieth (30th) day prior to, but not later than 5:00 p.m. (Toronto time) on the fifteenth (15th) day preceding, a Series 2 Conversion Date. Once received by the Corporation, an election notice is irrevocable.

The Corporation will, at least thirty (30) days and not more than sixty (60) days prior to the applicable Series 2 Conversion Date, give notice in writing to the then registered holders of the Series 2 Shares of the above-mentioned conversion right. On the thirtieth (30th) day prior to each Series 2 Conversion Date, the Corporation will give notice in writing to the then registered holders of Series 2 Shares of the Floating Quarterly Dividend Rate for the next succeeding Quarterly Floating Rate Period and of the Annual Fixed Dividend Rate applicable to the Series 1 Shares for the next succeeding Subsequent Fixed Rate Period.

If the Corporation gives notice to the registered holders of the Series 2 Shares of the redemption on a Series 2 Conversion Date of all the Series 2 Shares, the Corporation will not be required to give notice as provided hereunder to the registered holders of the Series 2 Shares of the Annual Fixed Dividend Rate, the Floating Quarterly Dividend Rate or of the conversion right of holders of Series 2 Shares and the right of any holder of Series 2 Shares to convert such Series 2 Shares will cease and terminate in that event.

Holders of Series 2 Shares will not be entitled to convert their shares into Series 1 Shares if the Corporation determines that there would remain outstanding on a Series 2 Conversion Date less than 1,000,000 Series 1 Shares, after having taken into account all Series 2 Shares tendered for conversion into Series 1 Shares and all Series 1 Shares tendered for conversion into Series 2 Shares. The Corporation will give notice in writing to all affected holders of Series 2 Shares of their inability to convert their Series 2 Shares at least seven days prior to the applicable Series 2 Conversion Date.

Furthermore, if the Corporation determines that there would remain outstanding on a Series 2 Conversion Date less than 1,000,000 Series 2 Shares, after having taken into account all Series 2 Shares tendered for conversion into Series 1 Shares and all Series 1 Shares tendered for conversion into Series 2 Shares, then, all, but not part, of the remaining outstanding Series 2 Shares will automatically be converted into Series 1 Shares, on the basis of one Series 1 Share for each Series 2 Share, on the applicable Series 2 Conversion Date and the Corporation will give notice in writing to this effect to the then registered holders of such remaining Series 2 Shares at least seven days prior to the Series 2 Conversion Date.

Upon exercise by a registered holder of its right to convert Series 2 Shares into Series 1 Shares (and upon an automatic conversion), the Corporation reserves the right not to deliver Series 1 Shares to any person whose address is in, or whom the Corporation or the Transfer Agent has reason to believe is a resident of, any jurisdiction outside Canada, to the extent that such issue would require the Corporation to take any action to comply with the securities or analogous laws of such jurisdiction.

Purchase for Cancellation

Subject to applicable law and to the provisions described under “Description of the Series 2 Shares — Restrictions on Dividends and Retirement and Issue of Shares” below, the Corporation may at any time purchase for cancellation the whole or any part of the Series 2 Shares at the lowest price or prices at which in the opinion of the Board such shares are obtainable.

Rights on Liquidation

In the event of the liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, the holders of the Series 2 Shares will be entitled to receive \$25.00 per share, together with all accrued and unpaid dividends up to but excluding the date of payment or distribution (less any tax required to be deducted and withheld by the Corporation), before any amount is paid or any assets of the Corporation are distributed to the holders of any shares ranking junior as to capital to the Series 2 Shares. Upon payment of such amounts, the holders of the Series 2 Shares will not be entitled to share in any further distribution of the assets of the Corporation.

Priority

The Series 2 Shares rank senior to the common shares of the Corporation with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs. The Series 2 Shares rank on a parity with every other series of Class A Preference Shares with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs.

Restrictions on Dividends and Retirement and Issue of Shares

So long as any of the Series 2 Shares are outstanding, the Corporation will not, without the approval of the holders of the Series 2 Shares:

- (a) declare, pay or set apart for payment any dividends (other than stock dividends payable in shares of the Corporation ranking as to capital and dividends junior to the Series 2 Shares) on any shares of the Corporation ranking as to dividends junior to the Series 2 Shares;

- (b) except out of the net cash proceeds of a substantially concurrent issue of shares of the Corporation ranking as to capital and dividends junior to the Series 2 Shares, redeem or call for redemption, purchase or otherwise pay off, retire or make any return of capital in respect of any shares of the Corporation ranking as to capital junior to the Series 2 Shares;
- (c) redeem or call for redemption, purchase or otherwise pay off or retire or make any return of capital in respect of less than all of the Series 2 Shares then outstanding; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching thereto, redeem or call for redemption, purchase or otherwise pay off or retire or make any return of capital in respect of any shares, ranking as to dividends or capital on a parity with the Series 2 Shares;

unless, in each such case, all accrued and unpaid dividends up to and including the dividend payable for the last completed period for which dividends were payable on the Series 2 Shares and on all other shares of the Corporation ranking prior to or on a parity with the Series 2 Shares with respect to the payment of dividends have been declared and paid or set apart for payment.

Shareholder Approvals

In addition to any other approvals required by law, the approval of all amendments to the rights, privileges, restrictions and conditions attaching to the Series 2 Shares as a series and any other approval to be given by the holders of the Series 2 Shares may be given by a resolution carried by an affirmative vote of at least 66 $\frac{2}{3}$ % of the votes cast at a meeting at which the holders of a majority of the outstanding Series 2 Shares are present or represented by proxy or, if no quorum is present at such meeting, at an adjourned meeting at which the holders of Series 2 Shares then present would form the necessary quorum. At any meeting of holders of Series 2 Shares as a series, each such holder shall be entitled to one vote in respect of each Series 2 Share held.

Voting Rights

Except as set out below, the holders of the Series 2 Shares will not be entitled (except as otherwise provided by law and except for meetings of the holders of Class A Preference Shares as a class and meetings of all holders of Series 2 Shares as a series) to receive notice of, attend, or vote at any meeting of shareholders of the Corporation unless and until the Corporation shall have failed to pay eight quarterly dividends on the Series 2 Shares, whether or not consecutive. In the event of such nonpayment, and for only so long as any such dividends remain in arrears, the holders of the Series 2 Shares will be entitled to receive notice of and to attend each meeting of the Corporation's shareholders, other than meetings at which only holders of another specified class or series are entitled to vote, and to one vote for each Series 2 Share held.

The holders of Series 2 Shares will be entitled to vote separately as a series or to dissent upon a proposal to amend the articles of the Corporation to:

- (a) increase or decrease any maximum number of authorized Series 2 Shares, or increase any maximum number of authorized shares of a class or series having rights or privileges equal to or superior to the Series 2 Shares; or
- (b) effect an exchange, reclassification or cancellation of the Series 2 Shares.

The holders of Series 2 Shares will be entitled to vote, together with all other series of Class A Preference Shares, or to dissent upon a proposal to amend the articles of the Corporation to create a new class of shares equal or superior to the Class A Preference Shares.

Tax Election

The Corporation will elect, in the manner and within the time provided under Part VI.1 of the Tax Act, to pay or cause payment of the tax under Part VI.1 at a rate such that the corporate holders of Series 2 Shares will not be required to pay tax under Part IV.1 of the Tax Act on dividends received on such shares.

TRADING PRICE AND VOLUME

Following the Conversion, the common shares of the Corporation began trading on the TSX under the symbol “FN” on January 4, 2011. The following table sets forth the minimum and maximum trading prices and total monthly trading volumes for the common shares of the Corporation as reported by the TSX for the periods indicated.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
2011			
January 1 to 17	\$19.13	\$18.32	76,907

The Fund completed its initial public offering on June 15, 2006, at which time the units of the Fund began trading on the TSX under the trading symbol “FN.UN”. The following table sets forth the reported minimum and maximum trading prices and total monthly trading volumes of the units of the Fund as reported by the TSX for the periods indicated.

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
2010			
December	\$19.69	\$18.54	163,939
November	\$19.50	\$17.49	319,962
October	\$18.32	\$17.70	141,887
September	\$18.34	\$17.18	167,106
August	\$17.50	\$16.25	172,669
July	\$17.24	\$15.66	277,960
June	\$17.80	\$16.80	193,173
May	\$18.71	\$16.51	334,401
April	\$21.51	\$18.00	515,144
March	\$21.94	\$19.95	323,320
February	\$20.41	\$18.40	224,246
January	\$19.89	\$18.88	378,456

BOOK ENTRY ONLY SYSTEM

Except as otherwise provided below, the Series 1 Shares and Series 2 Shares will be issued in a “book entry only” form and must be purchased or transferred through participants (“**Participants**”) in the depository service of CDS Clearing and Depository Services Inc. (“**CDS**”) or its nominee which include securities brokers and dealers, banks and trust companies. On the Closing Date, the Corporation will cause a global certificate representing the Series 1 Shares to be delivered to, and registered in the name of, CDS or its nominee. Except as otherwise provided below, no purchaser of Series 1 Shares or Series 2 Shares, as applicable, will be entitled to a certificate or other instrument from the Corporation or CDS evidencing that purchaser’s ownership, and no purchaser will be shown on the records maintained by CDS except through a book entry account of a Participant acting on behalf of the purchaser. Each purchaser of Series 1 Shares or Series 2 Shares, as applicable, will receive a customer confirmation of purchase from the registered dealer from which the Series 1 Shares or Series 2 Shares, as applicable, are purchased in accordance with the practices and procedures of the dealer. The practices of registered dealers may vary, but generally, customer confirmations are issued promptly after execution of a customer order. CDS is responsible for establishing and maintaining book entry accounts for its Participants having interests in the Series 1 Shares or Series 2 Shares, as applicable. Physical certificates evidencing the Series 1 Shares and Series 2 Shares will not be issued to purchasers, except in limited circumstances, and registration will be made through the depository service of CDS.

Neither the Corporation nor the Underwriters will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Series 1 Shares or Series 2 Shares, as applicable, held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Series 1 Shares or Series 2 Shares, as applicable; or (c) any advice or representation made by or with respect to CDS and those contained in this Prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the

direction of its Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and persons, other than Participants, having an interest in the Series 1 Shares or Series 2 Shares, as applicable, must look solely to Participants for payments made by or on behalf of the Corporation to CDS in respect of the Series 1 Shares or Series 2 Shares, as applicable.

If (i) required by applicable law, (ii) the book entry system ceases to exist, (iii) CDS advises the Corporation that it is no longer willing or able to discharge properly its responsibilities as depository with respect to the Series 1 Shares or Series 2 Shares, as applicable, and the Corporation is unable to locate a qualified successor, or (iv) the Corporation, at its option, decides to terminate the book entry system, then certificates representing the Series 1 Shares or Series 2 Shares, as applicable, will be made available.

Manner of Effecting Conversion, Transfer or Redemption

A conversion, transfer or redemption of Series 1 Shares or Series 2 Shares, as applicable, will be effected through records maintained by CDS or its nominee with respect to interests of Participants, and on the records of Participants with respect to interests of persons other than Participants. Persons who are holders of Series 1 Shares or Series 2 Shares, as applicable, who are not Participants, but who wish to purchase, sell or otherwise transfer ownership of or other interests in Series 1 Shares or Series 2 Shares, may do so only through Participants.

PLAN OF DISTRIBUTION

Subject to the terms and conditions of an underwriting agreement dated January 11, 2011 among the Corporation and the Underwriters (the “**Underwriting Agreement**”), the Corporation has agreed to issue and sell, and the Underwriters have agreed to purchase, on January 25, 2011 or on such other date as may be agreed, but in any event not later than February 28, 2011, subject to compliance with all necessary legal requirements and to the terms and conditions contained in the Underwriting Agreement, 4,000,000 Series 1 Shares at a price of \$25.00 per Series 1 Share for an aggregate price of \$100,000,000, payable in cash to the Corporation against delivery. The offering price and other terms of the Offering for Series 1 Shares were determined by negotiation between the Corporation and the Underwriters. The Underwriting Agreement provides that the Corporation will pay to the Underwriters a fee of (i) 1% of the aggregate issue price of all Series 1 Shares sold to certain institutions (\$0.25 per Series 1 Share), and (ii) 3% of the aggregate issue price for all other Series 1 Shares (\$0.75 per Series 1 Share) (where “institutions” means those institutions and other purchasers, if any as the Underwriters and the Company agree to in writing) in consideration for their services in connection with the Offering.

The obligations of the Underwriters under the Underwriting Agreement are several and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated on the occurrence of stated events. The Underwriters are, however, obligated to take up and pay for all of the Series 1 Shares offered hereby if any of the Series 1 Shares are purchased under the Underwriting Agreement. The Corporation has agreed in the Underwriting Agreement to indemnify the Underwriters and their directors, officers, employees and agents against certain liabilities, including liabilities under applicable Canadian securities legislation and expenses.

The Underwriters propose to offer the Series 1 Shares initially at the offering price of \$25.00 per share. After the Underwriters have made a reasonable effort to sell all of the Series 1 Shares at that price, the offering price of the Series 1 Shares may be decreased, and further changed from time to time, to an amount not greater than \$25.00 per share. Any change to the offering price will not affect the net proceeds paid to the Corporation from this Offering.

The TSX has conditionally approved the listing on the TSX of the Series 1 Shares distributed under this short form prospectus and the Series 2 Shares into which the Series 1 Shares are convertible. Listing of the Series 1 Shares and the Series 2 Shares will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

Pursuant to applicable policy statements of the Autorité des marchés financiers and the Ontario Securities Commission, the Underwriters may not, throughout the period of distribution, bid for or purchase the Series 1 Shares. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase not be engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Series 1 Shares. These exceptions include bids or purchases permitted under the Universal Market Integrity Rules for Canadian marketplaces of the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market making activities and bids or purchases made for and on behalf of a customer where the order was not solicited during the period of distribution.

Neither the Series 1 Shares nor the Series 2 Shares have been nor will be registered under the United States Securities Act of 1933, as amended, or any state securities laws and, subject to certain exceptions, may not be offered or sold within the United States or to U.S. persons.

RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc. and TD Securities Inc. are, directly or indirectly, subsidiaries or affiliates of Canadian chartered banks that are lenders to the Partnership pursuant to a credit facility (the “**Bank Credit Facility**”). As at September 30, 2010, \$97.0 million of the Bank Credit Facility remained outstanding. Consequently, the Corporation may be considered to be a connected issuer of RBC Dominion Securities Inc., Scotia Capital Inc., BMO Nesbitt Burns Inc. and TD Securities Inc. under applicable Canadian securities legislation. The decision to distribute the Series 1 Shares, including the determination of the terms of and pricing of the Offering, was made through negotiations between the Corporation and the Underwriters. The lenders under the Bank Credit Facility did not have any involvement in the decision or determination regarding the terms of the Offering. First National intends to use the net proceeds of the Offering to repay current indebtedness.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Stikeman Elliott LLP and of Torys LLP, the following is a summary of the principal Canadian federal income tax considerations generally applicable to a purchaser of Series 1 Shares pursuant to this short form prospectus (a “**Holder**”) who, for purposes of the Tax Act and at all relevant times, is or is deemed to be a resident of Canada, deals at arm’s length with, and is not affiliated with, the Corporation, holds the Series 1 Shares, and will hold any Series 2 Shares, as the case may be, as capital property.

Generally, the Series 1 Shares and the Series 2 Shares will be capital property to a Holder provided the Holder does not hold such shares in the course of carrying on a business of trading or dealing in securities and does not acquire them as part of an adventure or concern in the nature of a trade. A Holder who might not otherwise hold its Series 1 Shares or Series 2 Shares as capital property may, in certain circumstances, be entitled to have them and every other “Canadian security”, as defined in the Tax Act, owned by such Holder in the taxation year of the election or any subsequent taxation year, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is not applicable to a Holder: (i) that is a “financial institution” for purposes of the “mark to market rules” in the Tax Act; (ii) an interest in which is a “tax shelter investment” as defined in the Tax Act, or (iii) that reports its “Canadian tax results” within the meaning of the Tax Act in a currency other than Canadian currency. Such Holders are advised to consult with their own tax advisors. Furthermore, this summary is not applicable to a Holder that is a “specified financial institution”, as defined in the Tax Act, that receives or is deemed to receive, alone or together with persons with whom it does not deal at arm’s length, in the aggregate, dividends in respect of more than 10% of the Series 1 Shares or the Series 2 Shares, as the case may be, outstanding at the time the dividends are received. Such Holders should consult their own tax advisors. This summary also assumes that all issued and outstanding Series 1 Shares or Series 2 Shares are listed on a designated stock exchange in Canada (which includes the TSX) at such times as dividends (including deemed dividends) are paid or received on such shares.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser. Accordingly, prospective purchasers should consult their own tax advisors with respect to their particular circumstances.

This summary is based upon the current provisions of the Tax Act, the regulations thereunder (the “**Regulations**”), all specific proposals to amend the Tax Act and the Regulations publicly announced by the Minister of Finance prior to the date hereof (the “**Proposals**”) and counsel’s understanding of the current published administrative and assessing policies and practices of the Canada Revenue Agency (the “**CRA**”). This summary does not otherwise take into account or anticipate any change in law or in administrative and assessing policies and practices, whether by legislative, governmental or judicial action, nor does it take into account or consider any provincial, territorial or foreign income tax legislation or considerations. No assurances can be given that the Proposals will be enacted as proposed or at all.

Dividends

Dividends (including deemed dividends) received on the Series 1 Shares or the Series 2 Shares by an individual (other than certain trusts) will be included in the individual’s income and will be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received from taxable Canadian corporations, including the enhanced dividend gross-up and tax credit rules applicable to any dividends designated by the Corporation as “eligible dividends” in accordance with the Tax Act. Dividends received or deemed to be received by an individual (including certain trusts) may give rise to a liability for alternative minimum tax.

Dividends (including deemed dividends) received on the Series 1 Shares or the Series 2 Shares by a corporation will be included in computing the corporation’s income and will generally be deductible in computing the taxable income of the Corporation.

The Series 1 Shares and the Series 2 Shares will be “taxable preferred shares” as defined in the Tax Act. The terms of the Series 1 Shares and the Series 2 Shares require the Corporation to make the necessary election under Part VI.1 of the Tax Act so that Holders that are corporations will not be subject to tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) by such Holders on the Series 1 Shares and the Series 2 Shares.

A Holder that is a “private corporation”, as defined in the Tax Act, or any other corporation controlled (whether by reason 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 33 $\frac{1}{3}$ % refundable tax under Part IV of the Tax Act on dividends received (or deemed to be received) on the Series 1 Shares and the Series 2 Shares to the extent such dividends are deductible in computing its taxable income.

Redemption

If the Corporation redeems for cash or otherwise acquires Series 1 Shares or Series 2 Shares, other than upon a conversion or by a purchase in the manner in which shares are normally purchased by a member of the public in the open market, the Holder will be deemed to have received a dividend equal to the amount, if any, paid by the Corporation in excess of the paid-up capital (as determined pursuant to the Tax Act) of such shares at such time. Generally, the difference between the amount paid and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of the Series 1 Shares or Series 2 Shares, as the case may be. See “*Dispositions*” below. In the case of a Holder that is a corporation, it is possible that in certain circumstances all or part of the amount so deemed to be a dividend may be treated as proceeds of disposition and not as a dividend and such Holders should consult their own tax advisors in this regard.

Conversion

The conversion of Series 1 Shares into Series 2 Shares and the conversion of Series 2 Shares into Series 1 Shares, in each case, pursuant to the terms of such shares, will be deemed not to be a disposition of property and, accordingly, will not give rise to any capital gain or capital loss. The cost to a Holder of the Series 2 Shares or the Series 1 Shares, as the case may be, received on the conversion will be deemed to be equal to the Holder’s adjusted cost base of the converted Series 1 Shares or Series 2 Shares, as the case may be, immediately before the conversion. The cost of a Series 1 Share or Series 2 Share, as the case may be, obtained upon a conversion

will be averaged with the adjusted cost base of all other Series 1 Shares or Series 2 Shares, as the case may be, held by the Holder as capital property at such time for the purpose of determining thereafter the adjusted cost base of each such share.

Dispositions

A Holder who disposes of, or is deemed to dispose of, Series 1 Shares or Series 2 Shares (either on redemption of the shares for cash or otherwise, but not on a conversion) will generally realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to the Holder. As noted above under “*Redemption*”, the amount of any deemed dividend arising on the redemption or purchase for cancellation by the Corporation of Series 1 Shares or Series 2 Shares will generally not be included in computing the Holder’s proceeds of disposition for purposes of computing the capital gain or capital loss arising on the disposition of such shares.

Generally, a Holder is required to include in computing its income for a taxation year one-half of the amount of any capital gain (a “taxable capital gain”) realized by the Holder in the year. Subject to and in accordance with the provisions of the Tax Act, a Holder is required to deduct one-half of the amount of any capital loss (an “allowable capital loss”) realized in a taxation year from taxable capital gains realized by the Holder in the year. Allowable capital losses in a taxation year in excess of taxable capital gains in the taxation year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years. Capital gains realized by an individual (including certain trusts) may give rise to a liability for alternative minimum tax.

If the Holder is a corporation, any capital loss realized on a disposition or deemed disposition of Series 1 Shares or Series 2 Shares may, in certain circumstances, be reduced by the amount of any dividends, including deemed dividends, which have been received on such shares to the extent and under circumstances prescribed by the Tax Act. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary. A Holder that is a “Canadian-controlled private corporation” (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income including amounts in respect of taxable capital gains.

RISK FACTORS

An investment in the Series 1 Shares or the Series 2 Shares involves a number of risks. Before investing in Series 1 Shares or the Series 2 Shares, prospective purchasers should carefully read and consider the risks described below and in the AIF and the MD&A. The business, financial condition and results of operations of the Corporation could be materially adversely affected by any of these risks.

Risk Factors Specific to the Series 1 Shares and the Series 2 Shares

Credit Rating

There can be no assurance that the credit rating assigned to the Series 1 Shares or Series 2 Shares will remain in effect for any given period of time or that the ratings will not be withdrawn or revised by DBRS at any time. Real or anticipated changes in credit ratings on the Series 1 Shares or Series 2 Shares may affect the market value of the Series 1 Shares or Series 2 Shares. In addition, real or anticipated changes in credit ratings can affect the cost at which the Corporation can access the capital markets. See “*Credit Rating*”.

Coverage Ratios

See “*Earnings Coverage Ratio*” which is relevant to an assessment of the risk that the Corporation will be unable to pay dividends on the Series 1 Shares and Series 2 Shares.

Interest rate fluctuation

Prevailing yields on similar securities will affect the market value of the Series 1 Shares and the Series 2 Shares. Assuming all other factors remain unchanged, the market value of the Series 1 Shares and the Series 2

Shares would be expected to decline as prevailing yields for similar securities rise and would be expected to increase as prevailing yields for similar securities decline. Spreads over the Government of Canada Yield, T-Bill Rate and comparable benchmark rates of interest for similar securities will also affect the market value of the Series 1 Shares and the Series 2 Shares in an analogous manner.

No fixed maturity date; No redemption at option of holder

Neither Series 1 Shares nor the Series 2 Shares have a fixed maturity date and they are not redeemable at the option of the holders of Series 1 Shares or Series 2 Shares, as applicable. The ability of a holder to liquidate its holdings of Series 1 Shares or Series 2 Shares, as applicable, may be limited.

No assurance of an active trading market

There can be no assurance that an active trading market will develop for the Series 1 Shares after the Offering or for the Series 2 Shares following the issuance of any of those shares, or if developed, that such a market will be sustained at the offering price of the Series 1 Shares or the issue price of the Series 2 Shares.

Priority

The Corporation may, in the future, issue debt securities that rank senior to the Series 1 Shares, Series 2 Shares or any other Class A Preference Shares in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs.

Reinvestment risk upon redemption

The Corporation may choose to redeem the Series 1 Shares and the Series 2 Shares from time to time, in accordance with its rights described under “Details of the Offering — Description of the Series 1 Shares — Redemption” and “Details of the Offering — Description of the Series 2 Shares — Redemption”, including when prevailing interest rates are lower than the yields borne by the Series 1 Shares and the Series 2 Shares. If prevailing rates are lower at the time of redemption, a purchaser would not be able to reinvest the redemption proceeds in a comparable security at an effective yield as high as the yields on the Series 1 Shares or the Series 2 Shares being redeemed. The Corporation’s redemption right also may adversely impact a purchaser’s ability to sell Series 1 Shares and Series 2 Shares as the optional redemption date or period approaches.

Changes in dividend rate

The dividend rate in respect of the Series 1 Shares will reset on March 31, 2016 and on March 31 every five years thereafter. The dividend rate in respect of the Series 2 Shares will reset quarterly. In each case, the new dividend rate is unlikely to be the same as, and may be lower than, the dividend rate for the applicable preceding dividend period.

Floating interest rate for Series 2 Shares

Investments in the Series 2 Shares, given their floating interest component, entail risks not associated with investments in the Series 1 Shares. The resetting of the applicable rate on a Series 2 Share may result in a lower yield compared to the fixed rate Series 1 Shares. The applicable rate on a Series 2 Share will fluctuate in accordance with fluctuations in the T-Bill Rate on which the applicable rate is based, which in turn may fluctuate and be affected by a number of interrelated factors, including economic, financial and political events over which the Corporation has no control.

Mandatory and automatic conversion in certain circumstances

An investment in the Series 1 Shares, or in the Series 2 Shares, as the case may be, may become an investment in Series 2 Shares, or in Series 1 Shares, respectively, without the consent of the holder in the event of an automatic conversion in the circumstances described under “Details of the Offering — Description of the Series 1 Shares — Conversion of Series 1 Shares into Series 2 Shares” and “Details of the Offering —

Description of the Series 2 Shares — Conversion of Series 2 Shares into Series 1 Shares”. Upon the automatic conversion of the Series 1 Shares into Series 2 Shares, the dividend rate on the Series 2 Shares will be a floating rate that is adjusted quarterly by reference to the T-Bill Rate, which will vary from time to time while, and upon the automatic conversion of the Series 2 Shares into Series 1 Shares, the dividend rate on the Series 1 Shares will be, for each five-year period, a fixed rate that is determined by reference to the Government of Canada Yield on the 30th day prior to the first day of each such five-year period. In addition, holders may be prevented from converting their Series 1 Shares into Series 2 Shares, and vice versa, in certain circumstances. See “Details of the Offering — Description of the Series 1 Shares — Conversion of Series 1 Shares into Series 2 Shares”, “Details of the Offering — Description of the Series 2 Shares — Conversion of Series 2 Shares into Series 1 Shares”.

INTEREST OF EXPERTS

Certain legal matters relating to the sale of the Series 1 Shares offered by this short form prospectus will be passed upon on behalf of the Corporation by Stikeman Elliott LLP and on behalf of the Underwriters by Torys LLP. As at the date hereof, the partners and associates of each of the aforementioned partnerships beneficially own, directly or indirectly, in the aggregate less than one per cent of the securities or other property of the Corporation.

AUDITORS

The auditors of the Corporation are Ernst & Young LLP, Chartered Accountants, Toronto, Ontario. Such firm is independent of each of the Corporation and its subsidiaries in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

TRANSFER AGENT AND REGISTRAR

The register and transfer books for Series 1 Shares will be kept at the principal office of Computershare Investor Services Inc. (the “**Transfer Agent**”) in the City of Toronto, Ontario.

EXEMPTION FROM NATIONAL INSTRUMENT 44-101

The Ontario Securities Commission, as principal regulator under the Process for Exemptive Relief Applications in Multiple Jurisdictions, has granted the Corporation relief under the securities legislation of the Province of Ontario as described below (which relief is intended to be relied upon by the Corporation in each of the provinces and territories of Canada, other than Ontario). The Corporation has been exempted from the requirement in Section 2.8 of National Instrument 44-101 — Short Form Prospectus Distributions to file a notice of intention to file a short form prospectus no fewer than 10 business days prior to the filing of its first preliminary short form prospectus.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for the particulars of these rights or consult with a legal adviser.

AUDITORS' CONSENT IN RESPECT OF THE FUND

We have read the short form prospectus dated January 18, 2011 relating to the sale and issue of Class A Preference Shares, Series 1 of First National Financial Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the unitholders of First National Financial Income Fund (the "**Fund**") on the consolidated balance sheets of the Fund as at December 31, 2009 and 2008 and the consolidated statements of income and unitholders' equity and cash flows for each of the years then ended. Our report is dated March 9, 2010.

Toronto, Canada
January 18, 2011

(signed) ERNST & YOUNG LLP
Chartered Accountants
Licenced Public Accountants

AUDITORS' CONSENT IN RESPECT OF THE PARTNERSHIP

We have read the short form prospectus dated January 18, 2011 relating to the sale and issue of Class A Preference Shares, Series 1 of First National Financial Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the partners of First National Financial LP (the "**Partnership**") on the balance sheets of the Partnership as at December 31, 2009 and 2008 and the statements of income and retained earnings and cash flows for each of the years then ended. Our report is dated March 9, 2010.

Toronto, Canada
January 18, 2011

(signed) ERNST & YOUNG LLP
Chartered Accountants
Licenced Public Accountants

CERTIFICATE OF FIRST NATIONAL FINANCIAL CORPORATION

Dated: January 18, 2011

This short form prospectus, together with the documents and information incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces and territories of Canada.

(Signed) STEPHEN SMITH
President

(Signed) ROBERT INGLIS
Chief Financial Officer

On behalf of the Board of Directors

(Signed) DUNCAN JACKMAN
Director

(Signed) MORAY TAWSE
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: January 18, 2011

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada.

RBC Dominion Securities Inc.

(Signed) RAJIV BAHL

Scotia Capital Inc.

(Signed) BURHAN KHAN

BMO Nesbitt Burns Inc.

(Signed) BRADLEY J. HARDIE

TD Securities Inc.

(Signed) JONATHAN BROER

CIBC World Markets Inc.

(Signed) SHANNAN M. LEVERE

National Bank Financial Inc.

(Signed) DARIN DESCHAMPS

Jennings Capital Inc.

(Signed) DAVID DONATO

FIRST NATIONAL

FINANCIAL CORPORATION

