

# FIRST ASSET PREFERRED SHARE ETF



Interim Financial Statements for the period  
**May 4, 2016 to June 30, 2016**



## NOTICE TO READER:

These interim financial statements and related notes for the period ended June 30, 2016 have been prepared by First Asset Investment Management Inc. The external auditors of the Fund have not audited or reviewed these interim financial statements.

FIRST ASSET PREFERRED SHARE ETF

STATEMENT OF FINANCIAL POSITION (Unaudited)

As at

|   | June 30,<br>2016<br>\$ |
|---|------------------------|
| <b>ASSETS</b>   |                        |
| <b>Current assets</b>   |                        |
| Investments, at fair value (note 2)   | 12,765,649             |
| Unrealized gain on forward foreign currency contracts                           | 1,844                  |
| Cash and cash equivalents   | 21,338                 |
| Subscriptions receivable  | 11,147,008             |
| Dividends receivable  | 14,862                 |
|   | 23,950,701             |
| <b>LIABILITIES</b>  |                        |
| <b>Current liabilities</b>  |                        |
| Unrealized loss on forward foreign currency contracts                           | 493                    |
| Accounts payable and accrued liabilities  | 90                     |
| Management fee payable  | 330                    |
| Due to broker   | 10,737,161             |
| Distributions payable to holders of redeemable securities (note 9)              | 7,946                  |
|   | 10,746,020             |
| <b>Net assets attributable to holders of redeemable securities</b>              | <b>13,204,681</b>      |
| <b>Net assets attributable to holders of redeemable securities per security</b> | <b>\$20.31</b>         |

See accompanying notes to financial statements.

FIRST ASSET PREFERRED SHARE ETF

STATEMENT OF COMPREHENSIVE INCOME (Unaudited)

For the period from May 4 to June 30

|   | 2016<br>\$      |
|---|-----------------|
| <b>INCOME</b>   |                 |
| Net gains (losses) on investments   |                 |
| Change in unrealized appreciation of investments  | 36,152          |
| Dividends   | 21,070          |
| Change in unrealized appreciation on forward foreign currency contracts   | 1,351           |
| Net realized gain on sale of investments  | 132             |
| <b>Net gains (losses) on investments<sup>(1)</sup></b>  | <b>58,705</b>   |
| Net realized foreign exchange gain  | 8               |
|   | <b>58,713</b>   |
| <b>EXPENSES</b>   |                 |
| Audit fees  | 5,000           |
| Securityholder reporting costs  | 4,867           |
| Custodial and fund valuation fees   | 4,111           |
| Harmonized Sales Tax  | 1,820           |
| Management fee (notes 8 and 12) <sup>(2)</sup>  | 564             |
| Transaction costs (note 8)  | 223             |
|   | <b>16,585</b>   |
| Expenses absorbed by the Manager  | <b>(15,639)</b> |
|   | <b>946</b>      |
| <b>Increase (decrease) in net assets attributable to holders of redeemable securities from operations (excluding distributions)</b>                       | <b>57,767</b>   |
| <b>Increase (decrease) in net assets attributable to holders of redeemable securities from operations (excluding distributions) per security (note 2)</b> | <b>\$0.76</b>   |

<sup>(1)</sup> Comprised of:

|   | 2016<br>\$    |
|---|---------------|
| Financial assets and liabilities designated at FVTPL            | 57,354        |
| Financial assets and liabilities classified as held for trading | 1,351         |
|   | <b>58,705</b> |

<sup>(2)</sup> Management fee rate (notes 8 and 12)

|  | Management Fee |
|--|----------------|
|  | 0.65%          |

See accompanying notes to financial statements.

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SECURITIES (Unaudited)

For the period from May 4 to June 30

|  | 2016<br>\$ |
|--|------------|
| <b>Net assets attributable to holders of redeemable securities, beginning of period</b>                                      | —          |
| Increase (decrease) in net assets attributable to holders of redeemable securities from operations (excluding distributions) | 57,767     |
| <b>Distributions to holders of redeemable securities (note 9)</b>  |            |
| From net investment income   | (7,946)    |
| <b>Total distributions to holders of redeemable securities</b>   | (7,946)    |
| <b>Redeemable securities transactions (note 7)<sup>(1)</sup></b>   |            |
| Subscriptions received   | 13,154,860 |
| <b>Total redeemable securities transactions</b>  | 13,154,860 |
| <b>Net increase in net assets attributable to holders of redeemable securities</b>   | 13,204,681 |
| <b>Net assets attributable to holders of redeemable securities, end of period</b>  | 13,204,681 |

(1) Redeemable securities issued and outstanding

|  | 2016<br># |
|--|-----------|
| <b>Securities outstanding, beginning of period</b> | —         |
| Issuance of securities                             | 650,000   |
| <b>Securities outstanding, end of period</b>       | 650,000   |

See accompanying notes to financial statements.

FIRST ASSET PREFERRED SHARE ETF

STATEMENT OF CASH FLOWS (Unaudited)

For the period from May 4 to June 30

|  | 2016            |
|--|-----------------|
|  | \$              |
| <b>OPERATING ACTIVITIES</b>  |                 |
| Increase (decrease) in net assets attributable to holders of redeemable securities from operations (excluding distributions) | 57,767          |
| Adjustments to reconcile cash flows from (used in) operating activities  |                 |
| Proceeds from sale of investments  | 29,753          |
| Purchases of investments   | (10,840,768)    |
| Change in due to broker  | 10,737,161      |
| Change in other assets and liabilities   | (14,442)        |
| Net realized (gain) loss on sale of investments  | (132)           |
| Change in unrealized (appreciation) depreciation of investments  | (36,152)        |
| Change in unrealized (appreciation) depreciation on forward foreign currency contracts                                       | (1,351)         |
| <b>Cash flows used in operating activities</b>   | <b>(68,164)</b> |
| <b>FINANCING ACTIVITIES</b>  |                 |
| Subscriptions received   | 89,502          |
| <b>Cash flows from financing activities</b>  | <b>89,502</b>   |
| <b>Net increase in cash and cash equivalents during the period</b>   | <b>21,338</b>   |
| Cash and cash equivalents, beginning of period   | —               |
| <b>Cash and cash equivalents, end of period</b>  | <b>21,338</b>   |
| Dividends received   | 6,208           |

See accompanying notes to financial statements.

FIRST ASSET PREFERRED SHARE ETF

SCHEDULE OF INVESTMENT PORTFOLIO (Unaudited)

As at June 30, 2016

|                 | Number of<br>Shares | Description                              | Average Cost<br>\$ | Fair Value<br>\$ | % of<br>Net Assets |
|-----------------|---------------------|--|--------------------|------------------|--------------------|
| <b>EQUITIES</b> |                     |  |                    |                  |                    |
|                 |                     | <b>Canada</b>                            |                    |                  |                    |
|                 | 20,800              | Bank of Montreal, 4.13%                  | 408,704            | 411,840          |                    |
|                 | 10,400              | Bank of Montreal, 5.00%                  | 260,072            | 261,560          |                    |
|                 | 17,000              | Bank of Montreal, 5.25%                  | 434,195            | 435,030          |                    |
|                 | 13,000              | Bank of Nova Scotia                      | 335,697            | 332,670          |                    |
|                 | 3,900               | Bank of Nova Scotia, 2.70%               | 85,495             | 85,293           |                    |
|                 | 13,000              | Bank of Nova Scotia, 4.90%               | 346,905            | 344,110          |                    |
|                 | 6,500               | Bank of Nova Scotia, 5.20%               | 129,095            | 129,480          |                    |
|                 | 1,000               | BCE Inc., 4.50%                          | 17,365             | 18,150           |                    |
|                 | 19,500              | BCE Inc., 5.60%                          | 282,210            | 280,020          |                    |
|                 | 3,900               | BCE Inc., 7.12%                          | 54,090             | 54,093           |                    |
|                 | 600                 | Brookfield Asset Management Inc., 4.80%  | 8,881              | 8,340            |                    |
|                 | 10,400              | Brookfield Asset Management Inc., 4.90%  | 225,192            | 226,200          |                    |
|                 | 10,400              | Brookfield Office Properties Inc., 5.00% | 174,680            | 177,112          |                    |
|                 | 3,000               | Brookfield Office Properties Inc., 5.30% | 46,650             | 46,980           |                    |
|                 | 19,500              | Brookfield Office Properties Inc., 5.50% | 504,520            | 505,232          |                    |
|                 | 13,000              | CU Inc., 3.55%                           | 282,820            | 288,470          |                    |
|                 | 7,800               | E-L Financial Ltd., 4.85%                | 193,524            | 192,816          |                    |
| USD             | 10,400              | Enbridge Inc., 2.37%                     | 230,036            | 227,073          |                    |
|                 | 10,400              | Enbridge Inc., 4.65%                     | 148,968            | 150,592          |                    |
|                 | 10,400              | Enbridge Inc., 4.70%                     | 152,624            | 154,440          |                    |
|                 | 10,400              | Enbridge Inc., 4.80%                     | 146,760            | 147,472          |                    |
| USD             | 10,400              | Enbridge Inc., 5.10%                     | 230,226            | 225,864          |                    |
|                 | 6,500               | Fortis Inc., 4.60%                       | 155,935            | 156,260          |                    |
|                 | 6,500               | Fortis Inc., 5.25%                       | 152,135            | 151,840          |                    |
|                 | 10,400              | George Weston Ltd., 3.56%                | 251,904            | 252,616          |                    |
|                 | 13,000              | Great-West Lifeco Inc., 1.82%            | 296,850            | 297,830          |                    |
|                 | 13,000              | Great-West Lifeco Inc., 2.28%            | 317,360            | 319,670          |                    |
|                 | 13,000              | Great-West Lifeco Inc., 3.90%            | 297,890            | 299,000          |                    |
|                 | 6,500               | HSBC Bank Canada, 3.78%                  | 162,165            | 162,175          |                    |
|                 | 14,300              | Husky Energy Inc., 3.90%                 | 278,245            | 277,420          |                    |
|                 | 10,400              | Loblaw Companies Limited, 5.10%          | 256,392            | 256,880          |                    |
|                 | 33,800              | Manulife Financial Corporation, 4.00%    | 803,184            | 806,234          |                    |
|                 | 15,600              | National Bank of Canada, 5.40%           | 399,228            | 400,920          |                    |
|                 | 10,400              | National Bank of Canada, 5.60%           | 272,400            | 273,000          |                    |
|                 | 6,500               | Power Corporation of Canada, 4.00%       | 167,020            | 167,960          |                    |
|                 | 8,100               | Power Corporation of Canada, 4.75%       | 209,507            | 209,385          |                    |
|                 | 13,000              | Power Financial Corp., 4.00%             | 322,830            | 321,750          |                    |
|                 | 10,400              | Royal Bank of Canada, 2.10%              | 262,512            | 262,600          |                    |
|                 | 9,100               | Royal Bank of Canada, 4.60%              | 211,442            | 213,213          |                    |
|                 | 28,600              | Royal Bank of Canada, 5.50%              | 761,144            | 763,464          |                    |
|                 | 19,500              | Sun Life Financial Inc., 5.20%           | 306,630            | 312,975          |                    |
|                 | 23,400              | Sun Life Financial Inc., 5.50%           | 542,628            | 548,029          |                    |
|                 | 6,500               | Sun Life Financial Inc., 5.60%           | 140,550            | 141,700          |                    |
|                 | 3,000               | Sun Life Financial Inc., 6.00%           | 43,410             | 42,330           |                    |
|                 | 16,900              | Toronto-Dominion Bank, 5.50%             | 448,799            | 450,385          |                    |
|                 | 10,400              | Toronto-Dominion Bank, 5.60%             | 236,243            | 237,575          |                    |
|                 | 6,500               | TransCanada Corp, 5.50%                  | 112,075            | 112,450          |                    |



## FIRST ASSET PREFERRED SHARE ETF

## SCHEDULE OF INVESTMENT PORTFOLIO (Unaudited) (continued)

As at June 30, 2016

|  | Number of<br>Shares | Description                    | Average Cost<br>\$ | Fair Value<br>\$  | % of<br>Net Assets |
|--|---------------------|--------------------------------|--------------------|-------------------|--------------------|
| <b>EQUITIES (continued)</b>  |                     |                                |                    |                   |                    |
|  | 15,600              | TransCanada Corporation, 5.80% | 403,572            | 406,224           |                    |
| <b>Total Canada</b>  |                     |                                | 12,510,759         | 12,546,722        | 95.02%             |
| <b>United States</b>   |                     |                                |                    |                   |                    |
| USD  | 6,500               | Citigroup Inc., 5.40%          | 218,924            | 218,927           |                    |
| <b>Total United States</b>   |                     |                                | 218,924            | 218,927           | 1.66%              |
| <b>Total equities</b>  |                     |                                | 12,729,683         | 12,765,649        | 96.68%             |
| Adjustment for transaction costs                                   |                     |                                | (186)              | —                 | —%                 |
| <b>Total investments</b>   |                     |                                | <b>12,729,497</b>  | <b>12,765,649</b> | <b>96.68%</b>      |
| Total unrealized gain on forward foreign currency contracts        |                     |                                |                    | 1,844             | 0.01%              |
| Total unrealized loss on forward foreign currency contracts        |                     |                                |                    | (493)             | —%                 |
| Other assets, net of liabilities                                   |                     |                                |                    | 437,681           | 3.31%              |
| <b>Net assets attributable to holders of redeemable securities</b> |                     |                                |                    | <b>13,204,681</b> | <b>100.00%</b>     |

## UNREALIZED GAIN ON FORWARD FOREIGN CURRENCY CONTRACTS

| Settlement<br>Date | Currency<br>Buy | Position | Currency<br>Sell | Position | Contract<br>Rates | Counterparty         | Credit<br>Rating* | Unrealized<br>Gain (\$) |
|--------------------|-----------------|----------|------------------|----------|-------------------|----------------------|-------------------|-------------------------|
| 19-Aug-16          | CAD             | 2,603    | USD              | 2,000    | 1.3014            | Bank of Montreal     | A+                | 19                      |
| 19-Aug-16          | CAD             | 434,536  | USD              | 335,000  | 1.2971            | Royal Bank of Canada | AA-               | 1,792                   |
| 19-Aug-16          | CAD             | 2,616    | USD              | 2,000    | 1.3082            | Royal Bank of Canada | AA-               | 33                      |
|                    |                 |          |                  |          |                   |                      |                   | <b>1,844</b>            |

## UNREALIZED LOSS ON FORWARD FOREIGN CURRENCY CONTRACTS

| Settlement<br>Date | Currency<br>Buy | Position | Currency<br>Sell | Position | Contract<br>Rates | Counterparty        | Credit<br>Rating* | Unrealized<br>Loss (\$) |
|--------------------|-----------------|----------|------------------|----------|-------------------|---------------------|-------------------|-------------------------|
| 22-Jul-16          | CAD             | 39,829   | USD              | 31,000   | 1.2848            | Bank of Montreal    | A+                | (219)                   |
| 22-Jul-16          | USD             | 2,000    | CAD              | 2,615    | 1.3076            | Bank of Nova Scotia | A+                | (31)                    |
| 19-Aug-16          | CAD             | 35,927   | USD              | 28,000   | 1.2831            | Bank of Montreal    | A+                | (243)                   |
|                    |                 |          |                  |          |                   |                     |                   | <b>(493)</b>            |

\* Credit rating provided by Standard &amp; Poor's.

## FUND SPECIFIC NOTES TO FINANCIAL STATEMENTS (Unaudited)

June 30, 2016

**(A) THE FUND**

First Asset Preferred Share ETF (the "Fund") is an exchange traded fund that seeks to provide unitholders with: (a) regular distributions; and (b) the opportunity for capital appreciation from the performance of a portfolio comprised primarily of preferred shares of North American issuers.

**(B) FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following tables show the fair value hierarchy classification of financial instruments measured or disclosed at their fair value.

|                              | As at June 30, 2016 |         |         |            |
|------------------------------|---------------------|---------|---------|------------|
|                              | Level 1             | Level 2 | Level 3 | Total      |
|                              | \$                  | \$      | \$      | \$         |
| <b>Financial assets</b>      |                     |         |         |            |
| Equities                     | 12,765,649          | —       | —       | 12,765,649 |
| Derivatives                  | —                   | 1,844   | —       | 1,844      |
|                              | 12,765,649          | 1,844   | —       | 12,767,493 |
| <b>Financial liabilities</b> |                     |         |         |            |
| Derivatives                  | —                   | 493     | —       | 493        |
|                              | —                   | 493     | —       | 493        |

**(C) INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE SECURITIES FROM OPERATIONS (EXCLUDING DISTRIBUTIONS) PER SECURITY**

The increase (decrease) in net assets attributable to holders of redeemable securities per security for the period ended June 30, 2016 is calculated as follows:

|   | 2016     |
|---|----------|
| Increase (decrease) in net assets attributable to holders of redeemable securities from operations (excluding distributions)              | \$57,767 |
| Weighted average securities outstanding during the period   | 75,714   |
| Increase (decrease) in net assets attributable to holders of redeemable securities from operations (excluding distributions) per security | \$0.76   |

**(D) MANAGEMENT OF FINANCIAL RISKS****Currency risk**

The tables below indicate the foreign currencies to which the Fund has significant exposure in Canadian dollar terms, including the underlying principal amount of forward foreign currency contracts. The tables also illustrate the potential impact on the net assets attributable to holders of redeemable securities of the Fund, all other variables held constant, as a result of a 5% change in these currencies relative to the Canadian dollar.

As at June 30, 2016

| Currency                    | Investments      | Cash       | Other      | Forward Foreign<br>Currency Contracts | Total            | Impact on<br>Net Assets |
|-----------------------------|------------------|------------|------------|---------------------------------------|------------------|-------------------------|
| United States dollar        | \$671,865        | \$—        | \$—        | (\$512,896)                           | \$158,969        | \$7,949                 |
| <b>Total</b>                | <b>\$671,865</b> | <b>\$—</b> | <b>\$—</b> | <b>(\$512,896)</b>                    | <b>\$158,969</b> | <b>\$7,949</b>          |
| <b>As a % of Net Assets</b> | <b>5.1%</b>      | <b>—%</b>  | <b>—%</b>  | <b>(3.9)%</b>                         | <b>1.2%</b>      | <b>0.1%</b>             |

## FUND SPECIFIC NOTES TO FINANCIAL STATEMENTS (Unaudited) (continued)

## (D) MANAGEMENT OF FINANCIAL RISKS (continued)

## Credit risk

| Credit Rating | June 30, 2016<br>% of Net Assets |
|---------------|----------------------------------|
| A             | 3.84                             |
| A-            | 4.48                             |
| A+            | 5.64                             |
| BBB+          | 24.54                            |
| BBB           | 25.39                            |
| BBB-          | 23.02                            |
| BB+           | 9.77                             |

## Other price risk

The table below indicates how net assets attributable to holders of redeemable securities would have increased or decreased had the value of the Fund's benchmark increased or decreased by 10%. This change is estimated based on the historical correlation between the return of the Fund's securities as compared to the return of the benchmark, as at period end, with all other variables held constant. Regression analysis has been utilized to estimate the historical correlation. The analysis uses daily data points from Launch Date to the applicable period end. The historical correlation may not be representative of the future correlation, and accordingly the impact on net assets attributable to holders of redeemable securities could be different.

| Benchmark                                  | Impact on net assets attributable to redeemable securities<br>June 30, 2016<br>\$ |
|--|---|
| S&P/TSX Preferred Share Total Return Index | 1,133,412   |

FIRST ASSET PREFERRED SHARE ETF

# NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2016

## 1. GENERAL INFORMATION

These notes are an integral part of these financial statements and contain important information about the First Asset Exchange Traded Funds (individually, a Fund, and collectively, the Funds). The following table indicates the date upon which each Fund was established or the prospectus date of the initial public offering for Funds that were originally established as closed-end investment trusts (Inception Date). The date upon which each class of securities of each Fund started trading on the Toronto Stock Exchange (TSX) (Launch Date) is also indicated below.

| Fund  | TSX Ticker Symbol | Inception Date     | Common Units / Corporate Class | Advisor Class Units | Unhedged Common Units (CAD and/or USD) | Unhedged Advisor Class Units (CAD and/or USD) |
|---|-------------------|--------------------|--------------------------------|---------------------|--|---|
| <b>TRUSTS</b>   |                   |                    |                                |                     |  |   |
| First Asset Can-Energy Covered Call ETF                       | OXF               | May 16, 2011       | June 1, 2011                   | June 1, 2011        |  |   |
| First Asset Can-Materials Covered Call ETF                    | MXF               | May 16, 2011       | June 4, 2011                   | June 4, 2011        |  |   |
| First Asset Canadian Convertible Bond ETF                     | CXF               | May 24, 2011       | June 7, 2011                   | June 7, 2011        |  |   |
| First Asset Tech Giants Covered Call ETF                      | TXF               | October 17, 2011   | October 26, 2011               | October 26, 2011    |  |   |
| First Asset Morningstar Canada Dividend Target 30 Index ETF   | DXM               | January 13, 2012   | February 6, 2012               | February 6, 2012    |  |   |
| First Asset Morningstar US Dividend Target 50 Index ETF       | UXM               | January 13, 2012   | February 6, 2012               | February 6, 2012    | October 22, 2013                       | October 22, 2013                              |
| First Asset Morningstar National Bank Quebec Index ETF        | QXM               | January 13, 2012   | February 6, 2012               | February 6, 2012    |  |   |
| First Asset Morningstar Canada Momentum Index ETF             | WXM               | January 13, 2012   | February 15, 2012              | February 15, 2012   |  |   |
| First Asset Morningstar Canada Value Index ETF                | FXM               | January 13, 2012   | February 15, 2012              | February 15, 2012   |  |   |
| First Asset Provincial Bond Index ETF                         | PXF               | January 3, 2013    | January 21, 2013               | January 21, 2013    |  |   |
| First Asset 1-5 Year Laddered Government Strip Bond Index ETF | BXF               | May 30, 2013       | June 11, 2013                  | June 11, 2013       |  |   |
| First Asset Morningstar US Value Index ETF                    | XXM               | October 11, 2013   | October 22, 2013               | October 22, 2013    | October 22, 2013                       | October 22, 2013                              |
| First Asset Morningstar US Momentum Index ETF                 | YXM               | October 11, 2013   | October 22, 2013               | October 22, 2013    | October 22, 2013                       | October 22, 2013                              |
| First Asset MSCI Canada Low Risk Weighted ETF                 | RWC               | January 27, 2014   | February 19, 2014              | February 19, 2014   |  |   |
| First Asset MSCI Europe Low Risk Weighted ETF                 | RWE               | January 27, 2014   | February 11, 2014              | February 11, 2014   | February 11, 2014                      | February 11, 2014                             |
| First Asset MSCI USA Low Risk Weighted ETF                    | RWU               | January 27, 2014   | February 11, 2014              | February 19, 2014   | February 19, 2014                      | February 19, 2014                             |
| First Asset MSCI World Low Risk Weighted ETF                  | RWW               | January 27, 2014   | February 19, 2014              | February 19, 2014   | February 11, 2014                      | February 11, 2014                             |
| First Asset Hamilton Capital European Bank ETF                | FHB               | July 18, 2014      | July 29, 2014                  | July 29, 2014       |  |   |
| First Asset Active Canadian Dividend ETF                      | FDV               | July 18, 2014      | September 9, 2014              | September 9, 2014   |  |   |
| First Asset U.S. & Canada LifeCo Income ETF                   | FLI               | August 25, 2014    | September 3, 2014              | September 9, 2014   |  |   |
| First Asset Morningstar International Value Index ETF         | VXM               | October 20, 2014   | November 18, 2014              | November 18, 2014   | November 18, 2014                      | November 18, 2014                             |
| First Asset Morningstar International Momentum Index ETF      | ZXM               | October 20, 2014   | November 18, 2014              | November 18, 2014   | November 18, 2014                      | November 18, 2014                             |
| First Asset Utility & Infrastructure ETF                      | FAI               | January 12, 2015   | January 16, 2015               | January 23, 2015    |  |   |
| First Asset Active Credit ETF                                 | FAO               | January 12, 2015   | January 19, 2015               | January 23, 2015    | January 19, 2015                       | January 23, 2015                              |
| First Asset Core Canadian Equity ETF                          | CED               | January 12, 2015   | January 20, 2015               | January 20, 2015    |  |   |
| First Asset Core U.S. Equity ETF                              | CES               | January 12, 2015   | January 20, 2015               | January 20, 2015    | January 20, 2015                       | January 20, 2015                              |
| First Asset Core Balance Balanced ETF                         | CBB               | January 12, 2015   | February 10, 2015              | February 10, 2015   |  |   |
| First Asset Energy Giants Covered Call ETF                    | NXF               | January 26, 2015   | February 10, 2015              | February 10, 2015   |  |   |
| First Asset Canadian REIT ETF                                 | RIT               | July 10, 2015      | July 14, 2015                  | July 21, 2015       |  |   |
| First Asset Global Financial Sector ETF                       | FSF               | April 11, 2016     | April 25, 2016                 |                     |  |   |
| First Asset Preferred Share ETF                               | FPR               | May 4, 2016        | May 17, 2016                   |                     |  |   |
| First Asset Long Duration Fixed Income ETF                    | FLB               | May 4, 2016        | May 17, 2016                   |                     |  |   |
| <b>CORPORATE CLASS</b>  |                   |                    |                                |                     |  |   |
| First Asset CanBanc Income Class ETF                          | CIC               | September 18, 2015 | September 24, 2015             |                     |  |   |
| First Asset Core Canadian Equity Income Class ETF             | CSY               | April 1, 2016      | May 4, 2016                    |                     |  |   |
| First Asset Short Term Government Bond Index Class ETF        | FGB               | February 23, 2016  | March 1, 2016                  |                     |  |   |
| First Asset Global Momentum Class ETF                         | FGL               | February 23, 2016  | March 1, 2016                  |                     |  |   |
| First Asset Global Momentum (CAD hedged) Class ETF            | FGM               | February 23, 2016  | March 1, 2016                  |                     |  |   |
| First Asset Global Value Class ETF                            | FGU               | February 23, 2016  | March 1, 2016                  |                     |  |   |
| First Asset Global Value (CAD hedged) Class ETF               | FGV               | February 23, 2016  | March 1, 2016                  |                     |  |   |
| First Asset MSCI Canada Quality Index Class ETF               | FQC               | April 1, 2016      | May 4, 2016                    |                     |  |   |

The Funds listed under the heading Corporate Class are ETF share classes of First Asset Fund Corp. (Fund Corporation), established under the laws of the Province of Ontario as a mutual fund corporation.

The remaining funds (individually, a Trust, and collectively, the Trusts) are established as investment funds under the laws of the Province of Ontario and governed by a Declaration of Trust. Each Trust offers one class of security called Units or Common Units and, if applicable, Advisor Class Units, Unhedged Common Units and

## NOTES TO THE FINANCIAL STATEMENTS (Unaudited) (continued)

### 1. GENERAL INFORMATION (continued)

Unhedged Advisor Class Units. First Asset Core U.S. Equity ETF and First Asset Active Credit ETF also offer U.S. dollar denominated Unhedged Common Units and Unhedged Advisor Class Units. The only difference between the Common Units and the Advisor Class Units is the management fee payable by a Fund due to the service fee payable by First Asset in respect of the Advisor Class Units (as described in note 8). The exposure in relation to the unhedged securities of a Fund to currencies other than the Canadian dollar is not hedged back to the Canadian dollar. Accordingly, the net asset value attributable to holders of redeemable securities per security of each class will not be the same as a result of the different fees allocable to each class of securities and/or the different currency hedging strategy, as applicable. All classes of securities of the Funds are currently listed on the Toronto Stock Exchange (TSX).

Refer to the Fund Specific Notes for details of the investment objectives and strategies of each Fund.

The manager of each Fund is First Asset Investment Management Inc. (First Asset). First Asset is a subsidiary of CI Financial Corp. (TSX: CIX).

Each Fund's registered office is at 95 Wellington Street West, Suite 1400, Toronto, Canada.

The Schedule of Investment Portfolio for each Fund is as at June 30, 2016. The Statements of Financial Position for each Fund are as at June 30, 2016 and December 31, 2015, where applicable. The Statements of Comprehensive Income, Statements of Changes in Net Assets Attributable to Holders of Redeemable Securities and Statements of Cash Flows for each Fund are for the six-month period ended June 30, 2016 and 2015, except for Funds or classes established during the period, in which case the information for that Fund or class is provided for the period from Inception Date of the Fund or Launch Date of the class to June 30 of the applicable year.

These annual financial statements of the Funds for the period ended June 30, 2016 were approved and authorized for issuance by the Board of Directors of First Asset on August 26, 2016.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

The financial statements of the Funds have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared on a going concern basis using the historical cost convention except for financial assets and financial liabilities measured at fair value through profit or loss. The Funds' accounting policies for measuring fair value of investments and derivatives are consistent with those used in measuring the net asset value (NAV) for transactions with securityholders.

#### Functional and presentation currency

The financial statements are presented in Canadian dollars (CAD), which is the currency of the primary economic environment in which the Funds operate and is considered the functional currency of the Funds. For First Asset Active Credit ETF and First Asset Core U.S. Equity ETF, all information is stated in Canadian dollars except for all per unit information for the U.S. dollar classes which is stated in U.S. dollars.

#### Financial instruments

##### (i) Classification and recognition of financial instruments

The Funds classify financial assets and financial liabilities at initial recognition into the following categories, in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

##### **Financial assets and liabilities at fair value through profit or loss**

The category of financial assets and liabilities at fair value through profit or loss (FVTPL) is sub-divided into:

**Financial assets and liabilities held for trading:** Financial assets are classified as held for trading if they are acquired for the purpose of selling and/or repurchasing in the near term. All derivatives and liabilities from short sales of financial instruments are classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. The Funds' policy is not to apply hedge accounting.

**Financial instruments designated as fair value through profit or loss upon initial recognition:** All investments held by the Funds (other than derivatives and securities sold short) are designated as fair value through profit or loss upon initial recognition. The Funds include equities, bonds, and other interest-bearing investments in this category. These financial assets are designated upon initial recognition on the basis that they are part of a group of financial assets that are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Funds, as set out in each Fund's prospectus.

Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and each Fund's designation of such instruments. Regular way purchases and sales of financial assets and liabilities are recognized at their trade date.

##### **Loans and receivables**

All other financial assets not measured at FVTPL are measured at amortized cost. Included in this category are subscriptions receivable, accrued income, dividends receivable, interest receivable and due from broker. Financial assets are shown at the amount required to be received, discounted, when appropriate, at the contract's effective interest rate.

## NOTES TO THE FINANCIAL STATEMENTS (Unaudited) (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Other financial liabilities**

All other financial liabilities not measured at FVTPL are measured at amortized cost. Included in this category are due to broker, accounts payable and accrued liabilities, management fee payable, redemption payable and distributions payable to holders of redeemable securities. Financial liabilities are shown at the amount required to be paid, discounted, when appropriate, at the contract's effective interest rate.

#### **(ii) Valuation of financial instruments**

Financial assets and financial liabilities at FVTPL are recorded in the Statements of Financial Position at fair value upon initial recognition. All transaction costs, such as brokerage commissions incurred in the purchase and sale of securities for such instruments are recognized directly in profit or loss. All other financial assets and liabilities (other than those classified as FVTPL) are measured initially at their fair value plus any directly attributable incremental costs of acquisition or issue. For financial assets and liabilities where the fair value at initial recognition does not equal the transaction price, the Funds recognize the difference in the Statements of Comprehensive Income, unless specified otherwise.

After initial measurement, the Funds measure financial instruments which are classified as FVTPL at fair value. Subsequent changes in the fair value of those financial instruments are recorded as unrealized appreciation (depreciation) on investments in the Statements of Comprehensive Income. Net realized gain (loss) on sale of investments and unrealized appreciation (depreciation) on investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities with the exception of zero coupon bonds.

Other financial assets and liabilities (other than those classified as FVTPL) are measured at amortized cost.

The Funds' obligation for net assets attributable to holders of redeemable securities is presented at the residual amount (total assets less total liabilities of each Fund).

The Funds meet the definition of an investment entity within IFRS 10 Consolidated Financial Statements and are required to measure their subsidiaries, if any, at FVTPL rather than consolidate them. The fair values of each specific type of investment and derivative are determined in the following manner:

#### **Portfolio investments**

In the case of publicly traded securities, fair value means the close or last traded price when the price falls within the day's bid-ask spread. For bonds and debentures, fair value means the most recent price provided by independent security pricing services, except in the case of First Asset Active Credit ETF where bonds and bank debt are valued at the bid price provided by independent security pricing services or broker quotes. In the circumstance where the close or last traded price falls outside of the bid-ask spread, then fair value is determined by using bid price for long positions and ask price for short positions, or a different point within the bid-ask spread that First Asset determines to be more representative of fair value.

#### **Derivatives**

Outstanding option positions are valued at an amount equal to the current fair value that would have the effect of closing the position. Any difference resulting from revaluation and gains or losses realized upon expiration or exercise of the options are recognized in the Statements of Comprehensive Income.

Certain Funds are permitted to invest in forward foreign currency contracts to hedge foreign currency exposure on the investment portfolio. The value of forward currency contracts is recorded as the unrealized gain or loss that would be realized if the position was to be closed out and recorded as an unrealized appreciation (depreciation) on forward foreign currency contracts in the Statements of Financial Position. Upon maturity of the contracts, the difference between the carrying value and the fair value is included in net realized gain or loss on forward foreign currency contracts in the Statements of Comprehensive Income.

#### **Other financial assets and liabilities**

Other assets and liabilities are short-term in nature and are carried at amortized cost.

#### **(iii) Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount presented in the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### **Income recognition**

##### **(i) Interest income for distribution purposes**

The interest for distribution purposes shown in the Statements of Comprehensive Income represents the coupon interest received by the Funds accounted for on an accrual basis. The Funds do not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds which are amortized on a straight line basis. The interest for distribution purposes is the tax basis of calculating the interest received and which is subject to tax.

##### **(ii) Dividend revenue**

Dividend revenue is recognized when the Funds' right to receive the payment is established. Dividend revenue is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the Statements of Comprehensive Income.

##### **(iii) Income from options**

Premiums received from writing options are included in the Statements of Financial Position as a liability and subsequently adjusted daily to fair value. When a written

## NOTES TO THE FINANCIAL STATEMENTS (Unaudited) (continued)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

option expires unexercised, the Funds will realize a gain equal to the premium received. When a written option is closed, the Funds will realize a gain or loss equal to the difference between the cost at which the contract was closed and the premium received.

#### (iv) Securities lending

The Funds have entered into a securities lending program with their custodian. These transactions involve the temporary exchange of securities for collateral with a commitment to re-deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on cash or securities held as collateral. Income from securities lending is included in the Statements of Comprehensive Income and is recognized when earned.

The aggregate market value of all securities loaned by a Fund cannot exceed 50% of the assets of that Fund. Collateral received consists of qualified securities and securities that are immediately convertible into, or exchangeable for securities of the same type, the same term and in the same number as those loaned by each Fund with market values of at least 102% of the market value of the loaned securities. State Street Bank and Trust Company is entitled to receive payments out of the gross amount generated from the securities lending transactions of the Funds and bears all operational costs directly related to securities lending as well as the cost of borrow default indemnification. Aggregate values of securities on loan and related collateral held as well as the gross amount generated from the securities lending transactions of the Funds to the revenue from securities lending disclosed in the Funds' Statements of Comprehensive Income as at June 30, 2016 and 2015 are disclosed as a footnote to the Statements of Comprehensive Income.

#### Investment transactions and expense recognition

If applicable, expenses directly attributable to a class are charged to that class. Other expense, income, realized gains and losses from investment transactions are allocated proportionately to each class based on the relative NAV of each class. Realized and unrealized gains and losses on forward foreign currency contracts entered into to hedge currency exposure of hedged classes are allocated only to that class.

#### Cash and cash equivalents

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

#### Redeemable participating securities

Each Fund's redeemable securities do not meet the criteria in IAS 32 for classification as equity and, therefore, have been classified as financial liabilities. These securities are redeemable at the securityholder's option at prices disclosed in note 7.

#### Foreign currency translation

Transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as FVTPL are included in the Statements of Comprehensive Income as part of "net realized and unrealized gain (loss) on sale of investments" and foreign exchange gains and losses relating to cash and other assets and liabilities are presented as "net realized foreign exchange gain (loss)".

#### Increase (decrease) in net assets attributable to holders of redeemable securities per security

Increase / (decrease) in net assets attributable to holders of redeemable securities per security of each class is calculated by dividing the "Increase (decrease) in net assets attributable to holders of redeemable securities from operations (excluding distributions)" as disclosed in the Statements of Comprehensive Income, by the weighted average number of securities outstanding during the period. Refer to the Fund Specific Notes for the calculation.

### 3. STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Funds' financial statements are listed below. The Funds will adopt any applicable standards when they become effective.

#### *IFRS 9, Financial Instruments - Classification and Measurement*

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments (IFRS 9), which replaces the guidance in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. First Asset is currently assessing the impact of adopting this standard.

## NOTES TO THE FINANCIAL STATEMENTS (Unaudited) (continued)

### 3. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

#### *IFRS 15, Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which clarifies the principles for recognizing revenue and cash flows arising from contracts with customers. The standard is effective for annual periods beginning on or after January 1, 2018, with early application permitted. First Asset is currently assessing the impact of adopting this standard, but it is not expected to have a material impact to the Funds.

### 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities at the reporting date and the reported amounts of income and expenses during the reporting year. Significant judgments and estimates include the valuation of investments and derivatives, classification of redeemable securities and classification of the Funds as investment entities.

First Asset has made an assessment of the Funds' ability to continue as a going concern and is satisfied that the Funds have the resources to continue in business for the foreseeable future. Furthermore, First Asset is not aware of any material uncertainties that may cast significant doubt upon the Funds' ability to continue as a going concern. Therefore, the financial statements of the Funds continue to be prepared on a going concern basis.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed in these notes. The Funds based their assumptions and estimates on parameters available when the financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Funds. Such changes are reflected in the assumptions when they occur.

### 5. MANAGEMENT OF FINANCIAL RISK

In the normal course of business, the Funds are exposed to various financial risks, including credit risk, liquidity risk and market risk (consisting of interest rate risk, currency risk and other price risk). The Funds' overall risk management program seeks to minimize potentially adverse effects of these risks on the Funds' financial performance by employing professional, experienced portfolio advisors, by monitoring daily the Funds' positions and market events and by diversifying the investment portfolio within the constraints of the investment guidelines and periodically may use derivatives to hedge certain risk exposure. To assist in managing risk, First Asset maintains a governance structure that oversees the Funds' investment activities and monitors compliance with the Funds' stated investment strategies, investment guidelines and securities regulations. Please refer to the Fund Specific Notes for specific risk disclosures related to each Fund.

#### (i) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Funds.

For those Funds that invest in fixed income securities or derivative contracts, the value presented on the Schedule of Investment Portfolio includes consideration of the creditworthiness of the issuer, and accordingly, represents the maximum credit risk exposure of the Funds. The Funds' holdings are continually monitored in regards to credit quality and relative value. Generally, the greater the credit rating of a security, the lower the probability of it defaulting on its obligations. In order to mitigate credit risk, First Asset attempts to focus on only highly creditworthy issuers that are less likely to suffer harshly during a downturn in the economic environment. As well, credit risk is managed by selecting Schedule I Banks operating in Canada as counterparties to the forward foreign currency contracts, if applicable, and by regular monitoring of credit exposures. Carrying amounts for accrued income represent minimal credit risk exposure as they will be settled in the short term. Credit ratings are obtained from Standard & Poor's. Where more than one rating is obtained for a security, the lowest rating has been used. See the Schedule of Investment Portfolio for the credit ratings of counterparties from over-the-counter derivative contracts, where applicable.

The Funds may enter into securities lending transactions with approved counterparties. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient approved credit rating and the market value of collateral held by the Fund must be at least 102% of the fair value of securities loaned.

All transactions executed by the Funds in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

#### (ii) Liquidity risk

Liquidity risk is the risk that the Funds may not be able to meet their obligation on time or at a reasonable price.

The Funds' exposure to liquidity risk is concentrated in the daily redemptions of securities. Since the delivery of redemptions is typically in the form of securities, the Funds are not exposed to any significant liquidity risk.

Generally, the Funds invest in securities that are considered readily realizable as they are actively traded on public exchanges. Certain securities may be less liquid than other securities and involve the risk that First Asset may not be able to dispose of them at the current market prices. As such, it may be difficult to significantly alter the composition of a Fund's portfolio in a short period of time.

The maturity of the Funds' financial liabilities are all between 1 and 3 months, except for the redeemable securities which are redeemable on demand at the holder's



## NOTES TO THE FINANCIAL STATEMENTS (Unaudited) (continued)

### 5. MANAGEMENT OF FINANCIAL RISK (continued)

option. First Asset does not expect that this contractual maturity is representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

#### (iii) Interest rate risk

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

Certain Funds invest in interest bearing financial instruments. As such, these Funds are exposed to the risk that the value of such financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. Prices of longer-term fixed income securities will generally fluctuate more in response to interest rate changes than would shorter-term securities. For portfolios that contain fixed income securities, First Asset reviews the remaining term-to-maturity dates on a regular basis to ensure diverse and balanced exposure, within the limits of the Funds' investment objectives and strategies.

#### (iv) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Certain Funds invest a portion of their assets in securities that are denominated in a currency other than the Canadian dollar, which represents the functional currency of the Funds. Consequently, these Funds are exposed to currency risk as the value of the portfolio securities denominated in currencies other than the Canadian dollar will vary due to changes in foreign currency exchange rates. For Funds with hedged classes, currency risk is mitigated by entering into forward foreign currency contracts and, as such, the hedged classes do not have significant exposure to currency risk. Significant currency risk exposure impacting the hedged and unhedged classes of each Fund is disclosed in the Fund Specific Notes.

The US\$ Common Units and US\$ Advisor Class Units of First Asset Active Credit ETF do not have significant exposure to currency risk as the Fund's underlying portfolio is denominated in U.S. dollars and these two classes of securities are similarly denominated in U.S. dollars, which essentially eliminates the impact of fluctuations in exchange rates for securityholders.

#### (v) Other price risk

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

All investments in securities present a risk of loss of capital. The maximum market price risk resulting from these investments is equivalent to their fair value. The value of the portfolios will be influenced by factors which are not within the control of the Funds including the performance of the portfolio securities, the condition of the equity markets generally and other factors. Market price risk is mitigated through the careful selection and diversification of securities within the limits of the Funds' investment objectives and strategies as well as the daily monitoring of the Funds' investment portfolio by First Asset.

### 6. FAIR VALUE MEASUREMENT HIERARCHY

Funds classify financial instruments into three levels based on inputs used to value the financial instruments. Level 1 securities are valued based on quoted prices in active markets for identical securities. Level 2 securities are valued based on significant observable market inputs, such as quoted prices from similar securities and quoted prices in inactive markets or based on observable inputs to models. Level 3 securities are valued based on significant unobservable inputs that reflect First Asset's determination of assumptions that market participants might reasonably use in valuing the securities.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Funds determine whether transfers have occurred between levels in the hierarchy by re-assessing the categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the beginning of each reporting period.

Financial assets and liabilities transferred from Level 1 to Level 2 are the result of securities no longer being traded in an active market. For the periods ended June 30, 2016 and December 31, 2015, there were no transfers of financial assets and liabilities from Level 1 to Level 2.

Financial assets and liabilities transferred from Level 2 to Level 1 are the result of securities now being traded in an active market. For the periods ended June 30, 2016 and December 31, 2015, there were no transfers of financial assets and liabilities from Level 2 to Level 1.

The Funds did not hold any significant positions of Level 3 investments at the beginning of, during, or at the end of the reporting periods.

Refer to the Fund Specific Notes for the relevant disclosure.

### 7. REDEEMABLE SECURITIES

Each Trust is authorized to issue an unlimited number of redeemable, transferable Units or Common Units and Advisor Class Units, including unhedged and US\$ classes if applicable, each of which represents an undivided interest in the net assets of the Fund. In the case of multi class Trusts, whole units of each class of securities are convertible into whole units of any other class of securities of the Trust on the basis of their respective net asset values, with any remaining fractional units redeemed at their net asset value.

## NOTES TO THE FINANCIAL STATEMENTS (Unaudited) (continued)

### 7. REDEEMABLE SECURITIES (continued)

The authorized capital the Fund Corporation includes an unlimited number of non-cumulative, redeemable, non-voting classes of shares (each a Corporate Class), issuable in an unlimited number of series, and one class of voting shares designated as Class J Shares. Each Corporate Class is a separate investment fund having specific investment objectives and is specifically referable to a separate portfolio of investments. Each Corporate Class is authorized to issue an unlimited number of exchange traded fund shares (ETF Shares). The ETF Shares are Canadian dollar denominated.

On any trading day, a designated broker or underwriter may place a subscription order for an integral multiple of the prescribed number of securities (PNS) of each Fund. A trading day is each day on which the TSX is open for business.

If the subscription order is accepted, the Fund will generally issue securities to the designated broker or underwriter within three trading days from the effective day of the subscription. For each PNS issued, a designated broker or underwriter must deliver payments consisting of (i) a basket of applicable securities and cash in an amount so that the value of the securities and cash is equal to the net asset value of the PNS of the Fund at the valuation time on the effective day of the subscription; or (ii) if approved by First Asset, cash in an amount sufficient so that the value of the cash is equal to the net asset value of the PNS of the Fund at the valuation time on the effective day of the subscription, in each case plus any applicable subscription fee determined by First Asset.

Securities of each Fund may also be issued to securityholders of such Fund on the automatic reinvestment of all distributions in accordance with the distribution policy of the Fund.

Securityholders may exchange an integral multiple of the PNS of each Fund on any trading day for baskets of securities and cash, or in the discretion of First Asset, cash only. The exchange price will be equal to the net asset value of the applicable PNS of the Fund tendered for exchange at the valuation time on the effective day of the exchange request, payable generally within three trading days from the effective day of the exchange request by delivery of (i) a basket of securities and cash in an amount sufficient so that the value of the securities and cash is equal to the applicable net asset value of the PNS of the Fund; or (ii) if approved by First Asset, cash only in an amount sufficient so that the value of the cash is equal to the applicable net asset value of the PNS of the Fund, in each case less any applicable redemption fee determined by First Asset. The securities will be redeemed in the exchange.

On any trading day, securityholders of each Fund may also redeem securities of such Fund at a redemption price per security equal to 95% of the applicable closing price for such securities on the TSX on the effective day of the redemption less any applicable redemption fee determined by First Asset.

Securityholders that have delivered a redemption request prior to the distribution record date for any distribution will not be entitled to receive that distribution.

### 8. EXPENSES

As compensation for the services it provides to the Funds, the Funds pay First Asset an annual management fee on the applicable ETF Shares or, in case of the Trusts, on Units or Common and Advisor Class Units, including unhedged and U.S. dollar classes if applicable, as disclosed in a footnote to the Statements of Comprehensive Income, calculated daily and paid monthly in arrears plus, in respect of the Advisor Class Units, including unhedged and/or US\$ Advisor Class Units if applicable, an additional amount for the service fee payable to dealers, calculated daily and paid as soon as practicable after the end of each calendar quarter. If applicable, First Asset pays any portfolio manager or investment sub-advisor out of its management fee.

First Asset Hamilton Capital European Bank ETF, First Asset Active Canadian Dividend ETF, First Asset U.S. & Canada Lifeco Income ETF, First Asset Utility and Infrastructure ETF, First Asset Active Credit ETF, First Asset Core Canadian Equity ETF, First Asset Core U.S. Equity ETF, First Asset Core Balanced ETF, First Asset Canadian REIT ETF, First Asset CanBanc Income ETF and First Asset Core Canadian Equity Income ETF are responsible for all costs relating to their operations and administration.

For all other Funds, First Asset is responsible for all costs and expenses of the Funds, except for the management fee, brokerage expenses and commissions, the costs of any financial instruments used to achieve the investment objective of the Funds, reasonable costs associated with the Independent Review Committee, income taxes, withholding taxes, any applicable goods and services or other sales taxes including GST/HST, costs of complying with any new governmental or regulatory requirement introduced after the Funds were established, any costs associated with the printing and distribution of any documents that securities regulatory authorities require to be sent to securityholders, any transaction costs incurred by the custodian and any extraordinary expenses plus applicable taxes. From the management fee, First Asset pays for all other costs and expenses relating to the operation of the business of the Funds including the service fee in respect of the Advisor Units, if applicable, administration, legal, accounting, custody, audit, registrar and transfer agency fees and fees payable to other service providers, including Index Providers, if applicable. As a result, these Funds do not have any other expenses. In addition to covering brokerage services on security transactions, commissions paid to dealers may also cover research services provided to First Asset. The value of research services included in commissions and other transaction costs during the period is presented as a footnote to the Statements of Comprehensive Income.

### 9. DISTRIBUTIONS

Each Fund distributes to its securityholders on a monthly or quarterly basis. The amounts of distributions are based on First Asset's assessment of anticipated cash flow of the Funds from time to time.

If, in any year, after such distributions, there would otherwise remain in a Fund additional net realized capital gains, the Fund intends to make, on or before December 31 of that year, a special distribution of such portion of the remaining net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax

## NOTES TO THE FINANCIAL STATEMENTS (Unaudited) (continued)

### 9. DISTRIBUTIONS (continued)

under the Income Tax Act (Canada) (the Tax Act). Such special capital gains distribution may be paid in securities and subsequently consolidated. They are reported as taxable distributions and increase each securityholder's adjusted cost base for their securities. Neither the number of securities held by the securityholder, nor the net asset value per security of the Fund change as a result of any non-cash capital gains distributions.

### 10. TAXATION

Each Trust qualifies, or is expected to qualify, as a mutual fund trust under the provisions of the Tax Act, and accordingly, is not subject to tax on its net taxable income for the tax year, including net realized capital gains, which is paid or payable to its securityholders as at the end of the tax year which ends December 15. Such distributed income is taxable in the hands of the securityholders. Income tax on net realized capital gains not paid or payable is generally recoverable, as redemptions occur, by virtue of refunding provisions contained in the Tax Act. No provision for income taxes has been recorded in the accompanying financial statements as all income and net realized taxable capital gains are distributed to securityholders.

The remaining Funds are separate Corporate Classes of the Fund Corporation. The Fund Corporation qualifies and intends to continue to qualify as a mutual fund corporation under the Tax Act and has a tax year which ends December 31. Mutual fund corporations are generally subject to tax in the same manner as other public corporations except that income taxes payable on realized capital gains are refundable on a formula basis when shares of the Fund Corporation are redeemed or capital gains dividends are paid by the Fund Corporation to its shareholders. The Fund Corporation is subject to a special tax at the rate of 33 1/3% on taxable dividends received from taxable Canadian corporations. The tax is refundable to the Fund Corporation upon the payment of taxable dividends to its securityholders at the rate of \$1 for every \$3 of dividends paid.

As at the Funds' taxation year-ends, certain Funds have capital and non-capital loss carryforwards for income tax purposes which are disclosed in a footnote to the Statements of Changes in Net Assets Attributable to Holders of Redeemable Securities. Capital losses may be carried forward indefinitely to be applied against future capital gains. Non-capital losses may be utilized to reduce taxable income of future years and expire in the year(s) indicated in the footnote.

The Funds may be subject to withholding taxes, deducted at the source of the income, imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the Statements of Comprehensive Income. For the purpose of the Statements of Cash Flows, cash flows from investments are presented net of withholding taxes.

### 11. CAPITAL MANAGEMENT

Each Fund manages its capital in accordance with its investment objectives and strategies outlined in the Fund Specific Notes and the risk management practices disclosed in note 5 and endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet distributions and redemptions. In order to manage their capital structures, the Funds may adjust the amount of distributions paid to securityholders.

### 12. RELATED PARTY TRANSACTIONS

First Asset manages and administers the business operations and affairs of the Funds, and, other than First Asset Hamilton Capital European Bank ETF, First Asset Active Credit ETF, First Asset Global Financial Sector ETF, First Asset Preferred Share ETF and First Asset Long Duration Fixed Income ETF, is also responsible for providing all investment advisory and portfolio management services required by the Funds. These services are in the normal course of operations and are recorded at the amount of the consideration agreed to by the parties.

An affiliate of First Asset administers the Funds' relationship with the Funds' Independent Review Committee (IRC) on behalf of First Asset, however, it receives no compensation for doing so. Members of the IRC receive fees from the Funds for services rendered to the Funds. In the case of the Fund Corporation, the independent directors are paid an annual fee and are reimbursed for their out of pocket expenses.

The above services are reported in the Statements of Comprehensive Income as management fee, dealer service fees, directors' fees and Independent Review Committee fees, as applicable. Management fee payable and accounts payable and accrued liabilities are amounts generally payable to First Asset.

The Funds may have direct or indirect holdings in CI Financial Corp., the ultimate parent company of First Asset, or other funds managed by First Asset as identified in the Fund Specific Notes, if applicable.

