

# FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND



Interim Financial Statements for the period  
**January 1, 2012 to June 30, 2012**

**NOTICE TO READER:**

These interim financial statements and related notes for the six-month period ended June 30, 2012 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 CANADIAN DIVIDEND OPPORTUNITY FUND**

**STATEMENTS OF NET ASSETS (Unaudited)**

As at

	June 30, 2012 \$	December 31, 2011 \$
<b>ASSETS</b>		
Investments, at fair value <i>[note 4]</i>	80,542,236	93,017,924
Cash and cash equivalents	45,411,487	65,468,800
Due from broker	765,818	-
Interest receivable	14,393	9,300
Dividends receivable	421,959	527,178
Subscriptions receivable	180,301	-
Prepaid expenses	1,450	4,351
	<b>127,337,644</b>	<b>159,027,553</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	177,421	64,262
Management fee payable	313,218	-
Due to broker	1,193,200	-
Redemptions payable	623,388	-
Distributions payable <i>[note 6]</i>	521,467	1,591,223
	<b>2,828,694</b>	<b>1,655,485</b>
<b>Net Assets</b>	<b>124,508,950</b>	<b>157,372,068</b>
<b>Net Assets per Class</b>		
Class A	123,543,808	157,372,068
Class F	965,142	-
<b>Net Assets per unit <i>[note 3]</i></b>		
Class A	\$10.62	\$10.38
Class F	\$10.07	\$-
<b>Number of units outstanding <i>[note 8]</i></b>		
Class A	11,638,504	15,154,500
Class F	95,799	-

See accompanying notes to financial statements.

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

STATEMENTS OF OPERATIONS (Unaudited)

For six months ended June 30

	2012 \$	2011 \$
<b>INVESTMENT INCOME</b>		
Dividends	2,123,106	4,030,795
Interest	189,757	84,331
Securities lending	5,888	-
	<b>2,318,751</b>	<b>4,115,126</b>
<b>EXPENSES</b>		
Management fee <i>[note 7]</i>	1,248,925	1,169,105
Harmonized Sales Tax	151,208	137,469
Securityholder reporting costs	117,524	59,031
Legal fees	95,001	9,917
Custodial and fund valuation fees	23,124	30,685
Audit fees	8,000	12,397
Independent Review Committee fees	5,089	232
Interest and borrowing charges <i>[note 5]</i>	56	695
	<b>1,648,927</b>	<b>1,419,531</b>
<b>Net investment income</b>	<b>669,824</b>	<b>2,695,595</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS</b>		
Net realized gain on sale of investments	10,885,371	8,155,836
Net realized gain (loss) on forward foreign currency contracts	(512,600)	310,543
Net realized foreign exchange gain (loss)	33,977	(197,057)
Transaction costs <i>[note 7]</i>	(262,613)	(199,372)
Change in unrealized appreciation (depreciation) of investments	(3,095,767)	3,616,052
Change in unrealized gain (loss) on other assets	100,613	(652)
<b>Net gain on investments</b>	<b>7,148,981</b>	<b>11,685,350</b>
<b>Increase in Net Assets from operations</b>	<b>7,818,805</b>	<b>14,380,945</b>
<b>Increase in Net Assets from operations per Class</b>		
Class A	7,815,707	14,380,945
Class F	3,098	-
<b>Increase in Net Assets from operations per unit</b>		
Class A	\$0.55	\$0.95
Class F	\$0.05	\$-

See accompanying notes to financial statements.

**FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND**

**STATEMENTS OF CHANGES IN NET ASSETS** (Unaudited)

For six months ended June 30

	2012 \$	2011 \$
<b>Class A Units</b>		
<b>Increase in Net Assets from operations</b>	<b>7,815,707</b>	14,380,945
Distributions to unitholders:		
From net investment income	-	(1,815,732)
From net realized capital gains	<b>(4,151,746)</b>	(2,743,168)
	<b>(4,151,746)</b>	(4,558,900)
Capital unit transactions:		
Proceeds from units issued	<b>978,014</b>	-
Reinvestment of distributions	<b>123,848</b>	-
Units purchased for cancellation <i>[note 8]</i>	<b>(51,050)</b>	(349,850)
Redemption of units	<b>(38,543,033)</b>	-
	<b>(37,492,221)</b>	(349,850)
Increase (Decrease) in Net Assets for the period	<b>(33,828,260)</b>	9,472,195
Net Assets, beginning of period	<b>157,372,068</b>	150,919,755
<b>Net Assets, end of period</b>	<b>123,543,808</b>	160,391,950
<b>Class F Units</b>		
<b>Increase in Net Assets from operations</b>	<b>3,098</b>	-
Distributions to unitholders:		
From net realized capital gains	<b>(9,623)</b>	-
	<b>(9,623)</b>	-
Capital unit transactions:		
Proceeds from units issued	<b>978,000</b>	-
Reinvestment of distributions	<b>5,408</b>	-
Redemption of units	<b>(11,741)</b>	-
	<b>971,667</b>	-
Increase in Net Assets for the period	<b>965,142</b>	-
Net Assets, beginning of period	-	-
<b>Net Assets, end of period</b>	<b>965,142</b>	-

See accompanying notes to financial statements.

**FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND**

**STATEMENTS OF CASH FLOWS (Unaudited)**

For six months ended June 30

	2012 \$	2011 \$
<b>OPERATING ACTIVITIES</b>		
Net investment income	669,824	2,695,595
Adjustments to reconcile cash flows from (used in) operating activities		
Proceeds from sale of investments	124,613,472	84,560,512
Purchases of investments	(104,348,181)	(71,177,115)
Transaction costs	(262,613)	(199,372)
Change in due from (to) broker	427,382	(3,670,414)
Net realized gain (loss) on forward foreign currency contracts	(512,600)	310,543
Net realized foreign exchange gain (loss)	33,977	(197,057)
Change in other assets and liabilities	630,018	(144,004)
Cash flows from operating activities	21,251,279	12,178,688
<b>FINANCING ACTIVITIES</b>		
Subscriptions received	991,723	-
Distributions reinvested	129,256	-
Distributions to unitholders	(5,231,125)	(4,560,650)
Units purchased for cancellation	(51,050)	(349,850)
Units redeemed	(37,147,396)	-
Cash flows used in financing activities	(41,308,592)	(4,910,500)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(20,057,313)</b>	<b>7,268,188</b>
Cash and cash equivalents, beginning of period	65,468,800	886,979
<b>Cash and cash equivalents, end of period</b>	<b>45,411,487</b>	<b>8,155,167</b>

See accompanying notes to financial statements.

**FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND**

**SCHEDULE OF INVESTMENTS (Unaudited)**

As at June 30, 2012

Number of shares, units, par value	Description	Average cost \$	Fair value \$	% of Portfolio
<b>INCOME TRUSTS AND LIMITED PARTNERSHIP UNITS</b>				
36,500	Artis Real Estate Investment Trust	592,063	597,505	
22,650	Boardwalk Real Estate Investment Trust	1,032,157	1,325,025	
69,600	Brookfield Infrastructure Partners L.P.	1,716,808	2,376,840	
100,650	Brookfield Renewable Energy Partners L.P.	2,658,376	2,849,402	
252,500	Chartwell Seniors Housing Real Estate Investment Trust	2,247,014	2,439,150	
174,807	Cominar Real Estate Investment Trust	3,711,019	4,183,132	
107,366	Dundee Real Estate Investment Trust	3,728,888	4,096,013	
131,000	H&R Real Estate Investment Trust	3,017,077	3,201,640	
99,530	Inter Pipeline Fund Limited Partnership Cl. A	1,537,990	1,910,976	
157,300	Transglobe Apartment Real Estate Investment Trust	1,737,340	2,243,098	
<b>Total Income Trusts and Limited Partnership Units</b>		<b>21,978,732</b>	<b>25,222,781</b>	<b>31.32%</b>
<b>EXCHANGE TRADED FUNDS</b>				
141,100	First Asset Morningstar Canada Dividend Target 30 Index ETF	1,314,479	1,288,243	
134,400	First Asset Morningstar US Dividend Target 50 Index ETF	1,296,698	1,341,312	
<b>Total Exchange Traded Funds</b>		<b>2,611,177</b>	<b>2,629,555</b>	<b>3.26%</b>
<b>COMMON SHARES AND SUBSCRIPTION RECEIPTS</b>				
<b>Canada</b>				
265,300	Algonquin Power & Utilities Corp.	1,585,669	1,745,674	
77,800	AltaGas Ltd.	2,355,262	2,249,198	
65,300	AltaGas Ltd., Subscription Receipts	1,926,748	1,906,760	
18,831	BCE Inc.	627,047	789,960	
32,000	Brookfield Office Properties Inc.	526,852	567,040	
119,700	Capital Power Corp.	2,944,861	2,846,466	
128,600	Capstone Infrastructure Corp.	620,180	514,400	
31,400	Cogeco Cable Inc.	1,333,697	1,454,448	
66,850	Enbridge Inc.	2,236,229	2,712,773	
76,000	Fortis Inc.	2,428,200	2,383,360	
108,300	Gibson Energy Inc.	2,126,580	2,228,814	
382,100	Innergex Renewable Energy Inc.	3,667,199	3,935,630	
99,200	Keyera Corp.	4,367,059	4,183,264	
89,600	Killam Properties Inc.	986,957	1,165,696	
49,700	Manitoba Telecom Services Inc.	1,526,961	1,648,052	
227,900	Northland Power Inc.	3,263,270	4,065,736	
73,190	Pembina Pipeline Corp.	2,053,835	1,904,404	
38,200	Quebecor Inc. Cl. B	1,299,399	1,400,794	

As at June 30, 2012

Number of shares, units, par value	Description	Average cost \$	Fair value \$	% of Portfolio
26,900	Rogers Communications Inc. Cl. B	963,938	992,072	
72,100	Shaw Communications Inc. Cl. B	1,470,991	1,385,762	
20,950	TELUS Corporation	1,044,959	1,278,788	
42,700	Veresen Inc.	664,831	515,389	
<b>Total Canada</b>		<b>40,020,724</b>	<b>41,874,480</b>	<b>51.99%</b>
<b>United States</b>				
87,400	Comcast Corp. Cl. A	2,426,030	2,847,634	
63,200	Verizon Communications Inc.	2,453,556	2,862,591	
<b>Total United States</b>		<b>4,879,586</b>	<b>5,710,225</b>	<b>7.09%</b>
<b>Total Common Shares and Subscription Receipts</b>		<b>44,900,310</b>	<b>47,584,705</b>	<b>59.08%</b>
<b>CONVERTIBLE DEBENTURES</b>				
<b>Canada</b>				
<b>Parallel Energy Trust</b>				
2,150,000	6.50%, June 30, 2017	2,142,933	2,085,500	
<b>Superior Plus Corp.</b>				
750,000	7.50%, October 31, 2016	750,327	736,950	
830,000	6.00%, June 30, 2018	780,200	751,150	
<b>WesternOne Equity Income Fund</b>				
1,288,000	8.00%, June 30, 2018	1,348,568	1,358,840	
<b>Total Convertible Debentures</b>		<b>5,022,028</b>	<b>4,932,440</b>	<b>6.12%</b>
<b>FORWARD CONTRACTS</b>				
<b>United States Dollar</b>				
Forward foreign currency contracts (3 contracts)				
July 5, 2012 <sup>(1)</sup>		-	172,755	
<b>Total Forward Contracts</b>		<b>-</b>	<b>172,755</b>	<b>0.22%</b>
Adjustment for transaction costs		(83,005)	-	
<b>Total Investments</b>		<b>74,429,242</b>	<b>80,542,236</b>	<b>100.00%</b>

See accompanying notes to financial statements.

<sup>(1)</sup> Sold 5,587,000 United States dollars for Canadian dollars at a weighted average rate of 1.0504. The counterparty is rated A by Standard & Poor's.



## FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

# NOTES TO FINANCIAL STATEMENTS (Unaudited)

June 30, 2012

### 1. THE FUND

First Asset Canadian Dividend Opportunity Fund (the "Fund") was formed as a closed-end investment trust under the laws of the Province of Ontario on March 22, 2010. On April 19, 2012, the Fund converted into an open-end mutual fund (the "Conversion"). As part of the conversion process, the units were re-designated as Class A units as of the close of business on April 19, 2012. Also, Class F units of the Fund were created as of April 19, 2012.

The Manager, Trustee and Investment Advisor of the Fund is First Asset Investment Management Inc. ("First Asset").

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### Investments

Investments are categorized as held for trading and are recorded at their fair value. In the case of publicly traded securities, fair value means the latest bid price. For bonds and debentures, fair value means the bid price provided by independent security pricing services. The difference between fair value and average cost, as recorded in the accounts, is shown as unrealized appreciation (depreciation) of investments. Average cost is used to determine the gain or loss on investments sold. Investment transactions are recorded on the trade date.

#### 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.

#### Income recognition

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

Expenses directly attributable to a class are charged to that class. Other expenses, income, realized and unrealized gains and losses from investment transactions are allocated proportionately to each class based on the relative Net Asset Value of each class.

#### Transaction costs

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities, are expensed and are recognized in the Statements of Operations.

#### Foreign currency translation

Investments at fair value and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange applicable on the valuation dates. Investment transactions and income and expenses are translated at the rate of exchange on the date of such transactions.

The Fund is permitted to invest in forward foreign currency contracts. The value of these forward contracts is recorded as the unrealized gain or loss that would be realized if the position was to be closed out. The value of the unrealized gain or loss is included in investments, at fair value. Upon maturity of the contracts, the difference between the carrying value and the fair value is included in net realized gain (loss) on forward foreign currency contracts.

#### Increase (decrease) in Net Assets from operations per unit

The increase (decrease) in Net Assets from operations per unit in the Statements of Operations represents the increase (decrease) in Net Assets from operations attributable to the class during the period, divided by the average number of units of the class outstanding during the period.

#### Net Assets per unit

The Net Assets per unit of a class are computed by dividing the Net Assets at fair value attributable to the class by the number of units outstanding of the class.

#### Other assets and liabilities

Due from broker, interest receivable, dividends receivable and subscriptions receivable are designated as loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities, management fee payable, due to broker, redemptions payable and distributions payable are designated as other liabilities and recorded at cost or amortized cost. Other assets and liabilities are short term in nature and amortized cost approximates fair value.

## FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

# NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

### Securities lending

The Fund is permitted to enter into securities lending as set out in the Fund's prospectus. 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 Operations and is recognized when earned.

### 3. NET ASSET VALUE

For financial statement reporting purposes, the fair value of the Fund's investments are measured in accordance with CICA Handbook Section 3855: *Financial Instruments – Recognition and Measurement*, which for publicly listed securities is based on the closing bid price on the recognized stock exchange on which the investments are listed or principally traded. Pursuant to National Instrument 81-106 *Investment Fund Continuous Disclosure*, Net Asset Value for redemptions and subscriptions ("Net Asset Value") is calculated based on the fair value of investments using the close or last traded price. The Net Asset Value per unit calculated using the close or last traded price is as follows and any difference between the Canadian GAAP Net Assets and Net Asset Value is on account of the use of the last bid price for the valuation of investments for Canadian GAAP:

June 30, 2012		December 31, 2011	
Net Asset Value per unit (\$)	Net Assets per unit (\$)	Net Asset Value per unit (\$)	Net Assets per unit (\$)
10.63	10.09	10.40	10.38

### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables show financial instruments recorded at fair value, analyzed between those whose fair value is based on quoted market prices (Level 1), those involving valuation techniques where all the model inputs are observable in the market (Level 2) and those where the valuation technique involves the use of non-observable market inputs (Level 3).

	As at June 30, 2012			
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
<b>Financial Assets</b>				
Equities, Income trusts and limited partnerships	72,807,486	-	-	72,807,486
Exchange traded funds	2,629,555	-	-	2,629,555
Convertible debentures	-	4,932,440	-	4,932,440
Short-term notes	-	44,600,000	-	44,600,000
Derivatives	-	172,755	-	172,755
	<b>75,437,041</b>	<b>49,705,195</b>	<b>-</b>	<b>125,142,236</b>

**FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND**

**NOTES TO FINANCIAL STATEMENTS (Unaudited) continued**

As at December 31, 2011

	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
<b>Financial Assets</b>				
Equities, income trusts and limited partnerships	91,952,815	-	-	91,952,815
Bonds	-	1,000,150	-	1,000,150
Derivatives	-	64,959	-	64,959
	<b>91,952,815</b>	<b>1,065,109</b>	<b>-</b>	<b>93,017,924</b>

**5. BROKER MARGIN INDEBTEDNESS**

Prior to the Conversion, the Fund could borrow against the assets of the Fund to a maximum of 25% of Net Asset Value. The Fund obtained such leverage by way of a prime brokerage account. The prime broker provided the Fund with margin to execute trades and for working capital purposes. The prime broker was the custodian of the Fund's portfolio which was held as collateral for amounts loaned on margin. Interest on amounts borrowed were based on a floating rate. The facility terminated on Conversion.

**6. DISTRIBUTIONS**

The Fund distributes to its unitholders on a monthly basis \$0.05/unit (\$0.60 per annum). The Fund does not have a fixed monthly distribution amount. The amounts of monthly distributions are based on the First Asset's assessment of anticipated cash flow and the anticipated expenses of the Fund from time to time.

**7. EXPENSES OF THE FUND**

Prior to the Conversion, First Asset received an annual fee of 1.00% based on the Net Asset Value of the Fund, calculated daily and paid monthly in arrears. In addition, First Asset received an amount equal to the service fee payable to registered dealers, in the amount of 0.50% annually of the Net Asset Value of the Fund held by clients of the registered dealers. This fee was calculated daily and paid quarterly in arrears.

Effective since the date of Conversion, the Fund pays an annual management fee of 2.00% based on the Net Asset Value of the Class A units of the Fund and 1.00% based on the Net Asset Value of the Class F units of the Fund. This fee is calculated daily and paid monthly in arrears. The entire amount of the service fee paid to registered dealers in respect of the Class A units is paid by First Asset out of the management fee.

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

Total commissions and other transaction costs paid by the Fund for its portfolio transactions during the period amounted to \$262,613 (2011 - \$199,372). 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 total commissions and other transaction costs during the period is \$28,396 (2011 - \$20,031).

**8. UNITS ISSUED AND OUTSTANDING**

On April 19, 2012, the Fund converted to an open-end mutual fund. As part of the conversion process, the units were re-designated as Class A units as of the close of business on April 19, 2012. Also, Class F units of the Fund were created as of April 19, 2012.

The Fund is authorized to issue an unlimited number of non-transferable, redeemable units. The units shall be issued in such number of classes with rights and attributes as determined by First Asset from time to time. Since the Conversion, units of the Fund are offered for sale on a continuous basis and may be purchased or redeemed on any valuation date at the Net Asset Value per unit of a particular class.

Each class of units are intended for different kinds of investors and are charged differing fees depending on the purchase option. They can be charged either an upfront sales commission upon purchase that is payable to their registered dealer, or a redemption fee upon redemption that is paid to First Asset. As well, each class is charged different management fees which are listed in Note 7 above.

## FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

# NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

Changes in the number of units outstanding for the periods ended June 30 are summarized as follows:

	2012		2011
	Class A #	Class F #	Class A #
Units outstanding, beginning of period	15,154,500	-	15,208,000
Issuance of units	91,688	96,428	-
Reinvested distributions	11,668	536	-
Purchase of units for cancellation	(5,000)	-	(35,000)
Redemption of units	(3,614,352)	(1,165)	-
Units outstanding, end of period	11,638,504	95,799	15,173,000

Under a normal course issuer bid, which expired on May 23, 2012, the Fund had the ability to repurchase units up to a maximum of 10% of the public float at the time the bid commenced. Under the bid, units were repurchased at their market prices, through the facilities of the Toronto Stock Exchange ("TSX"), and then cancelled. The Fund purchased and cancelled a total of 5,000 units (2011 – 35,000 units) at an average price of \$10.21 per unit for the period ended June 30, 2012 (2011 – \$10.00 per unit).

### 9. INCOME TAXES

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) (the "Tax Act"), and accordingly, is not subject to tax on its net taxable income, including net realized capital gains, which is paid or payable to its unitholders as at the end of the tax year which ends on December 15. Such distributed income is taxable in the hands of the unitholders. 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 unitholders.

### 10. SECURITIES LENDING

The value of securities loaned and collateral received from securities lending at June 30 is as follows:

	2012 \$	2011 \$
Value of securities loaned	21,754,365	n/a
Value of collateral received	22,907,792	n/a

Collateral received consists of qualified securities, securities that are immediately convertible into, or exchanged for securities of the same type, the same term and in the same number as those loaned by the Fund, or cash or letters of credit with market values of at least 102% of the market value of the loaned securities.

### 11. MANAGEMENT OF FINANCIAL RISKS

In the normal course of business, the Fund is exposed to various financial risks, including credit risk, liquidity risk and market risk (consisting of interest rate risk, currency risk and other price risk). The Fund's overall risk management program seeks to minimize potentially adverse effects of these risks on the Fund's financial performance by employing professional, experienced portfolio advisors, by monitoring daily the Fund's 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 Fund's investment activities and monitors compliance with the Fund's stated investment strategies, investment guidelines and securities regulations.

#### Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. As at June 30, 2012, the Fund has credit risk associated with its forward foreign currency contracts. The credit risk is managed by selecting Schedule I banks operating in Canada as counterparties to the forward foreign currency contracts and by regular monitoring of credit

## FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

# NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

exposures. As well, the carrying amount for accrued income represents minimal credit risk exposure as it will be settled in the short term. The credit risk exposure of these assets is represented by their carrying amounts.

All transactions executed by the Fund 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.

### Liquidity risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligation on time or at a reasonable price. As at June 30, 2012, the Fund's investment holdings are considered readily realizable as they are actively traded on public exchanges. As well, the Fund's financial liabilities are short-term in nature and there is sufficient cash, or the ability to raise cash, to settle these amounts as they come due.

### 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. As at June 30, 2012, the Fund does not have significant interest rate risk exposure.

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund invests a portion of its assets in securities that are denominated in a currency other than the Canadian dollar, which represents the functional currency of the Fund. Consequently, the Fund is 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. The Fund is hedged back to the Canadian dollar and, consequently, is not exposed to significant foreign 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 to the Fund's Net Assets, all other variables held constant, as a result of a 5% change in these currencies relative to the Canadian dollar.

As at June 30, 2012:

Currency	Investments	Cash	Other	Forward Foreign Currency Contracts	Total	Impact on Net Assets
United States Dollars	\$5,710,225	\$356,885	\$-	\$(5,868,550)	\$198,559	\$9,928
<b>Total</b>	<b>\$5,710,225</b>	<b>\$356,885</b>	<b>\$-</b>	<b>\$(5,868,550)</b>	<b>\$198,559</b>	<b>\$9,928</b>
<b>As a % of Net Assets</b>	<b>4.6%</b>	<b>0.3%</b>	<b>0.0%</b>	<b>(4.7%)</b>	<b>0.2%</b>	<b>0.0%</b>

As at December 31, 2011

Currency	Investments	Cash	Other	Forward Foreign Currency Contracts	Total	Impact on Net Assets
United States Dollar	\$-	\$4,831,830	\$33,524	\$(4,845,230)	\$20,124	\$1,006
<b>Total</b>	<b>\$-</b>	<b>\$4,831,830</b>	<b>\$33,524</b>	<b>\$(4,845,230)</b>	<b>\$20,124</b>	<b>\$1,006</b>
<b>As a % of Net Assets</b>	<b>-</b>	<b>3.1%</b>	<b>0.0%</b>	<b>(3.1%)</b>	<b>0.0%</b>	<b>0.0%</b>

### Other price risk

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

All investments in securities present a risk of loss of capital. The maximum market price risk resulting from these investments is equivalent to their fair value. The value of the portfolio will be influenced by factors that are not within the control of the Fund 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 Fund's investment objectives and strategies as well as the daily monitoring of the Fund's investment portfolio by First Asset.

## FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

# NOTES TO FINANCIAL STATEMENTS (Unaudited) continued

As at June 30, 2012, 64.55% (December 2011 – 59.07%) of the Fund's Net Assets were traded on global stock exchanges. The impact on Net Assets of the Fund due to a 10% change in 50% weighting in the S&P/TSX Capped Income Trust Total Return Index and a 50% weighting in the S&P TSX Capped Utility Total Return Index (the "benchmarks"), using a historical correlation between the return of the Fund's units as compared to the return of the benchmarks, as at June 30, 2012, with all other variables held constant, would be an increase or decrease of \$5,482,354 (December 2011 – \$6,697,685) respectively. Regression analysis has been utilized to estimate the historical correlation. The analysis uses daily data points from April 20, 2010 to June 30, 2012. The historical correlation may not be representative of the future correlation, and accordingly the impact on Net Assets could be materially different.

### 12. CAPITAL MANAGEMENT

The Fund's objectives are to provide unitholders with the opportunity for capital appreciation from the performance of the portfolio and to pay monthly distributions.

The Fund manages its capital in accordance with its investment objectives and strategies and the risk management practices outlined in note 11 while maintaining sufficient liquidity to meet operating expenses, distributions and redemptions.

### 13. RELATED PARTY TRANSACTIONS

As at June 30, 2012, the Fund held 141,100 units of the First Asset Morningstar Canada Dividend Target 30 Index ETF and 134,400 units of the First Asset Morningstar US Dividend Target 50 Index ETF, both investment funds managed by First Asset, having a combined fair value of \$2,629,555 and representing 2.11% of the Fund's Net Assets. The trades were executed throughout the period by an unrelated broker and through the facilities of the TSX at prices which the security was trading at on the TSX on the days of the transactions. None of the related parties received any fees in connection with the trades. The trades were executed in reliance on a standing instruction issued by both funds' Independent Review Committee.

### 14. INTERNATIONAL FINANCIAL REPORTING STANDARDS

On December 12, 2011, the Canadian Accounting Standards Board ("AcSB") made a decision to extend the deferral of the adoption of International Financial Reporting Standards ("IFRS") by investment companies for an additional year to January 1, 2014. This extends the previous two-year deferral of IFRS to three years as compared to other publicly accountable entities. Consequently, IFRS will be applicable to the Fund for the fiscal year beginning January 1, 2014. At the transition date, the prior fiscal year financial statements will require restatement to IFRS for comparative purposes.

The deferral is to provide time for the International Accounting Standards Board ("IASB") to finalize its guidance on investment entities such that a final standard could be issued after January 1, 2013, the previously established changeover date for investment companies in Canada.

The Fund is continuing with its orderly transition plan to meet the requirements to change over to IFRS. The Fund has reviewed the existing body of IFRS against its current policies under Canadian GAAP and has noted certain policy differences. The major changes identified include the classification of unitholders' equity (puttable instruments) as a liability unless certain conditions are met, as well as more extensive note disclosure requirements. These changes will not have an impact on the Fund's results of operations or financial position.

The process of evaluating the potential impact of IFRS on the financial statements is ongoing, as the IASB and the AcSB continue to issue new standards and recommendations.

### 15. RECLASSIFICATION

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



95 Wellington Street West, Suite 1400, Toronto, Ontario M5J 2N7  
(416) 642-1289 or (877) 642-1289  
[www.firstasset.com](http://www.firstasset.com) • [info@firstasset.com](mailto:info@firstasset.com)

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