

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND



Annual Financial Statements for the year ended
December 31, 2012

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of First Asset Canadian Dividend Opportunity Fund (the "Fund") are the responsibility of First Asset Investment Management Inc., the Manager of the Fund. They have been prepared in accordance with Canadian generally accepted accounting principles using information available to March 26, 2013 and management's best estimates and judgments.

The Fund's Manager is responsible for the information and representations contained in these Annual Financial Statements and the Annual Management Report of Fund Performance. The Manager is also responsible for the selection of the accounting principles that are most appropriate for the Fund's circumstances and for the judgments and estimates made in the financial statements. The Manager maintains appropriate processes to ensure that accurate, relevant and reliable financial information is produced.

These financial statements have been approved by the Board of Directors of the Manager and have been audited by Ernst & Young LLP, Chartered Accountants, on behalf of the unitholders. The auditors' report outlines the scope of their audit and their opinion on the financial statements.



Barry Gordon
DIRECTOR
March 26, 2013



Paul Dinelle
DIRECTOR
March 26, 2013

INDEPENDENT AUDITORS' REPORT

To the Unitholders of **First Asset Canadian Dividend Opportunity Fund**,

We have audited the accompanying financial statements of **First Asset Canadian Dividend Opportunity Fund** (the "Fund"), which comprise the schedule of investments as at December 31, 2012, the statements of net assets as at December 31, 2012 and 2011, and the statements of operations, changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2012 and 2011, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Canada
March 26, 2013

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

STATEMENTS OF NET ASSETS

As at December 31

	2012 \$	2011 \$
ASSETS		
Investments, at fair value <i>[Note 4]</i>	113,928,083	92,952,965
Unrealized gain on forward foreign currency contracts	-	64,959
Cash and cash equivalents	11,932,586	65,468,800
Interest receivable	600	9,300
Dividends receivable	537,850	527,178
Subscriptions receivable	84,100	-
Prepaid expenses	3,249	4,351
Total Assets	126,486,468	159,027,553
LIABILITIES		
Unrealized loss on forward foreign currency contracts	126,818	-
Accounts payable and accrued liabilities	92,591	64,262
Management fee payable	333,923	-
Redemptions payable	353,226	-
Distributions payable <i>[Note 6]</i>	471,378	1,591,223
	1,377,936	1,655,485
Net Assets	125,108,532	157,372,068
Net Assets per Class		
Class A	122,930,028	157,372,068
Class F	2,178,504	-
Net Assets per unit <i>[Note 3]</i>		
Class A	\$10.83	\$10.38
Class F	\$10.31	-
Number of units outstanding <i>[Note 8]</i>		
Class A	11,354,945	15,154,500
Class F	211,209	-

See accompanying notes to financial statements.

On behalf of First Asset Canadian Dividend Opportunity Fund by its manager, First Asset Investment Management Inc.:



DIRECTOR
March 26, 2013



DIRECTOR
March 26, 2013

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

STATEMENTS OF OPERATIONS

For years ended December 31

	2012 \$	2011 \$
INVESTMENT INCOME		
Dividends	3,900,435	6,764,012
Interest	473,581	229,974
Securities lending	20,132	-
	4,394,148	6,993,986
EXPENSES		
Management fee <i>[Note 7]</i>	2,476,863	2,346,642
Harmonized Sales Tax	294,959	275,464
Securityholder reporting costs	187,991	107,333
Legal fees	113,995	21,294
Custodial and fund valuation fees	41,735	54,046
Audit fees	15,950	26,000
Independent Review Committee fees	8,392	5,613
Interest and borrowing charges <i>[Note 5]</i>	1,551	733
	3,141,436	2,837,125
Net investment income	1,252,712	4,156,861
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS		
Net realized gain on sale of investments	13,172,854	16,193,091
Net realized gain (loss) on forward foreign currency contracts	(212,374)	39,071
Net realized foreign exchange gain (loss)	3,276	(134,006)
Transaction costs <i>[note 7]</i>	(389,049)	(440,162)
Change in unrealized depreciation of investments	(188,990)	(2,781,060)
Change in unrealized gain (loss) on other assets	105,741	(105,275)
Net gain on investments	12,491,458	12,771,659
Increase in Net Assets from operations	13,744,170	16,928,520
Increase in Net Assets from operations per Class		
Class A	13,655,098	16,928,520
Class F	89,072	-
Increase in Net Assets from operations per unit		
Class A	\$1.06	\$1.11
Class F	\$0.66	\$0.00

See accompanying notes to financial statements.

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

STATEMENTS OF CHANGES IN NET ASSETS

For years ended December 31

	2012 \$	2011 \$
Class A Units		
Increase in Net Assets from operations	13,655,098	16,928,520
Distributions to unitholders:		
From net investment income	-	(2,322,004)
From net realized capital gains	(6,198,468)	(10,098,330)
Return of capital	(1,408,947)	(22,641)
	(7,607,415)	(12,442,975)
Changes due to unitholder transactions:		
Proceeds from units issued	12,306,216	-
Reinvestment of distributions	641,409	2,500,493
Units purchased for cancellation <i>[Note 8]</i>	(51,050)	(533,725)
Redemption of units	(53,386,298)	-
	(40,489,723)	1,966,768
Increase (Decrease) in Net Assets for the year	(34,442,040)	6,452,313
Net Assets, beginning of year	157,372,068	150,919,755
Net Assets, end of year	122,930,028	157,372,068
Class F Units		
Increase in Net Assets from operations	89,072	-
Distributions to unitholders:		
From net realized capital gains	(26,442)	-
Return of capital	(34,982)	-
	(61,424)	-
Changes due to unitholder transactions:		
Proceeds from units issued	2,162,600	-
Reinvestment of distributions	24,840	-
Redemption of units	(36,584)	-
	2,150,856	-
Increase in Net Assets for the year	2,178,504	-
Net Assets, beginning of year	-	-
Net Assets, end of year	2,178,504	-

See accompanying notes to financial statements.

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

STATEMENTS OF CASH FLOWS

For years ended December 31

	2012 \$	2011 \$
OPERATING ACTIVITIES		
Net investment income	1,252,712	4,156,861
Adjustments to Reconcile Cash Flows from (used in) Operating Activities		
Proceeds from sale of investments	175,602,463	194,352,126
Purchases of investments	(183,401,941)	(123,747,413)
Transaction costs	(389,049)	(440,162)
Net realized gain (loss) on forward foreign currency contracts	(212,374)	39,071
Net realized foreign exchange gain (loss)	3,276	(134,006)
Change in other assets and liabilities	467,124	728
Cash flows from (used in) operating activities	(6,677,789)	74,227,205
FINANCING ACTIVITIES		
Subscriptions received	14,384,716	-
Distributions reinvested	666,248	-
Distributions to unitholders	(8,788,684)	(9,111,659)
Units purchased for cancellation	(51,050)	(533,725)
Units redeemed	(53,069,656)	-
Cash flows used in financing activities	(46,858,425)	(9,645,384)
Net increase (decrease) in cash and cash equivalents	(53,536,214)	64,581,821
Cash and cash equivalents, beginning of year	65,468,800	886,979
Cash and cash equivalents, end of year	11,932,586	65,468,800

See accompanying notes to financial statements.

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

SCHEDULE OF INVESTMENTS

As at December 31, 2012

Number of shares, units par value	Description	Average cost \$	Fair value \$	% of Net Assets
INCOME TRUSTS AND LIMITED PARTNERSHIP UNITS				
56,600	Brookfield Infrastructure Partners L.P.	1,436,750	1,966,850	
127,950	Brookfield Renewable Energy Partners L.P.	3,469,593	3,748,935	
162,500	Chartwell Seniors Housing REIT	1,428,088	1,766,375	
154,807	Cominar REIT	3,189,753	3,490,898	
81,000	H&R REIT	1,894,311	1,952,100	
109,530	Inter Pipeline Fund, Class 'A'	1,713,040	2,571,764	
Total Income Trusts and Limited Partnership Units		13,131,535	15,496,922	12.39%
EXCHANGE TRADED FUNDS				
141,100	First Asset Morningstar Canada Dividend Target 30 Index ETF	1,314,479	1,341,861	
134,400	First Asset Morningstar US Dividend Target 50 Index ETF	1,296,698	1,309,056	
Total Exchange Traded Funds		2,611,177	2,650,917	2.12%
COMMON SHARES AND SUBSCRIPTION RECEIPTS				
Canadian Dollar				
451,700	Algonquin Power & Utilities Corp.	2,839,240	3,085,111	
103,100	AltaGas Ltd.	3,085,082	3,453,850	
15,000	Baytex Energy Corp.	643,902	643,050	
125,000	Brookfield Office Properties Inc.	2,083,821	2,110,000	
77,500	Canadian Imperial Bank of Commerce	6,009,277	6,197,675	
277,000	Capstone Infrastructure Corp.	1,267,528	1,113,540	
171,350	Enbridge Inc.	6,314,771	7,368,050	
80,900	Fortis Inc.	2,589,302	2,768,398	
200,100	Gibson Energy Inc.	4,243,079	4,796,397	
357,100	Innergex Renewable Energy Inc.	3,427,262	3,681,701	
111,425	Keyera Corp.	5,038,431	5,465,396	
144,400	Northland Power Inc.	2,067,644	2,694,504	
163,390	Pembina Pipeline Corp.	4,544,104	4,646,812	
78,900	Rogers Communications Inc., Class 'B'	3,119,167	3,561,546	
40,000	Royal Bank of Canada	2,248,042	2,393,200	
99,600	Shaw Communications Inc., Class 'B'	2,026,080	2,271,876	
66,950	TELUS Corp.	4,104,258	4,354,428	
53,500	Toronto-Dominion Bank (The)	4,380,282	4,475,275	
50,000	TransCanada Corp.	2,242,960	2,348,500	
Total Canadian Dollar		62,274,232	67,429,309	53.90%

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

SCHEDULE OF INVESTMENTS continued

As at December 31, 2012

Number of shares, units par value	Description	Average cost \$	Fair value \$	% of Net Assets
United States Dollar				
37,500	Baxter International Inc.	2,298,834	2,489,001	
65,249	CenturyLink Inc.	2,539,615	2,541,565	
39,000	Citigroup Inc.	1,383,230	1,536,982	
117,400	Comcast Corp., Class 'A'	3,511,616	4,369,542	
85,000	Merck & Co. Inc.	3,741,605	3,465,783	
135,000	Pfizer Inc.	3,269,033	3,372,585	
47,100	Time Warner Cable Inc.	4,121,219	4,559,372	
69,700	Verizon Communications Inc.	2,816,451	3,002,257	
Total United States Dollar		23,681,603	25,337,087	20.25%
Total Common Shares and Subscription Receipts		85,955,835	92,766,396	74.15%
CONVERTIBLE DEBENTURES				
Canadian Dollar				
Parallel Energy Trust				
1,846,000	6.50%, June 30, 2017	1,839,932	1,596,790	
WesternOne Equity Income Fund				
1,288,000	8.00%, June 30, 2018	1,348,567	1,417,058	
Total Convertible Debentures		3,188,499	3,013,848	2.41%
Adjustment for transaction costs		(105,552)	-	
Total Investments		104,781,494	113,928,083	91.07%
Total Unrealized Loss on Forward Currency Contracts		-	(126,818)	(0.10%)
Other Assets, Net of Liabilities		-	11,307,267	9.03%
Net Assets		104,781,494	125,108,532	100.00%

UNREALIZED LOSS ON FORWARD CURRENCY CONTRACTS

Settlement Date	Currency Buy	Position	Currency Sell	Position	Contract Rates	Counterparty	Credit Rating*	Unrealized Loss
7-Jan-13	CA\$	20,367,294	US\$	(20,567,000)	0.99029	Canadian Imperial Bank of Commerce	A+	(113,050)
7-Jan-13	CA\$	1,215,860	US\$	(1,234,000)	0.98530	Canadian Imperial Bank of Commerce	A+	(12,941)
7-Jan-13	CA\$	2,129,161	US\$	(2,139,000)	0.99540	Canadian Imperial Bank of Commerce	A+	(827)
Total Unrealized Loss on Forward Currency Contracts								(126,818)

* Credit rating provided by Standard & Poor's.

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

SCHEDULE OF INVESTMENTS continued

PORTFOLIO CONCENTRATION

As a Percentage of Net Assets (%)	December 31, 2012	December 31, 2011
SECTOR		
Common Shares and Subscription Receipts	74.15	40.92
Income Trusts and Limited Partnerships	12.39	17.51
Convertible Debentures	2.41	0.64
Exchange Traded Funds	2.12	–
Other Assets, Net of Liabilities	8.93	40.93

See accompanying notes.

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

NOTES TO FINANCIAL STATEMENTS

December 31, 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 and expense 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 to hedge foreign currency exposure on the investment portfolio. 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. 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.

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 is 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

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, 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 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 is 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.

	December 31, 2012		December 31, 2011	
	Net Asset Value per unit (\$)	Net Assets per unit (\$)	Net Asset Value per unit (\$)	Net Assets per unit (\$)
Class A	10.84	10.83	10.40	10.38
Class F	10.33	10.31	N/A	N/A

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 December 31, 2012			
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Total (\$)
Financial Assets				
Income trusts and limited partnerships	15,496,922	–	–	15,496,922
Exchange traded funds	2,650,917	–	–	2,650,917
Common shares and subscription receipts	92,766,396	–	–	92,766,396
Convertible debentures	–	3,013,848	–	3,013,848
Short-term notes	–	10,400,000	–	10,400,000
	110,914,235	13,413,848	–	124,328,083
Financial Liabilities				
Derivatives	–	126,818	–	126,818
	–	126,818	–	126,818

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

NOTES TO FINANCIAL STATEMENTS continued

As at December 31, 2011

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

There were no transfers of financial assets and liabilities between the levels during the years ended December 31, 2012 and 2011.

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 was based on a floating rate. The facility terminated on Conversion.

6. DISTRIBUTIONS

The Fund distributes to its unitholders on a monthly basis. The Fund does not have a fixed monthly distribution amount. The amounts of monthly distributions are based on 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 year amounted to \$389,049 (2011 – \$440,162). 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 year is \$21,448 (2011 – \$51,600).

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 continued

Changes in the number of units outstanding for the years ended December 31 are summarized as follows:

	2012		2011
	Class A #	Class F #	Class A #
Units outstanding, beginning of year	15,154,500	-	15,208,000
Issuance of units	1,142,669	212,367	-
Reinvested distributions	59,723	2,432	-
Purchase of units for cancellation	(5,000)	-	(53,500)
Redemption of units	(4,996,947)	(3,590)	-
Units outstanding, end of year	11,354,945	211,209	15,154,500

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 - 53,500 units) at an average price of \$10.21 per unit for the year ended December 31, 2012 (2011 - \$9.98 per unit). Following the conversion, normal course issuer bids were terminated.

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 December 31 is as follows:

	2012 \$	2011 \$
Value of securities loaned	20,038,114	n/a
Value of collateral received	21,324,456	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. The Fund has credit risk associated with its forward foreign currency contracts. The credit risk is managed by selecting Schedule I

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

NOTES TO FINANCIAL STATEMENTS continued

Banks operating in Canada as counterparties to the forward foreign currency contracts and by regular monitoring of credit exposures. As at December 31, 2012 the Fund has 8.31% (2011 – nil) of its Net Assets invested in short-term deposits held with a Canadian Schedule I Bank with a credit rating of AA (2011 – nil) according to Standard & Poor's.

As well, the Fund 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, as disclosed in Note 10.

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 December 31, 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 December 31, 2012, the Fund has 8.31% (2011 – nil) of its Net Assets in overnight short-term deposits held with a Canadian Schedule I Bank. Due to the short-term nature of these investments, there is minimal sensitivity to changes in interest rates.

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

Currency risk

Currency risk is the risk that the value of 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 December 31, 2012:

Currency	Investments	Cash	Other	Forward Foreign Currency Contracts	Total	Impact on Net Assets
United States Dollars	\$25,337,087	\$17,133	\$99,856	\$(23,712,315)	\$1,741,761	\$87,088
Total	\$25,337,087	\$17,133	\$99,856	\$(23,712,315)	\$1,741,761	\$87,088
As a % of Net Assets	20.3%	0.0%	0.1%	(19.0%)	1.4%	0.1%

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
Total	\$–	\$4,831,830	\$33,524	\$(4,845,230)	\$20,124	\$1,006
As a % of Net Assets	–	3.1%	0.0%	(3.1%)	0.0%	0.0%

FIRST ASSET CANADIAN DIVIDEND OPPORTUNITY FUND

NOTES TO FINANCIAL STATEMENTS continued

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.

As at December 31, 2012, 88.65% (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 a 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 December 31, 2012, with all other variables held constant, would be an increase or decrease of \$8,343,109 (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 December 31, 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 and endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet operating expenses, distributions and redemptions.

13. RELATED PARTY TRANSACTIONS

As at December 31, 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 \$2,650,917 and representing 2.12% of the Fund's Net Assets. The trades were executed throughout the year 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

Canadian investment companies will be required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), for interim and annual periods beginning on or after January 1, 2014. These standards will replace the existing Canadian generally accepted accounting principles. Effective January 1, 2014, the Fund will adopt IFRS as the basis for preparing its financial statements. The Fund will prepare its first financial statements under IFRS for the interim period ending June 30, 2014, along with comparative data on an IFRS basis and an opening statement of financial position as at January 1, 2013.

The Fund is continuing with its orderly transition plan to meet the requirements to change over to IFRS. Based on the Fund's analysis to date, the transition to IFRS will primarily impact financial statement presentation and disclosures. A summary of the significant standards impacting the Fund under IFRS are outlined below. The key differences identified are based on the application of IFRS as they exist as of this date and will not have an impact on the Fund's Net Asset Value.

IAS 32 – Presentation of puttable instruments (equity vs. liability):

IAS 32 Financial Instruments: Presentation requires puttable instruments to be presented as a liability rather than equity on the Fund's Statement of Net Assets, unless certain conditions are met. IAS 32 defines a puttable instrument as a financial instrument that gives the holder the right to put the instrument back to the issuer for cash or another financial asset, as is the case with unit redemptions. The Fund is currently assessing its unitholder structure to confirm future presentation.

IAS 7 – Statement of cash flows:

In addition to the financial statements currently presented, the Fund will be required to present a statement of cash flows under IFRS.

NOTES TO FINANCIAL STATEMENTS continued

IFRS 13 – Fair value measurement:

If an asset or liability measured at fair value has a bid price and an ask price, IFRS 13 requires that the price within the bid-ask spread that is most representative of the fair value be used to measure fair value. The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required. IFRS 13 allows for the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. As such, IFRS 13 could potentially eliminate the existing difference between Net Assets for financial reporting purposes and Net Asset Value for fund pricing purposes.

IFRS 10 – Consolidated financial statements:

The Fund is expected to meet the definition to be an investment entity, and, as such, will not be required to consolidate its investments, but rather measure them at fair value through profit or loss, regardless of whether those investments are controlled.

15. RECLASSIFICATION

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

