

Appendix A

FORM 1 – TABLE OF CONTENTS

(Member Name)

(Date)

GENERAL NOTES AND DEFINITIONS

CERTIFICATE OF PARTNERS OR DIRECTORS

| INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS A, D ~~AND~~ E ~~AND F~~ [at audit date only]

| INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS B, ~~AND~~ C ~~AND F~~ [at audit date only]

PART I

STATEMENT

- A Statement of financial position
- B Statement of risk adjusted capital
- C Statement of early warning excess
- D Statement of income and comprehensive income
- E Statement of changes in capital and retained earnings (corporations)
or undivided profits (partnerships)
- F Statement of changes in subordinated loans
Notes to the Form 1 financial statements

PART II

REPORT ON COMPLIANCE FOR INSURANCE AND SEGREGATION OF CASH AND SECURITIES [at audit date only]

SCHEDULE

- 1 Analysis of securities owned and sold short at market value
- 2 Analysis of clients' debit balances
- 3 Current Income taxes
- 4 Insurance
- 5 Early warning tests
- 6 Other supplementary information [not required at audit date]

FORM 1 – GENERAL NOTES AND DEFINITIONS

GENERAL NOTES:

- Each Member must comply with the requirements in Form 1 as approved and amended from time to time by the board of directors of the Mutual Fund Dealers Association of Canada (the Corporation).

Form 1 is a special purpose report that includes financial statements and schedules, and is to be prepared in accordance with International Financial Reporting Standards (IFRS), except as prescribed by the Corporation. Each Member must complete and file all of these statements and schedules.

- The following are Form 1 IFRS departures as prescribed by the Corporation:

| | Prescribed IFRS departure |
|---|--|
| Trading balances | When reporting trading balances relating to Member and client securities and other investment transactions, the Corporation allows the netting of receivables from and payables to the same counterparty. |
| Preferred shares | Preferred shares issued by the Member and approved by the Corporation are classified as shareholders' capital. |
| Presentation | <p>Statements A and D contain terms and classifications (such as allowable and non-allowable assets) that are not defined under IFRS. In addition, specific balances may be classified or presented on Statements <u>A</u>, and D <u>and E</u> in a manner that differs from IFRS requirements. The General Notes and Definitions, and the applicable Notes and Instructions to the Statements, should be followed in those instances where departures from IFRS presentation exists.</p> <p>Statements B, C, E and F are supplementary financial information, which are not statements contemplated under IFRS.</p> |
| Separate financial statements on a non-consolidated basis | <p>Consolidation of subsidiaries is not permitted for regulatory reporting purposes except for related companies that meet the definition of "related Member" in MFDA By-law No. 1 and the Corporation has approved the consolidation.</p> <p>Because Statement D only reflects the operational results of the Member, a Member must not include the income (loss) of an investment accounted for by the equity method.</p> |
| Statement of cash flow | A statement of cash flow is not required as part of Form 1. |
| Valuation | Securities are to be valued and reported at "market value". |

- The following are Form 1 prescribed accounting treatments based on available IFRS alternatives:

| | Prescribed accounting treatment |
|---|--|
| Hedge accounting | Hedge accounting is not permitted for regulatory reporting purposes. All security and derivative positions of a Member must be marked-to-market at the reporting date. Gains or losses of the hedge positions must not be deferred to a future point in time. |
| Securities owned and sold short as held-for-trading | <p>A Member must categorize all investment positions as held-for-trading financial instruments. These security positions must be marked-to-market.</p> <p>Because the Corporation does not permit the use of available for sale and hold-to-maturity categories, a Member must not include other comprehensive income (OCI) and will not have a corresponding reserve account relating to marking-to-market available for sale security positions.</p> |
| Valuation of a subsidiary | A Member must value subsidiaries at cost. |

- These statements and schedules should be read in conjunction with the Corporation's Bylaws, Rules and Policies.
- For purposes of these statements and schedules, the accounts of related companies that meet the definition of "related

GENERAL NOTES AND DEFINITIONS (Continued)

Member” in MFDA By-law No. 1 may be consolidated.

6. For purposes of the statements and schedules, the capital calculations must be on a trade date reporting basis unless specified otherwise in the Notes and Instructions to Form 1.
7. Comparative figures on all statements are required only at the audit date. As a transition exemption for the changeover to International Financial Reporting Standards (IFRS) from Canadian Generally Accepted Accounting Principles (CGAAP), Members are not required to file comparative information for the preceding financial year as part of the first audited Form 1 under IFRS.
8. All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest dollar.
9. Supporting details should be provided, as required, showing a breakdown of any significant amounts that have not been clearly described on the statements and schedules.
10. **Mandatory security counts.** Securities held in segregation and safekeeping must be counted once in the year in addition to the count as at the year-end audit date.
11. **Mandatory reconciliations.** Reconciliations must be performed monthly in addition to the year-end audit date between the Member's records and the records of the depository or custodian where the Member holds its own and client securities in nominee name accounts.

DEFINITIONS :

1. **“acceptable entity”** means:
 - (a) Acceptable institutions.
 - (b) Government of Canada, the Bank of Canada and Provincial Governments.
 - (c) Insurance companies licensed to do business in Canada or a province thereof.
 - (d) Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents.
 - (e) All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.
 - (f) Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission.
 - (g) Corporations (other than Regulated Entities) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection.
 - (h) Members of the Corporation.
 - (i) Regulated entities.
2. **“acceptable institutions”** means:
 - (a) Canadian banks, Quebec savings banks, trust companies licensed to do business in Canada or a province thereof.
 - (b) Credit and central credit unions and regional caisses populaires.
3. **“acceptable securities locations”** means those entities considered suitable to hold securities on behalf of a Member, for both inventory and client positions, without capital penalty, given that the locations meet the requirements outlined in the segregation Bylaws, Rules or Policies of the Corporation including, but not limited to, the requirement for a written custody agreement outlining the terms upon which such securities are deposited and including provisions that no use or

GENERAL NOTES AND DEFINITIONS (Continued)

disposition of the securities shall be made without the prior written consent of the Member and the securities can be delivered to the Member promptly on demand. The Corporation will maintain and regularly update a list of those foreign depositories and clearing agencies that comply with these criteria. The entities are as follows:

- (a) Depositories
 - i. Canada CDS Clearing and Depository Services Inc.
 - ii. United States Depository Trust Company

 - (b) Government of Canada, the Bank of Canada and Provincial Governments.

 - (c) Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof.

 - (d) Credit and central credit unions and regional caisses populaires.

 - (e) Insurance companies licensed to do business in Canada or a province thereof.

 - (f) Mutual Funds or their Agents – with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.

 - (g) Regulated entities.
4. **“regulated entities”** means those that are Members covered by the Canadian Investor Protection Fund or Members of recognized exchanges and associations. For the purposes of this definition, recognized exchanges and associations are those that are identified as a "regulated entity" by the Investment Industry Regulatory Organization of Canada.

FORM 1 – INDEPENDENT AUDITOR'S² REPORT FOR STATEMENTS A, D ~~AND~~, E ~~AND~~ F

To: The Mutual Fund Dealers Association of Canada and MFDA Investor Protection Corporation

We have audited the accompanying Statements of _____ (*Member name*) ~~(the "Member")~~, which comprise the statement of financial position as at _____ (*date*) (Statement A) and the statement of income and comprehensive income (Statement D) and statement of changes in capital and retained earnings (Statement E) for the year then ended— _____ (*date*) ~~(Statement E) and the statement of changes in subordinated loans (Statement F)~~, and a summary of significant accounting policies and other explanatory information. These Statements have been prepared by management based on the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada, ~~("MFDA")~~.

Management's rResponsibility for the Statements

Management is responsible for the preparation and fair presentation of these Statements in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the MFDA Mutual Fund Dealers Association of Canada and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

Auditor's rResponsibility

Our responsibility is to express an opinion on these Statements based on our audit. We conducted our audit 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 Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's Member's preparation and fair presentation of the 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 Member'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 Statements.

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

Opinion

In our opinion, the Statements present fairly, in all material respects, the financial position of ~~the Member~~ _____ (*Member*) as at _____ (*date*), and the results of its operations ~~and its changes in subordinated loans~~ for the year then ended in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the MFDA Mutual Fund Dealers Association of Canada.

Going Concern [~~MFDA Note: EFS~~ to allow for auditor to include emphasis of matter paragraph for Going Concern – this is an option for auditors but not part of the standard report]

Without modifying our opinion, we draw attention to Note _____ (*note*) in the Statements which indicates that ~~the Member~~ _____ (*Member*) incurred a net loss of _____ (*\$ amount*) during the year ended _____ (*date*) and, as of that date, ~~the Member's~~ _____ (*Member's*) current liabilities exceeded its total assets by _____ (*\$ amount*). These conditions, along with other matters

as set forth in Note _____ (note), indicate the existence of a material uncertainty that may cast significant doubt about ~~the Member's~~ _____ (Member's) ability to continue as a going concern.

(EFS to allow for auditor to include other potential Emphasis of Matter and Other Matter paragraphs should one be required under the CASs or determined appropriate by the auditor to be included in the auditors' report. Such wording would be agreed upon with MFDA prior to the filing of Form 1).

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note _____ (note) to the Statements which describes the basis of accounting. The Statements are prepared to assist ~~the Member~~ _____ (Member) to meet the requirements of the ~~MFDA~~ Mutual Fund Dealers Association of Canada. As a result, the Statements may not be suitable for another purpose. Our report is intended solely for ~~the Member~~ _____ (Member), the ~~MFDA~~ Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation and should not be used by parties other than ~~the Member~~ _____ (Member), the ~~MFDA~~ Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation.

([Note: EFS to allow for auditor to include other potential Emphasis of Matter and Other Matter paragraphs should one be required under the CASs or determined appropriate by the auditor to be included in the auditor's report. Such wording would be agreed upon with MFDA prior to the filing of Form 1].)

Unaudited Information

We have not audited the information in Schedule 5 of Part II of Form 1 and accordingly do not express an opinion on this schedule.

[Audit Firm]

[Signature]

[Date]

[Address]

FORM 1 – INDEPENDENT AUDITOR'S REPORT FOR STATEMENTS B, ~~AND C~~ AND F

To: The Mutual Fund Dealers Association and MFDA Investor Protection Corporation

We have audited the accompanying Statements of Form 1 (the "Statements") of _____
(~~Member name~~) (the "~~Member~~"), which comprise of: as at _____ (year end date).

Statement B – Statement of Risk Adjusted Capital as at _____ (date)

Statement C – Statement of Early Warning Excess as at _____ (date)

Statement F - Statement of Changes in Subordinated Loans for the year ended _____ (date)

These Statements have been prepared by management based on the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the Mutual Fund Dealers Association of Canada ("~~MFDA~~").

Management's ~~r~~Responsibility for the Statements

Management is responsible for the preparation of the Statements of Form 1 in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the MFDA Mutual Fund Dealers Association of Canada, and for such internal control as management determines is necessary to enable the preparation of Statements that are free from material misstatement, whether due to fraud or error.

Auditor's² responsibility

Our responsibility is to express an opinion on the Statements based on our audit. We conducted our audit 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 Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the ~~entity's~~ Member's preparation of the 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~~ Member'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 Statements.

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

Opinion

In our opinion, the financial information in Statements B and C of Form 1 as at _____ (year end date) and in Statement F for the year ended _____ (date) is prepared, in all material respects, in accordance with the financial reporting provisions of the Notes and Instructions to Form 1 prescribed by the MFDA Mutual Fund Dealers Association of Canada.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note _____ (note) to the Statements which describes the basis of accounting. The Statements are prepared to assist ~~the Member~~ _____ (Member) to meet the requirements of the MFDA Mutual Fund Dealers Association of Canada. As a result, the Statements may not be suitable for another purpose. Our report is intended solely for ~~the Member~~ _____

(Member), the ~~MFDA~~ Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation and should not be used by parties other than ~~the Member~~ (Member), the ~~MFDA~~ Mutual Fund Dealers Association of Canada and the MFDA Investor Protection Corporation.

[Audit Firm]

[Signature]

[Date]

[Address]

**FORM 1 – INDEPENDENT AUDITOR'S¹ REPORTS
NOTES AND INSTRUCTIONS**

A measure of uniformity in the form of the auditor's¹ reports is desirable in order to facilitate identification of circumstances where the underlying conditions are different. Therefore, when auditors are able to express an unqualified opinion, their reports should take the form of the auditor's¹ reports shown above.

Any limitations in the scope of the audit must be discussed in advance with the Corporation. Discretionary scope limitations will not be accepted. Any emphasis of matter in the auditor's² reports must be discussed in advance with the Corporation.

Two copies with original signatures must be provided to the Corporation.