

 **First Trust**  
Portfolios Canada

2009 Interim

Management Report of Fund Performance

TD Canadian Quantitative  
Research Portfolio

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This interim management report of Trust and/or Fund performance contains financial highlights, but does not contain the complete unaudited interim financial statements of the investment Trust and/or Fund. You can get a copy of the interim financial statements at your request, and at no cost, by calling us at 877-622-5552, or by writing to us at:

First Defined Portfolio Management Co.  
330 Bay Street, Suite 1300  
Toronto, Ontario M5H 2S8

or by visiting our website at  
[www.firsttrust.ca](http://www.firsttrust.ca)

or  
SEDAR at [www.sedar.com](http://www.sedar.com).

Securityholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

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# First Trust Portfolios Canada

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## Investment Objective and Strategies

The fundamental investment objective of the TD Canadian Quantitative Research Portfolio (the "Trust") is to provide long term growth of capital by pursuing an earnings-driven strategy based on the quantitative model portfolio ("TD Newcrest Model") of primarily large cap Canadian equity securities, created and disseminated by TD Newcrest, a division of TD Securities Inc., from time to time.

Earnings-driven investing is based on the premise that if a company's earnings increase, generally the value of the company's stock should increase over the long term. The TD Newcrest Model's strategy is supported by daily and thorough analysis of the markets, the study of historical and projected earnings (including leading industry analysis of upgrades and downgrades of earnings estimates), the ability to recognize the type of earnings growth that will result in stock price increases, advanced trading techniques and superior judgment.

## Risk

The Trust's portfolio invests in securities of public companies which will be influenced by conditions affecting the stock markets, as well as by specific company developments. Other risks outlined in the prospectus continue to impact the Trust's portfolio.

Over the past six months and also since the Trust's inception, the Trust's portfolio has consistently exhibited volatility measures, whether that be standard deviation measured annually or a beta calculation, that are less than that of the S&P/TSX Composite Index as measured on a total return basis. The Trust's portfolio exhibited an annual standard deviation of 10.9, below the standard deviation of 11.1 for the S&P/TSX Composite Index over the past six months (since inception, the Trust's portfolio annual standard deviation has been 18.49 versus the S&P/TSX Composite Index at 22.75). A calculation of the beta also indicates lower than market volatility for the Trust's portfolio: beta measured 0.9 over the six months ending December 31, 2009 (since inception, the Trust's portfolio beta has been 0.8 versus the S&P/TSX Composite Index). Factors that contribute to this lower risk profile of the Trust's portfolio include a consistent strategy of sector diversification with an overweighting of defensive sectors and an underweighting of the aggressive sectors during the past six months, and an allocation to cash that has helped reduce volatility.

As earnings growth rates can vary within the major sectors of the Canadian equity market (including, for example, interest sensitive, consumer products, industrial products and basic materials), the Trust's portfolio offers diversification by incorporating a cross-section of companies (typically between 25 and 35 issuers in total) that exhibit accelerating earnings within each sector. Over the past year, the number of issuers held in the Trust's portfolio has often been at the upper end of the typical range (30+ names), in an effort to lessen the individual security risk. This focus on diversification across market sectors has contributed to lower volatility in the Trust's portfolio than that of the Canadian equity market.

Since becoming more defensive in its holdings in autumn of 2007 as the outlook for earnings growth decelerated across a wide range of sectors, the Trust's portfolio has overweighted defensive sectors including Consumer Staples and Telecommunications and underweighted high volatility sectors including Materials and Information Technology. The Trust's portfolio also remained underweight the Energy sector throughout the last year, with this defensive positioning emphasizing both integrated and pipelines exposure. This stance has led to a less volatile profile than that of the Canadian equity market.

The allocation to cash has ranged between 3% and 8.5% over the past six months, and been a positive contributor to the lower risk profile of the Trust's portfolio.

Volatility in equity markets has moderated from all time highs in late October 2008 and elevated levels in the first part of 2009.

## Results of Operation

Equity markets have continued their advance, after starting 2009 on weaker footing and setting a low in early March. The S&P/TSX Composite rebounded in a dramatic fashion to close the year at 11,746. The rally in the market has also expanded forward multiples, as price gains in most stocks, particularly in Canada, have moved well beyond forward earnings. Most stocks are now trading at multiples equal to or above the exit levels of the last recession in 2003. This is a concern, given that the trends in trailing earnings, revenues and economic

# First Trust Portfolios Canada

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indicators, are well behind where we were in that prior period. With high earnings expectations and valuations, corporate earnings results and future guidance will again need to be better than expected to keep estimate revisions rising.

One factor that continues to bode well for the market is liquidity. With historically low short-term interest rates, there continues to be a rotation from money market funds into bond and stock funds. Since the market low, there has been more than \$600 billion in net redemptions in U.S.-based money market funds from a then-record high of \$3.9 trillion. Through 2009, the majority of this rotation went into bond funds. This rotation could favour equities in 2010 if earnings recover beyond current expectations. This liquidity effect should also help prevent a sizable correction in stocks, as happened in 1975 and in 1984, when interest rates were much higher.

The Trust's portfolio returned 6.7% since June 30, 2009, compared to the benchmark S&P/TSX Composite Index return of 14.9%. Over the past six months, among the worst performing sectors were Information Technology (-7.5%) and Consumer Staples (5.3%). Among the best performing sectors were Industrials (20.7%) and Materials (19.3%).

The Trust's portfolio drew down the cash position from 8.5% during the past six months (cash ranged to as low as 3%) to end 2009 at 5.6%, as confidence in the earnings picture improved. The Trust's portfolio overweighted defensive sectors including Consumer Staples and Telecommunications and underweighting Materials, Energy and Information Technology. Underweighting Energy and the emphasis within the sector on the relatively defensive Integrated Energy companies detracted value, as did the underweight in the more volatile Materials sector (notably the underweight in Metals & Minerals). Added value from sector allocation occurred in the Industrials and Consumer Discretionary sectors.

Looking back, the Trust's portfolio became more defensive in autumn 2007 as the outlook for earnings growth decelerated across a wide range of sectors. The earnings weakness that originated in the U.S. housing sector crossed over into other major consumer sectors, most notably retailing and financial services and some industrial subsectors, such as transportation. While the equity market was well oversold and undervalued at the lows, now the equity market is becoming overvalued in many sectors.

Following strong double digit returns in 2009, the S&P/TSX Composite is likely to enter a period of consolidation in 2010. This view is, in part, based on historical trading patterns. Following the strong market gains exiting past recessions, the market consolidated, as seen in late 1975, 1984 (technically the most similar to today), 1994, and early 2004. The duration and potential downside risk through these periods will likely be a function of the rate of change in the economic recovery, the speed of the earnings recovery, and interest rate changes. From a quantitative perspective, the earnings recovery will be critical to justify the recent price gains of the past year as expectations for growth have increased over the past year. The stocks that have the ability to narrow the spread between rising forward estimates and low trailing earnings on improved earnings are likely to outperform. In turn, this will also be a function of top line revenue growth. Stocks that are able to generate positive revenue growth in 2010 should in theory also post the largest earnings gains as well. Revenue momentum could be a key factor in separating potential winners and laggards in 2010.

The Trust's portfolio has been underweight all resource sectors, with the high (and rising) levels of inventory in all major metals tempering the view for the base metals in the near term. The weak U.S. dollar has supported copper and other base metals despite higher inventory builds.

In December, the Trust's portfolio reduced the gold position in favour of base metals. The improving economic outlook in the U.S. led to a major reversal in short term rates at year-end, with the two-year yield rising to 110 bps from 65 bps. This, in turn, led to a recovery in the U.S. dollar and a lower gold price. U.S. money growth (M1) recently peaked, falling to 11% from an all-time high of 19%. Rising rates and declining U.S. money growth are negative trends for gold. As an alternative, silver stocks, such as portfolio holding **Pan American Silver Corp. (PAA-T)**, offer attractive upside at present.

With the reduction in gold in December, the Trust's portfolio added both **Inmet Mining Corp. (IMN-T)** and **Lundin Mining Corp. (LUN-T)**. Admittedly, following the steep recovery in 2009, the base metals stocks are not without their risks. Rising base metal inventories will, at some point, need to be drawn down in order to justify where commodities are presently trading. If not, metal prices could correct. Also, at some point in 2010, we will likely see a deceleration in the rate of recovery in China. Base metals in particular rallied when China's

# First Trust Portfolios Canada

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economy began its parabolic recovery in 2009. It follows that a deceleration in its growth rate could also cause a base metal correction. This happened early in the last cycle in early 2004, when the S&P/TSX Diversified Metal Index corrected by 20%. Another risk is that a recovery in the U.S. dollar could lead to a correction in the base metals. A similar scenario unfolded in late 2006, when inventories were at much lower levels than present. A correction in base metals could set up a good buying opportunity for a seasonal rally, if inventories decline.

The biggest risk for gold and most other commodities is a recovery in the U.S. dollar. In turn, the U.S. dollar's moves will largely be a function of U.S. short interest rates and the yield differential between U.S. and euro rates, for example. In the last few weeks of 2009, the yield spread between 2-year euro rates less 2-year U.S. rates declined, as U.S. rates rose at a faster rate. Also, it is worth noting that the biggest rallies in the U.S. dollar have occurred in January.

The Trust's portfolio remained underweight in the Energy sector throughout the last year, with this defensive positioning emphasizing both integrated and pipelines. While being underweight in the Energy sector as a whole, the Trust's portfolio has emphasized the integrated, as they have typically outperformed during periods of falling oil prices, including the 2006 oil correction. Like 2006, high inventories, a contango in the futures market, and a decline in strategic buying all suggested that oil prices should move lower. Despite the weak fundamentals, it is also important to recognize the most important influence of oil prices over the past three years has been the U.S. dollar. As such, the Trust's portfolio had been reluctant to aggressively reduce the energy positions, and instead have taken more defensive positions and continued to have exposure to uranium through the holding in **Cameco Corp. (CCO-T)**.

Following the big moves in base metals and gold in 2009, energy may offer more relative upside in 2010, or potentially less downside if the recovery stalls. The Trust's portfolio tends to trade tactically in anticipation of the seasonal trends in energy, as oil and particularly natural gas have historically been the most consistent seasonal commodities. If seasonal patterns hold, lower prices could be expected this winter. If so, it could set up a strong spring recovery. With oil and natural gas having moved substantially higher in recent weeks, the Trust's portfolio is reluctant to buy, with oil sitting at over US\$80/bbl. However, if prices do decline in early 2010, the Trust's portfolio will consider adding to positions in anticipation of a spring rally.

Overall 2009 third quarter results from the senior energy stocks were weak, as estimates were lowered or left unchanged. This has led to rotation into the mid cap space, where there is much stronger revision momentum in cash flow estimates. **Petrobank Energy & Resources Ltd. (PBG-T)**, a new addition in November, is a preferred name that scores very favourably against most senior producers.

Pipelines and utilities have often outperformed the market during the past two recessions (1989–1990 and 2000–2001). **Enbridge Inc. (ENB-T)** and **Fortis Inc. (FTS-T)** have been held in the Trust's portfolio, as they have less exposure to power prices and added to the defensive tone of the portfolio holdings.

Given the late cycle nature of the industrial sector, the Trust's portfolio has been reticent to overweight industrial stocks in the early stages of what could be a slow recovery. Also, the recent strength in the Canadian dollar could negatively affect earnings for most industrials. The Trust's portfolio remains overweight the railway sector, given its strong historical relative performance during economic recoveries. Owning both Canadian railways is advantageous, given their different commodity profiles. In mid-December, **Bombardier Inc. (BBD.B-T)** was added to the Trust's portfolio, following its fiscal 2010 third quarter results. While estimates were again lowered, the rate of decline has moderated substantially, suggesting that **BBD.B's** revision trend may be nearing a bottom. Admittedly, **BBD.B** is viewed and aerospace as a late cycle sector, but, given the relative strength in other industrial stocks, and U.S. aerospace industrials in particular, has created an attractive valuation comparison for **BBD.B**.

**Canadian Tire Corp. Ltd. (CTC.A-T)** ranks as one of the top discretionary stocks, boasting a positive trend in both the trailing earnings and forward estimate revisions, and the position was increased in mid-October. The last time **CTC.A's** 12-month forward estimates were around \$4.50/share was in 2007. At that time, **CTC.A** was trading in the \$70 range. Also, **CTC.A** has relatively low expectations, as forward earnings remain below trailing earnings.

Led by U.S. homebuilders, the Consumer Discretionary sector came under pressure in late October/early November. This sector is a bellwether because, if the economic recovery were to stall, it is most likely to start

# First Trust Portfolios Canada

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with the consumer. The Trust's portfolio is not inclined to add to this sector until there is better evidence that consumer spending is recovering. Despite these reservations, the Portfolio did initiate a position in **Magna International Inc. (MG.A-T, portfolio weight 1.6%)** ahead of its third quarter results. Following its positive Q3, **MG.A's** trailing earnings trend turned positive and estimates moved substantially higher, making it one of the top scoring earnings momentum names in the TSX. **MG.A** continues to trade at a historically wide discount on a P/B or P/S ratio versus its U.S. peers.

No rotation is straight up or down, and there has been some weakness in Consumer Staples, given the recent cyclical rally. This could set up an opportunity to add to these names. A top name the Trust's portfolio would look to buy on a pullback is **Metro Inc. (MRU.A-T)**, where positive earnings trends remain intact.

The positive trend in **Biovail Corp.'s (BVF-T)** forward estimates has stalled and prompted the Trust's portfolio to eliminate the position. The decline in U.S. pharmaceutical stocks, and the dramatic sell-off in U.S. biotech stocks, was also a concern.

There are several reasons to maintain a high exposure to the U.S. technology sector. The weakness in the U.S. dollar is a significant benefit to the technology sector. Also, it would appear that a new upgrade cycle is underway, as semis, hardware and, most recently, software stocks have posted strong results. Following two disappointing quarters **Research In Motion Ltd.'s (RIM-T)** earnings momentum turned higher with a positive fiscal 2010 third quarter earnings report.

In Canada, the only relatively undervalued sector may be the telecommunication companies. This is not surprising due to its poor relative performance. The telecom sector offers defensive characteristics of relatively less cyclical earnings growth, higher earnings predictability, and high dividend yields. If the equity market were to turn more defensive, names such as **BCE Inc. (BCE-T)** would benefit.

In mid-September, the Trust's portfolio increased the holding of **Intact Financial Corp. (IFC-T)**, the largest property and casualty (P&C) insurer in Canada. Following two years of declines, the earnings trend in IFC has stabilized, and offers the potential for an earnings recovery. With forward earnings modestly rising, the valuation of IFC had contracted its forward multiple to 9.5x, putting it at a wide discount to both the life companies and banks. (Prior to its relative earnings decline beginning in 2007, IFC typically traded in line with the life companies and banks in a range of 12–13x forward earnings.) On price to book valuation, IFC was also trading at a wide discount of 1.4x to the other financials.

After overcoming the worst of the credit crisis and dilutive share issuance, bank stocks have surged back to life in 2009. In early 2009, the Trust's portfolio added to positions in **Bank of Montreal (BMO-T)**, **Bank of Nova Scotia (BNS-T)**, **Power Corp. of Canada (POW-T)** and **Royal Bank of Canada (RY-T)**.

Following the banks' fiscal 2009 fourth quarter earnings releases in December, the Trust's portfolio reduced the bank position close to a market weight by trimming the position in **Royal Bank of Canada (RY-T)**. The fourth quarter results represented a modest deceleration in revision momentum, as most banks' estimates remained unchanged or were slightly lowered. The banks are likely to enter into a trading range until earnings momentum can re-accelerate, which may be a precursor for the market. However, with an exceptionally steep yield curve, the Trust's portfolio is not yet willing to underweight the sector.

Within the sector, the preferred names are **Bank of Montreal (BMO-T)** and **Canadian Imperial Bank of Commerce (CM-T)**. For **CM**, the latest fiscal fourth quarter was the first quarter in two years in which estimates were not lowered. This represents a positive change relative to the other banks where estimates stopped rising. On this theme, the Trust's portfolio has some exposure to the life insurance sector. There may be a rotation into life companies from banks in 2010. With the banks slowing, the life companies may be viewed more positively as a potential recovery sector. As with **CM**, if there is a quarter when forward estimates are not lowered, the Trust's portfolio may add to life companies positions.

## Recent Developments

In the second week of January 2010, the Trust's portfolio raised exposure to natural gas (with a new addition of **Pengrowth Energy Trust PGF.UN-T**, an increase in the holding of **EnCana Corp. ECA-T** and the removal of the holding in **Cenovus Energy Inc. CVE-T**) on the expectation of further strength in gas prices entering the seasonally strong spring period. Admittedly, there may be some weakness in gas prices through January and

# First Trust Portfolios Canada

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into February as natural gas is typically weak in the winter. If so, the Trust's portfolio is likely to add natural gas exposure ahead of the spring. Several factors support rising natural gas prices. Perhaps the most important of these is the year-over-year trend in natural gas inventories. From a peak of almost +40% year over year at the beginning of 2009, natural gas inventories in the first week of January 2010 fell to +10% year over year (from +13% year over year the week before). As long as this trend in inventories remains in place, it will lead to higher natural gas prices. If year-over-year inventories were to turn negative, natural gas prices could move substantially higher. **PGF.UN**, a play on natural gas, has lagged the energy recovery. This has created good relative value, as **PGF.UN's** 2010 P/CF is at 5.0x, which compares favourably to other producers.

One factor that bodes well for improved demand in natural gas is the recovery in U.S. industrial production. Exiting the previous recession in 2002–2003, rising U.S. industrial production led natural gas prices higher. A similar trend is developing in today's economic environment. Technically, the previously wide contango in natural gas has narrowed substantially and is almost flat. While perhaps not as predictive as the shape of the WTI oil futures curve, given the higher volatility and seasonality of natural gas futures, a move into a backwardation would be a bullish indicator of tighter supply for natural gas.

Also, a massive speculative net short position still remains in natural gas futures. While natural gas has been in a speculative net short since early 2007, short covering could take place if prices begin to move higher in the spring. Short covering occurred early this fall, when natural gas rallied close to US\$6/mmBtu from US\$3. From a more quantitative perspective, a move above US\$6, which has proved to be a technical resistance point for natural gas as well, would be very positive. The 2010 consensus estimate for natural gas is US\$6. A move above US\$6 may lead to high natural gas estimates and, in turn, cash flow estimates for the producers. If more natural gas exposure is added on a winter pullback, the Trust's portfolio may look to add a driller. Drillers tend to be a high beta play on a natural gas recovery and have one of the most consistent seasonal patterns.

A relative trade which is appealing going into 2010 is to overweight silver in relation to gold. There has been a wide divergence between the recent gains in industrial metals and the relative decline in silver versus gold. There is a high correlation between the relative strength in base metals and the silver/gold ratio ( $r^2$  0.7). This divergence creates an opportunity to overweight silver names, relative to gold producers. Further, there is a strong seasonal tendency for silver to outperform at the beginning of the year, as seen in 2004, 2006 and 2008. This technical pattern further supports the preference for overweighting silver versus gold coming into 2010. Of the large cap names, the preferred name is **Pan American Silver Corp. (PAA-T)**, as it had a positive fiscal 2009 third quarter, leading to higher estimates. The forward cash flow estimate trend in **PAA** is now rising relative to **Silver Wheaton Corp. (SLW-T)**, yet the relative price has lagged considerably. These trends have created a wide valuation gap, with **PAA** trading at 10x 2010 forward cash flow and **SLW** at 17x. The Trust's portfolio increased the position in **PAA** during the second week of January 2010.

The Trust's portfolio also added a new position in **Teck Resources Ltd. (TCK.B-T)** on indications of higher met-coal prices. In a technical pattern that resembles first quarter in 2006, 2007, and 2008, copper prices could move towards \$4.00/lb. If this seasonal pattern continues, the Trust's portfolio could look to reduce base metal exposure prior to or early in second quarter, 2010.

## Financial Instruments

Effective July 1, 2009, the Trust adopted the recent amendments to CICA 3862, Financial Instruments – Disclosures. Disclosures about fair value of Financial Instruments, requires the disclosure of the estimated fair value of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Trust's financial instruments are recorded at fair value or at amounts that approximates fair value in the financial statements.

An amendment to CICA 3862, Financial Instruments – Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

# First Trust Portfolios Canada

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The three levels of the fair value hierarchy are as follows.

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Investment Manager has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices that is observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3 One or more significant pricing inputs are unobservable for the financial asset or liability and include situations where there is little, if any, market activity for the financial asset or liability. The inputs into the determination of fair value require significant management judgment or estimation.

## **Net Assets and Net Asset Value**

The Canadian Securities and regulatory authorities have published amendments to National Instruments 81-106 “Investments Fund Continuous Disclosure” (“NI 81-106”) that remove the requirement that net asset value for transactional purposes, (“Net Asset Value”) be calculated in accordance with CICA Handbook section 3855 “Financial Instruments – Recognition and Measurement” effective September 8, 2008. As a result of the amendments, the Net Asset Value of investment trusts will continue to be calculated based on the fair value of investments using the close or last trade price. The net assets per unit for financial reporting purposes (“Net Assets”) and Net Asset Value per unit could be different due to the use of different valuation techniques. As at December 31, 2009, the Trust’s net asset value per unit was \$10.75 (2008 - \$9.02) per Series A unit & \$11.21 (2008 - \$9.31) per Series F unit. The difference between the net asset value per unit for unitholder transactions and the net assets per unit as shown on the Statement of Net Assets is due to the use of different pricing methodologies discussed above.

## **International Financial Reporting Standards**

As of December 31, 2009, the Manager has commenced the development of a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants (CICA) for conversion to International Financial Reporting Standards (IFRS). The key elements of the plan include disclosures of the qualitative impact in the 2009 and 2010 financial statements, the disclosures of the quantitative impact, if any, in the 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS, with comparatives. The impact the conversion from Canadian GAAP to IFRS will have on the Trust’s net assets, accounting policies, financial statements and other business arrangements is being evaluated by the Manager.

## **Related Party Transactions**

First Defined Portfolio Management Co. is the Manager of the Trust and is a Canadian affiliate of First Trust Advisors L.P., the investment advisor (the “Advisor”) of the Trust.

Pursuant to terms of the declaration of trust of the Trust, the Manager provides or arranges for all management, administrative and other services required by the Trust. The Manager receives a management fee from the Trust. For further details, please see “Management Fees”.

The Manager has retained the Advisor to provide certain services to the Trust pursuant to an investment advisory agreement. The Advisor receives advisory fees from the Manager out of the management fee.

# First Trust Portfolios Canada

## Financial Highlights

The following tables show selected key financial information about the Trust and are intended to help you understand the Trust's financial performance for the past five years. The date of inception of the Trust is January 13, 2006. The 2009 information is derived from the Trust's unaudited interim financial statements for the six-month period ending December 31 and the prior years are from audited annual financial statements for the fiscal years ending June 30.

### The Trust's Net Assets per Unit

	Dec. 31, 2009		June 30, 2009		June 30, 2008		June 30, 2007		June 30, 2006	
	Series A	Series F	Series A	Series F	Series A	Series F	Series A	Series F	Series A	Series F
<b>Net assets, at the beginning of the period<sup>(1)</sup></b>	<b>\$ 10.07</b>	<b>\$ 10.45</b>	<b>\$ 12.37</b>	<b>\$ 12.71</b>	<b>\$ 11.42</b>	<b>\$ 11.60</b>	<b>\$ 9.65</b>	<b>\$ 9.71</b>	<b>\$ 10.00</b>	<b>\$ 10.00</b>
<b>Increase (decrease) from operations:</b>										
Total revenue	0.14	0.15	0.27	0.28	0.21	0.22	0.18	0.18	0.08	0.08
Total expenses	(0.11)	(0.05)	(0.21)	(0.11)	(0.26)	(0.13)	(0.22)	(0.11)	(0.08)	(0.04)
Realized gains (losses) for the period	0.20	0.21	(1.39)	(1.43)	0.57	0.59	0.21	0.24	(0.09)	(0.10)
Unrealized gains (losses) for the period	0.43	0.44	(0.62)	(0.38)	0.50	0.49	1.62	1.57	(0.44)	(0.44)
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 0.66</b>	<b>\$ 0.75</b>	<b>\$ (1.95)</b>	<b>\$ (1.64)</b>	<b>\$ 1.02</b>	<b>\$ 1.17</b>	<b>\$ 1.79</b>	<b>\$ 1.88</b>	<b>\$ (0.53)</b>	<b>\$ (0.50)</b>
<b>Distributions:</b>										
From income (excluding dividends)	–	–	–	–	–	–	–	–	–	–
From dividends	–	–	–	–	–	–	–	–	–	–
From capital gains	–	–	–	–	–	–	–	–	–	–
Return of capital	–	–	–	–	–	–	–	–	–	–
<b>Total Annual distributions</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>
<b>Net assets, at the end of the period<sup>(3)</sup></b>	<b>\$ 10.73</b>	<b>\$ 11.19</b>	<b>\$ 10.07</b>	<b>\$ 10.45</b>	<b>\$ 12.38</b>	<b>\$ 12.71</b>	<b>\$ 11.44</b>	<b>\$ 11.62</b>	<b>\$ 9.65</b>	<b>\$ 9.71</b>

(1) This information is provided as at June 30 of the years shown, except in December 2009, it is shown as at December 31, 2009. The net assets per unit presented in the financial statements differs from the net asset value calculated for trust pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

(3) This table is not intended to be a reconciliation of beginning to ending net assets per unit.

### Ratios and Supplemental Data

	Dec. 31, 2009		June 30, 2009		June 30, 2008		June 30, 2007		June 30, 2006	
	Series A	Series F	Series A	Series F	Series A	Series F	Series A	Series F	Series A	Series F
Net asset value (000's)	\$ 114,389	\$ 22,517	\$ 100,794	\$ 20,678	\$ 93,300	\$ 18,038	\$ 57,376	\$ 10,049	\$ 26,315	\$ 4,060
Number of units outstanding	10,640,125	2,008,294	9,999,439	1,977,442	7,507,310	1,413,639	5,017,466	864,994	2,726,414	418,263
Management expense ratio <sup>(1)</sup>	2.03%	0.99%	2.12%	1.09%	2.07%	1.00%	2.06%	1.00%	2.08%	1.00%
Management expense ratio before waivers or absorption	2.03%	0.99%	2.12%	1.09%	2.07%	1.00%	2.06%	1.00%	2.23%	1.16%
Trading expense ratio <sup>(2)</sup>	0.08%	0.08%	0.12%	0.12%	0.12%	0.12%	0.11%	0.11%	0.35%	0.35%
Portfolio turnover rate <sup>(3)</sup>	29.10%	29.10%	82.38%	82.38%	75.40%	75.40%	82.29%	82.29%	31.00%	31.00%
Net asset value per unit	\$ 10.75	\$ 11.21	\$ 10.08	\$ 10.46	\$ 12.43	\$ 12.76	\$ 11.44	\$ 11.62	\$ 9.65	\$ 9.71

(1) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

(2) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.

(3) The Trust's portfolio turnover rate indicates how actively the Trust's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Trust buying and selling all of the securities in its portfolio once in the course of the year. The higher a Trust's portfolio turnover rate in a year, the greater the trading cost payable by the Trust in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between high turnover rate and the performance of a Trust.

# First Trust Portfolios Canada

## Management Fees

An annual management fee, including operating expenses, is accrued daily at a rate of 1.95% of net assets for Series A and 0.95% of net assets for Series F and is paid to the manager monthly. The Trust received services in consideration of the management fees as follows:

Services Provided	Series A	Series F
Distribution related costs	51%	0%
Portfolio Advisor and Management services	49%	100%

The Manager has agreed to waive all or a portion of its fees or absorb any expenses of the Trust which would cause the management expense ratio to exceed 1.95% and 0.95% for Series A and Series F respectively. For purposes of the foregoing, the expenses referred to above do not include income taxes, GST, brokerage commissions, and reasonable costs relating to the operation of the Independent Review Committee or extraordinary expenses such as litigation.

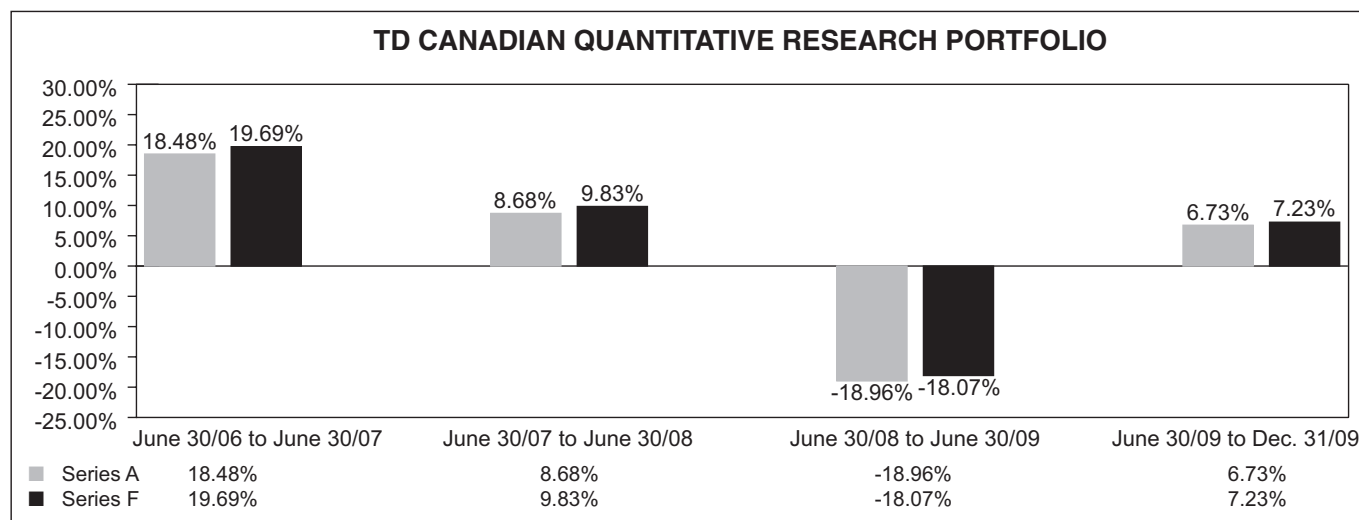
## Past Performance

### General

The past performance information shown assumes that all distributions made by the Trust in the periods shown were reinvested in additional securities of the Trust. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. How the Trust has performed in the past does not necessarily indicate how it will perform in the future.

### Year by Year Returns

The bar chart below shows the Trust's performance for the six-month period ended December 31, 2009 and each of the past years' fiscal year ended June 30, and illustrates how the investment trust's performance has changed from year to year. The chart also shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.



# First Trust Portfolios Canada

## Summary of Investment Portfolio

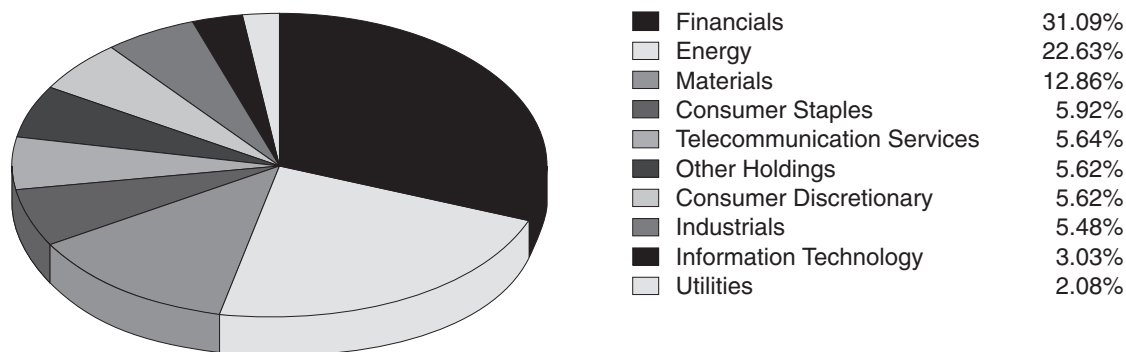
The table sets out the percentage (based on net asset value) of the Trust's top 25 holdings as at December 31, 2009.

Issuers	% of Trust Net Asset Value
BANK OF NOVA SCOTIA	6.32%
POWER CORP. OF CANADA	5.53%
ROYAL BANK OF CANADA	4.93%
SUNCOR ENERGY INC.	4.75%
BANK OF MONTREAL	4.64%
HUSKY ENERGY INC.	3.36%
ENBRIDGE INC.	3.30%
BCE INC.	3.23%
MANULIFE FINANCIAL CORP.	3.22%
BARRICK GOLD CORP.	3.21%
CANADIAN IMPERIAL BANK OF COMMERCE	3.17%
GOLDCORP INC.	3.04%
RESEARCH IN MOTION LTD.	3.03%
ENCANA CORP.	2.88%
POTASH CORP. OF SASKATCHEWAN INC.	2.74%
SHOPPERS DRUG MART CORP.	2.65%
IMPERIAL OIL LTD.	2.48%
CANADIAN TIRE CORP. LTD.	2.42%
ROGERS COMMUNICATIONS INC.	2.40%
CANADIAN PACIFIC RAILWAY LTD.	2.40%
CENOVUS ENERGY INC.	2.24%
CAMECO CORP.	2.16%
METRO INC.	2.13%
FORTIS INC.	2.08%
CASH	5.62%

*This summary of portfolio holdings may change due to ongoing portfolio transactions of the Trust. A quarterly update is available at [www.firsttrust.ca](http://www.firsttrust.ca)*

## Portfolio Breakdown

The table sets out the percentage (based on net asset value) of the Trust's portfolio as at December 31, 2009.



# First Trust Portfolios Canada

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## Redemption of Units

Unitholders may redeem units of Trust and receive an amount for each unit redeemed equal to the applicable series NAV per unit as next calculated after the Manager receives the redemption request. A redemption of units of the Trust is a disposition for tax purposes. If units are held outside a registered plan, unitholders may realize a taxable capital gain upon a redemption.

The following paragraphs set out the redemption procedure for the Trust.

- Redemption requests received before 4:00 p.m. (Toronto time) on a business day will be priced using the applicable series NAV calculated on that day.
- Requests received after 4:00 p.m. (Toronto time) on a business day will be priced using the relevant series NAV calculated on the next business day.
- Unitholders may redeem Series A or Series F units through their registered dealer or broker, or by wire order by delivering a request to the Manager. In order to complete such a request unitholders must provide all required redemption application documents. Once done, the Trust will pay the redemption price within three business days after the date of the calculation of the NAV per unit used to establish the redemption price.
- Upon the direction of the Manager, the Trust may require that unitholders hold a minimum amount of units of the Trust. If they hold less than the minimum amount, the Trust may require to redeem their units upon fifteen days prior notice.
- The Manager may suspend the right of redemption and postpone the date of payment of redemptions for any period provided that it complies with applicable securities regulatory policies in doing so. Unitholders' right to redeem units may be suspended for any period when normal trading is suspended on a stock exchange on which securities are listed which represent more than 50% of the value of the Trust, subject to certain allowances and modification by the consent of securities regulatory authorities and provided those securities are not traded on another exchange that represents a reasonable practical alternative for the Trust.
- If the Manager suspends the right of redemption, unitholders may either withdraw their redemption request or receive, once the suspension is lifted, a payment based on the NAV per Series A or Series F unit next calculated after the suspension is lifted.
- A short-term trading fee of the purchase price (excluding any sales charges) will be applicable if units are redeemed within the specified period described on the prospectus. The fee will be deducted from the redemption proceeds when units are redeemed. Any such fees will be retained by the Trust.

First Defined Portfolio Management Co.

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