HARMONY INCOME TAX AND CAPITAL GAINS INFORMATION 2017

This booklet covers income tax reporting information relating to your Harmony investment pools, portfolios and classes. As always, we recommend that you check with your tax advisor for complete income tax reporting guidelines.

INCOME TAX AND CAPITAL GAINS INFORMATION FOR YOUR HARMONY INVESTMENTS

In order to assist you in the preparation of your 2017 income tax return, we have prepared this guide to outline tax reporting issues for your investments. Keep this guide specifically for reference purposes when you prepare your income tax return.

This guide has been prepared for individual investors. If you are a corporation or a trust, please contact your tax advisor for assistance. This document is intended to be of assistance with regard to your Harmony investments and is not a complete reference for any other type of tax reporting, nor is it intended to constitute tax advice. We recommend that investors consult their tax advisors for additional assistance prior to submitting their tax returns.

INCOME TAX REPORTING FOR NON-REGISTERED INVESTMENTS

Distributions on funds held in a tax-deferred plan(s) do not need to be reported as taxable income as long as they stay within the plan.

Fund refers to either a mutual fund trust (called "Pool or Portfolio") or a mutual fund corporation (called "Class"). In 2017, distributions were made from both the mutual fund trusts and the mutual fund corporations.

If you held an investment outside of a tax-deferred plan such as a Retirement Savings Plan (RSP), a Retirement Income Fund (RIF), a Registered Education Savings Plan (RESP), or a Tax Free Savings Account (TFSA), you are required to report the following income on your income tax return:

- distributions in the form of interest, dividends or capital gains paid to you by any fund;
- gains (or losses) realized when selling or redeeming units or shares of your fund (except conversions of different series of the same Class or reclassifications of different series of the same Fund).

For more detailed information on the tax treatment of income received by an individual from Canadian mutual funds, refer to Canada Revenue Agency (CRA) information guide RC4169 – "*Tax Treatment of Mutual Funds for Individuals*".

Please note that "Portfolio Class" or "Pool Class" are referred to as "Classes" throughout this booklet.

REPORTING OF DISTRIBUTIONS RECEIVED

Q: WHAT TAX FORMS DOES AGF PROVIDE ME WITH IN ORDER TO REPORT DIVIDENDS/ DISTRIBUTIONS PAID BY THE POOLS, PORTFOLIOS OR CLASSES?

A: **For Canadian Residents:**

Pools or portfolios

If the pools or portfolios you invested in paid a distribution in 2017, you were issued a "consolidated" T3/RL16 slip with your annual statement, aggregating the reporting of distributions from your pools or portfolios. However, the T3/RL16 will be mailed to you even if you did not receive an annual statement from AGF.

A T3/RL16 slip has been issued per pool or portfolio unless the income consists of "other income" (usually interest) and is less than $1.

Classes

If the classes you invested in paid a dividend and/or a distribution in 2017, you were issued a "consolidated" T5/RL3 slip with your annual statement, aggregating the reporting of the dividends and/or distributions from the classes in each account. However, the T5/RL3 will be mailed to you even if you did not receive an annual statement from AGF.

You were issued a T5/RL3 slip if the dividend and/or distribution per account in the year were $1 or more.

For Non-Canadian residents:

If the funds you are invested in paid a dividend and/or a distribution in 2017, you will receive an NR4 slip(s). AGF issues an NR4 slip for each fund that paid dividends and/or distributions of not less than $1 or taxes withheld.

Note: Dividends/distributions received on funds held within a tax-deferred plan(s) do not need to be reported as taxable income as long as they stay within the plan.

HOW DO I DETERMINE MY CAPITAL GAINS AND LOSSES?

A capital gain occurs when you redeem your fund units or shares at a unit price that is higher than your Adjusted Cost Base (ACB).

On the other hand, a capital loss occurs when you sell at a unit price that is lower than your ACB. Determining your ACB involves more than simply knowing your original investment price. The ACB is the cost of your units or shares, plus any expenses you incurred to acquire them, such as commissions and legal fees.

Other factors such as additional purchases, partial redemptions, transfers and reinvested distributions and deemed dispositions will also affect your ACB. If the same fund is held in multiple non-registered accounts, you are required to calculate your ACB across all accounts. Factoring in all these types of transactions must occur to determine your ACB for tax purposes. A capital gain (loss) is calculated as follows:

EXAMPLE: CAPITAL GAINS CALCULATION

Redemption Amount	–	Adjusted Cost Base (ACB)	–	Redemption Fees	=	Capital Gain
$10,000.00	–	$4,500.00	–	$500.00	=	$5,000.00

Q: HOW DO I REPORT A CAPITAL GAIN (LOSS) ON MY T1-2017 PERSONAL INCOME TAX AND BENEFIT RETURN?

A: When you redeem your units or shares, you may have a capital gain or a capital loss. Generally, only 50% of your 2017 capital gain or capital loss becomes the taxable capital gain or allowable capital loss.

Investors must report the capital gain (loss) on Schedule 3 of their tax return under section 3 "Publicly traded shares, mutual fund units, deferral of eligible small business corporation shares, and other shares." (See below an excerpt of T1-2017 Schedule 3, Capital Gains (or Losses) in 2017.)

REPORTING OF CAPITAL GAINS AND LOSSES

Reporting a capital gain on a Schedule 3 based on a $5,000.00 redemption.

T1-2017 **Capital Gains (or Losses) in 2017** **Schedule 3**

Read line 127 in the *General Income Tax and Benefit Guide*. For more information, read chapter 2 in the Guide T4037 called *Capital Gains*.

Attach a separate sheet of paper if you need more space. Attach a copy of this schedule to your return.

Lor

A	B	C	D	E	F	G
3. Publicly traded shares, mutual fund units, deferral of eligible small business corporation shares, and other shares.		(1) Year of acquisition	(2) Proceeds of disposition	(3) Adjusted cost base	(4) Outlays and expenses (from dispositions)	(5) Gain (or loss) (column 2 minus columns 3 and 4)
Number	Name of fund/corporation and class of shares					Gain (or loss)
467.29	*Fund Name*	*2005*	*5 000 00*	*4,799 07*	*40 00*	*160 93*
		Total 131	*5 000 00*		Gain (or loss) 132	*160 93*

COLUMN	DESCRIPTION
A NUMBER OF SHARES:	Number of units or shares redeemed. Please refer to your Capital Gains Summary.
B NAME OF CORPORATION AND CLASS OF SHARES:	Name of the fund redeemed.
C YEAR OF ACQUISITION:	The year(s) over which the units or shares were acquired.
D PROCEEDS OF DISPOSITION:	The gross amount reported on your redemption.
E ADJUSTED COST BASE (ACB):	Usually the cost of your investment plus certain expenses to acquire it, such as commissions (see example on page 7). Please note that any return of capital received reduces your ACB. Return of capital is reported on Box 42 of the T3 slip or Box M of the RL16 slip for pools/portfolios or in the footnote on T5/RL3 slip for classes (NR4 slip for non-residents).
F OUTLAYS AND EXPENSES (FROM DISPOSITION):	Charges or commissions, if any, you paid as a result of your redemption.
G GAIN (OR LOSS):	You have realized a capital gain if the proceeds of disposition (item D) exceed the sum of the ACB (item E) plus outlays and expenses (item F). You have realized a capital loss if the proceeds of disposition (item D) are less than the sum of the ACB (item E) plus outlays and expenses (item F).

The information contained in this booklet is designed to provide you with general information and is not intended to be tax advice. We strongly urge you to consult with your own tax advisor on your particular circumstances.

Q: WHAT IS A RETURN OF CAPITAL? DO I PAY TAX ON THIS?

A: **Pools or portfolios**

A return of capital from a pool or portfolio is part of the distributions made by the pool or portfolio that exceeds the amount of taxable income of the pool or portfolio in that year. A return of capital is generally a distribution of your invested capital in the mutual fund. You do not pay tax on this amount and you do not include it in your taxable income for the year.

The "return of capital" is reported in Box 42 of a T3 slip or Box M of a RL16 slip (disclosed as a footnote on an NR4 slip). This amount reduces the ACB of your investment.

Classes

A return of capital distribution from a class represents a distribution of capital which is generally a distribution of your invested capital in the class. You do not pay tax on this amount and you do not include it in your taxable income for the year.

The "return of capital distribution" from a class is disclosed in the footnote area of a T5 slip, a RL 3 slip and an NR4 slip. This amount reduces the ACB of your investment.

Q: WHAT HAPPENS IF THE ADJUSTED COST BASE (ACB) IS REDUCED TO ZERO OR BECOMES NEGATIVE?

A: It is possible that if distributions of return of capital (ROC) are received over an extended period of time that the adjusted cost base of the investment could fall to zero or become negative. If this occurs, the negative amount is deemed to be a capital gain in that taxation year. Any further ROC distributions will result in a capital gain in the year in which they occur.

Q: WHAT TYPE OF REDEMPTION TRANSACTIONS REQUIRE ME TO REPORT CAPITAL GAINS OR CAPITAL LOSSES?

A: Redemption transactions that require reporting of capital gains or losses include:

- sale of mutual fund units or shares held within Cash or Self-Directed Cash plans;
- transfer of assets from one Fund or Class to another[1];
- fees paid by a redemption of units or shares;
- conversion fee paid on a transfer of assets from one class to another class within Harmony Tax Advantage Group Limited.

Q: WHAT IS THE IMPACT TO MUTUAL FUND PRICE UPON DISTRIBUTIONS?

A: When a fund makes a distribution, its unit or share price drops by an amount equal to the distribution per unit or share. However, the overall value of your investment is not impacted. If you did not participate in distribution reinvestment, your investments plus the cash distribution received will equal to the value of your holdings before the distribution. If you had enrolled in distribution reinvestment plan, you would have bought more units or shares of the fund. When you multiply the higher number of units or shares by the new, lower price, you will find that the value of your holdings is unchanged. All distributions, whether reinvested or paid out to you, are reported on your T3/RL16 or T5/RL3 tax slip.

1. For years after 2016, income tax rules will require reporting for transfer of assets between class or funds within the Harmony Tax Advantage Group Limited.

Q: WHAT TYPES OF REDEMPTIONS DO NOT REQUIRE CAPITAL GAINS OR CAPITAL LOSSES REPORTING?

A: Redemptions of units are not required to be reported as capital gains or capital losses for the following transactions:

- sale of units or shares held within a registered plan such as an RRSP (including spousal and group RRSP), RRIF (including spousal RRIF), LIRA, LRSP, RLSP, LIF, LRIF, RLIF, PRIF, or TFSA (including group TFSA).
- conversion of one series within a class of shares of the Harmony Tax Advantage Group Limited into shares of another series of the same class of shares of Hamony Tax Advantage Group Limited;[1]
- transfer of units or shares between mutual fund series of the same fund.

Q: ARE TAX SLIPS ISSUED FOR MUTUAL FUNDS HELD IN MY TAX FREE SAVINGS ACCOUNT (TFSA)? HOW ABOUT WITHDRAWALS?

A: No, a Tax Free Savings Account (TFSA) is a registered account in which all investment earnings – interest, dividends and capital gains – are tax free, even when withdrawn. Since withdrawals from a TFSA are tax-free, they will not impact your taxable income.

Q: HOW DO I DETERMINE MY ADJUSTED COST BASE (ACB)?

A: To determine your ACB, you must keep track of all transactions resulting in the purchase, sale, reinvestment of distributions or transfer of mutual fund units or shares. Distributions other than ROC distributions, received in cash do not affect your ACB. Acquisition fees paid for the purchase of funds increase your ACB (see example on page 7).

Q: WHAT IS THE INCLUSION RATE FOR 2017 TO DETERMINE MY TAXABLE CAPITAL GAIN WHEN I RECEIVE A T3 SLIP (RL16 SLIP FOR QUEBEC RESIDENTS) REPORTING CAPITAL GAINS DISTRIBUTIONS?

A: The capital gain inclusion rate for 2017 is 50%.

Pools or portfolios

This percentage is applied to the amount of the capital gains distribution, which is reported in Box 21 of the T3 slip (Box A of the RL16 slip), to determine your taxable capital gain.

Classes

This percentage is applied to the amount of capital gains dividend, which is reported in Box 18 of the T5 slip (Box I of the RL3 slip for Quebec residents), to determine your taxable capital gains.

Q: WHY AM I RECEIVING CAPITAL GAINS OR INCOME DISTRIBUTIONS FROM A FUND IN A YEAR WHEN MY INVESTMENT HAD NEGATIVE PERFORMANCE?

A: A distribution may reflect income or gain realized in a fund, regardless of its performance.

Other than a fund that pays a fixed distribution, a distribution is only paid to ensure that the fund does not have to pay tax. Many investors are better off receiving distributions paid by a fund because they are often taxed at a lower rate in the hands of the investors, compared to a fund which is subject to the highest marginal tax rate.

1. For years after 2016, income tax rule changes will require reporting for transfer of assets between class or funds within the Harmony Tax Advantage Group Limited.

Performance mainly consists of three components:

PERFORMANCE COMPONENT	TAXABLE AND DISTRIBUTABLE?
Net income earned by the fund, which is equal to dividend and other income less fund expenses	Yes
Realized capital gains on the disposition of portfolio securities	Yes
Unrealized capital gains from market appreciation of portfolio securities	No

The buying and selling of investments in a fund is continuously reviewed by the portfolio managers.

Many equity funds appreciate in value due to increases in the value of the underlying investments. Any increase in value is not included in the taxable income of the fund until an investment is sold. (This is the same as if you owned the stocks and bonds yourself, you would not report any gains until you sold the investment.)

Q: I INVESTED IN THE FUND IN THE MIDDLE OF THE YEAR, AM I ONLY ENTITLED TO A PRO-RATED PORTION OF THE DIVIDENDS/DISTRIBUTIONS?

A: No, the dividends/distributions allocated to you are based on the number of units you owned on the record day, the date established by an issuer of a security for the purpose of determining dividend or distribution. As long as you own the fund on the record day, you will be allocated the full amount of the dividends/distributions regardless of how long you held the fund.

Q: FOR TAX PURPOSES, HOW ARE DIVIDENDS/DISTRIBUTIONS REPORTED?

A: Dividends/distributions that are used to purchase additional funds (reinvested dividends/distributions) must be reported on your tax return as income for the year (unless the dividend/distribution is received within a tax-deferred plan).

The additional funds bought through reinvestment should be factored into the calculation of the Adjusted Cost Base (ACB) of your investments. This will ensure that you are not taxed twice when you sell your pool units in the future (see example below).

EXAMPLE: CALCULATION OF ADJUSTED COST BASE (ACB)

	Transactions	Cost A	# of Units B	ACB per Unit A÷B
2004	Purchase (includes any applicable acquisition fee)	$10,000.00	1,000.000	$10.00
	Reinvested Dividend/ Distribution	300.00	29.940	10.02
		10,300.00	**1,029.940**	**10.00**
2005	Purchase	12,000.00	1,142.857	10.50
	Reinvested Dividend/ Distribution	750.00	70.755	10.60
		23,050.00	**2,243.552**	**10.27**
2017	Redemption ($5,000.00) (sold at a price of $10.70)	(4,799.07)	(467.290)	10.27
	Reinvested Distribution[1]	250.00	23.148	10.80
	Return of Capital[2] of $100 reported in Box 42 of the T3 slip or Box M of the RL16 slip or footnote area of the T5 slip or the RL3 slip	(100.00)		
	ACB at Dec. 31, 2017	**$18,400.93**	**1,799.410**	**$10.23**

You should always use your own investment records to calculate your gains or losses. As some of our records are based on third-party data for which we are unable to guarantee accuracy, the Statement of Account or Capital Gains Summary provided by AGF is for information purposes only and is not intended for use as the exclusive source of income tax information.

[1] *2017 total reinvested dividend/distribution of $250 included a return of capital of $100.*

[2] *A return of capital reduces the calculation of ACB.*

Q: HOW DOES AGF REPORT THE PROCEEDS FROM A FUND REDEMPTION?

A: AGF is required to report the proceeds of disposition on certain redemption transactions to Canada Revenue Agency (CRA). These redemption transactions are disclosed on the Capital Gains Summary. An income tax form, however, is not issued with respect to these transactions. If your investments are registered under the nominee name (i.e., your financial advisor's firm), these transactions may be reported separately to you by your financial advisor's company. You are required to report the gains or losses on your income tax return as described on page 4.

You should always use your own investment records to calculate the gains or losses. The Capital Gain Summary provided by AGF is for information purposes only and is not intended for use as the exclusive source of income tax information.

Q: DOES THE SELLING OF ONE FUND TO BUY ANOTHER FUND REQUIRE TAX REPORTING?

A: Changing your investment from one fund to another, within your Cash or Self-Directed Cash plans, is considered a transfer and is treated as a redemption and purchase transaction for tax reporting purposes. You must report the capital gain (loss) on the fund from which you transferred out.[1]

Q: WHAT HAPPENS IF I SELL THE FUNDS AND REALIZE A CAPITAL LOSS?

A: If you sell the funds and realize a capital loss, this loss can be used to reduce capital gains realized on the disposition of other property.

Q: ARE CAPITAL LOSSES DEDUCTIBLE?

A: Capital losses may be applied against capital gains taxed in the preceding three years to reduce tax payable. If no prior capital gains are available, you should keep a record of the losses to offset future capital gains. Capital losses cannot be used as a deduction against any other types of income except capital gains, nor may capital losses be used on their own to reduce income. For greater detail, consult the CRA guide T4037 entitled "Capital Gains".

Q: ARE CAPITAL GAINS TAXED DIFFERENTLY THAN OTHER TYPES OF INCOME?

A: Yes. Only 50% of the capital gains amount is taxable if you redeem your funds during 2017. The taxable amount is calculated on Line 199 of Schedule 3 of your return (and Line 98 of Schedule G of your Quebec income tax return, if required). The sum of all taxable capital gains (or allowable capital losses) reported on Schedule 3 is to be entered on Line 127 of your return (and Line 139 of your Quebec income tax return, if required), if the sum is positive. If the amount is negative, see CRA guide T4037 entitled "Capital Gains" for treatment of net capital losses.

Q: HOW DO I APPLY MY NET CAPITAL LOSSES OF OTHER YEARS TO 2017?

A: You can apply net capital losses of other years to reduce your taxable capital gains in 2017. The amount of deduction you claim depends on when you incurred the loss because the inclusion rates used to determine taxable capital gains and allowable capital losses have changed over the years .

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1. For years after 2016, income tax rule changes will require tax reporting for class changes within the Harmony Tax Advantage Group Limited.

All inclusion rates are shown in the table below.

INCLUSION RATES	
PERIOD NET CAPITAL LOSS INCURRED	INCLUSION RATE
1972 to 1987	50%
1988 and 1989	66.67%
1990 to 1999	75%
2000	*
2001 to 2017	50%

* *The inclusion rate for 2000 can be found on Line 16 in Part 4 of Schedule 3 on your 2000 personal income tax return.*

You have to apply net capital losses that arose in earlier years before you apply net capital losses of later years.

When you apply a net capital loss of a previous year to reduce your taxable capital gains in 2017, and the inclusion rates for the two years are different, you must first adjust the amount of the net capital loss to match the inclusion rate of 2017 by using an adjustment factor. The adjustment factor is determined by dividing the inclusion rate for 2017 by the inclusion rate for the year in which the net capital loss arose. The principle is that a dollar of actual loss should offset a dollar of actual gain before applying the inclusion rate to either the gain or loss.

To determine the amount of net capital loss to be carried forward to 2017, multiply the adjustment factor by the amount of net capital loss to be applied. Then you can apply the net capital loss carryforward against your 2017 taxable capital gain.

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