

DAVIS-REA MUTUAL FUNDS

ANNUAL INFORMATION FORM

DATED
August 26, 2016

Davis-Rea Balanced Fund Davis-Rea Equity Fund Davis-Rea Fixed Income Fund

Class A, Class B, Class F and Class O Units

No securities regulatory authority has expressed an opinion about these units and it is an offence to claim otherwise.

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Name, Formation and History of the Funds

This annual information form contains information about the Davis-Rea Balanced Fund, the Davis-Rea Equity Fund and the Davis-Rea Fixed Income Fund (collectively, the “Davis-Rea Mutual Funds”). It is intended to be read along with the simplified prospectus of the funds you’re investing in. If you have questions after reading these documents, please contact your financial advisor or us. In this document, *we*, *us* and *our* refer to Davis-Rea Ltd. (“Davis-Rea”) the manager of the funds.

The principal office of each fund is 79 Wellington Street West, Suite 3535, P.O. Box 239, Toronto, Ontario, M5K 1J3.

Each of the Davis-Rea Mutual Funds is a trust established under the laws of Ontario by Davis-Rea as manager of the funds and CIBC Mellon Trust Company as trustee of the funds.

Davis-Rea is an Ontario corporation formed by amalgamation on April 1, 1997 and its primary business activity is management of the funds and providing investment advice to other clients.

The Davis-Rea Balanced Fund (prior to March 18, 2013 called the Davis-Rea Balanced Pooled Fund), which was previously offered on an exempt basis, was established on February 7, 2003 and is governed by an amended and restated mutual fund trust agreement dated as of the 12th day of September 2013.

The Davis-Rea Equity Fund (prior to March 18, 2013 called the Davis-Rea Equity Pooled Fund) and the Davis-Rea Fixed Income Fund (prior to March 18, 2013 called the Davis-Rea Fixed Income Pooled Fund), which were both previously offered on an exempt basis, were each established on May 31, 2011 and are governed by an amended and restated mutual fund trust agreement dated as of the 12th day of September 2013.

Unless otherwise stated, all dollar amounts in this annual information form are in Canadian dollars.

Description of Units of each Class of a Fund

Each fund is divided into classes of units. The interest of each investor in units of a class of a fund, who becomes a unitholder of that class of the fund, is equal to the number of units of that class of the fund registered in the name of the unitholder. There is no limit to the number of units of a class of a fund that can be issued, and there is no fixed issue price. No unit of a class of a fund has any preference or priority over any other unit of that class of the fund.

Currently each fund offers class A units, class B units, class F units and class O units to the public. Each fund may also issue class N units, which are non-voting and do not pay a management fee, but they can only be purchased by another fund.

No unitholder of a class of a fund shall have individual ownership in any asset of the fund, nor any rights other than those mentioned in this annual information form and the trust agreement of the funds.

Units of a class of a fund entitle a registered holder to:

1. except for class N units, one vote at all meetings of unitholders of that class of the fund;
2. participate in all distributions and in the division of the net assets of the fund on the liquidation of the fund on a proportionate basis; and
3. redeem units of that class of the fund as described in this annual information form under the heading "*Redemption of Units*".

Units of a class of a fund are not transferable, are not entitled to any pre-emptive or conversion rights and there is no liability for future calls or assessments. Fractions of a unit of a class of a fund are entitled to all of these rights except voting rights.

The rights of a unit of a class of a fund may only be modified by amending the trust agreement of the funds.

The following changes may not be made to the trust agreement of the funds without the consent of a majority of the unitholders of a class of an applicable fund at a meeting called to consider the matter:

1. any change in the basis of calculating the fees or other expenses that are charged to that class of that fund which could result in an increase in charges to that class of that fund;
2. a change in the manager of that fund (other than to an affiliate of Davis-Rea);
3. any change in the fundamental investment objectives of that fund;
4. any decrease in the frequency of calculating the net asset value per unit of that class of that fund;
5. transferring assets to or from another fund; or
6. reorganizing the fund with another fund.

Davis-Rea may amend the trust agreement of the funds without the prior approval of the unitholders of a class of an applicable fund or notifying the unitholders of that class of that fund of the change, if the proposed amendment is not materially adverse to such unitholders in the opinion of counsel to the trustee of such fund, or in the opinion of counsel to the trustee of such fund, such change is necessary or desirable to comply with applicable laws and notice of the amendment is given to the unitholders as soon as possible thereafter.

Davis-Rea may also amend the trust agreement of the funds in any other situation, provided the change does not affect the value of a unitholder's interest in a fund, and the unitholder is notified in writing of the change at least 30 days in advance of the change taking effect. The trustee of the funds must also consent to any change which affects its rights, powers or duties.

Responsibility for Fund Operations

Manager

Davis-Rea is the manager of each fund pursuant to the trust agreement of the funds described under the section entitled “*Name, Formation and History of the Funds*”. The address, telephone number, e-mail and web-site address of Davis-Rea is 79 Wellington Street West, Suite 3535, P.O. Box 239, Toronto, Ontario, M5K 1J3, (416) 324-2200 or toll free at (877) 391-9929, info@davisrea.com and www.davisrea.com.

Davis-Rea is responsible for managing the day-to-day activities of the funds and providing or arranging for all required administrative services of the funds.

Davis-Rea may resign as manager of a fund(s) at any time on 90 days’ prior written notice to the unitholders of the fund(s). However, the resignation will not take effect until a new manager, that has been approved of by the unitholders of each class of the fund, has been appointed for the fund(s).

Davis-Rea may also terminate a fund(s) on 30 days’ prior written notice to the unitholders of the fund, by a resolution that is passed by a majority of unitholders of the fund(s), or if the trustee of the funds resigns or is removed or Davis-Rea resigns or becomes bankrupt or insolvent, and a successor is not appointed.

The name and municipality of residence and current principal occupation of each director and executive officer of Davis-Rea is as follows:

<i>Name and Municipality of Residence</i>	<i>Office or Position With Davis-Rea</i>	<i>Principal Occupation Within Preceding Five Years</i>
John O’Connell, Toronto, Ontario	Chairman, Chief Executive Officer, Portfolio Manager and Director	Mr. O’Connell has been the Chairman, Chief Executive Officer and a Director of Davis-Rea since he indirectly acquired the company on or about December 14, 2010. Prior to that he was a Co-Founder of the Harbour Group at RBC Dominion Securities, and has been in the financial services industry for over 25 years.
Zachary Curry, Toronto, Ontario	Chief Operating Officer, Chief Compliance Officer, Portfolio Manager and Director	Mr. Curry has been the Chief Operating Officer and a Portfolio Manager at Davis-Rea since December 2010. He has been with Davis-Rea since 2004 in various capacities as a Portfolio Manager and Analyst.

Douglas Davis, Toronto, Ontario	Vice Chairman, Portfolio Manager	Mr. Davis is the Vice Chairman of Davis-Rea and has been with the company and its predecessors for over 30 years.
John Johnston, Toronto, Ontario	Executive Vice President and Chief Strategist	Mr. Johnston has been Chief Strategist at Davis-Rea since September 2011. Prior to joining Davis Rea Ltd., John spent 18 years at RBC Capital Markets, where he was most recently Chief Economist.
Ana Maria Galarza Toronto, Ontario	Treasurer	Ms. Galarza has been with Davis-Rea since 2004 and as Treasurer since 2010. Prior to joining the Manager, Ana Maria spent two years as a Senior Tax Preparer at a private bookkeeping and accounting company.

Trustee

CIBC Mellon Trust Company is the trustee of each fund pursuant to the trust agreement between us and them, and is paid an annual fee by each fund for acting as the fund's trustee. The head office of CIBC Mellon Trust Company is located at 320 Bay Street, Toronto, Ontario M5H 4A6. CIBC Mellon Trust Company can resign as trustee of the funds on 90 days' prior written notice or be removed by Davis-Rea on the later of 90 days' prior written notice and the appointment of a successor trustee.

Portfolio Adviser

Davis-Rea is the portfolio adviser of each fund and is responsible for providing investment advice to each fund in accordance with the investment objective of that fund.

Administrative Services

Davis-Rea has retained the services of CIBC Mellon Global Securities Services Company of Toronto, Ontario, to assist it with the administration of the funds pursuant to a fund administration services agreement. Each fund pays CIBC Mellon Global Securities Services Company an annual fee for acting as the fund administrator of that fund. The fund administration services agreement is made as of the 18th day of March 2013 and may be terminated by either party on 60 days' prior written notice.

The services CIBC Mellon Global Securities Services Company provides to the funds include fund valuation, unitholder recordkeeping and tax preparation for units of each class of the fund.

Brokerage Arrangements

We may receive research and order execution goods and services in return for directing brokerage transactions for a fund to registered dealers. The quality of these goods and services is considered when selecting a dealer; we ensure that they are used by the applicable fund to assist with investment or trading decisions, or with effecting securities transactions, on behalf of such fund.

Dealers provide research services that include advice, analyses and reports regarding various subject matters relating to investments. These reports and advice are provided either directly or through publications or writings, including electronic publications, telephone contacts and personal meetings, and may include analysis and reports concerning issuers, industries, securities, economic factors and trends, accounting and political developments.

These arrangements are generally subject to “best execution”, which includes a number of considerations such as price, volume, speed and certainty of execution, and total transaction costs. Order execution goods and services include trading software, and market data that is directly related to executing orders, as well as databases and software that support these goods and services.

The names of such dealers are available on request, at no cost, by contacting us at (416) 324-2200 or toll free at 1-(877) 391-9929.

We conduct trade cost analysis to ensure that a fund receives a reasonable benefit from the use of the research and order execution goods and services provided, as applicable, relative to the amount of the brokerage commission paid.

Custodian

CIBC Mellon Trust Company is also the custodian of each fund pursuant to a custodial services agreement dated March 18th, 2013, and may be terminated by either party on 90 days' prior written notice. Each fund pays CIBC Mellon Trust Company an annual fee for acting as the custodian of that fund. The head office of CIBC Mellon Trust Company is located at 320 Bay Street, Toronto, Ontario, M5H 4A6.

Auditor

The auditor of each fund is Collins Barrow Toronto LLP, Chartered Accountants. Collins Barrow Toronto LLP's head office is located at 11 King Street West, Suite 700, Toronto, Ontario, M5H 4C7.

Registrar

The registrar of units of each fund is CIBC Mellon Global Securities Services Company. The registrar maintains a register of unitholders of each class of each fund in Toronto, Ontario.

Conflicts of Interest

Principal Holders of Securities

1. Davis-Rea Mutual Funds

As at July 15, 2016, one investor owns 1,397,839 Class O units, or 17.3% of the units outstanding of the Davis-Rea Fixed Income Fund. No other investor owns 10% or more of the outstanding units of any fund.

2. Davis-Rea

As at the date hereof, Mr. John O'Connell and Mr. Zachary Curry each indirectly own 106,058 common shares and 11,915 common shares, or 89.9% and 10.1% of the outstanding common shares, of Davis-Rea, the manager of the funds, respectively.

Fund Governance

Each fund is organized as a trust. Davis-Rea, as the manager of each fund, has the responsibility for managing the affairs of each fund, and has all the necessary powers, duties and authority to do so pursuant to the trust agreement of the funds. Davis-Rea will comply with the trust agreement of the funds, including the investment policies and restrictions established therein, and all applicable securities laws, regulations and policy statements of the relevant Canadian securities regulatory authorities.

Davis-Rea is governed by a board of directors consisting of three (3) individuals, all of whom are officers of Davis-Rea. The board of directors oversees the activities of Davis-Rea and the funds.

Davis-Rea has established policies, procedures and guidelines relating to the management of the funds, including with respect to business practices and compliance with regulatory and corporate requirements.

Davis-Rea has also adopted policies and procedures to detect and deter short-term trading. Short-term trades are defined as a combination of a purchase and redemption of units of a fund within a short period of time that we believe is detrimental to other investors in the fund. Such trades may try to take advantage of certain funds which hold securities priced in other time zones or illiquid securities that trade infrequently.

The interests of the investors in a fund and the fund's ability to manage its investments may also be adversely affected by short-term trading because, among other things, these types of trading activities can dilute the value of the fund's units, can interfere with the efficient management of the fund's portfolio and can result in increased brokerage and administrative costs to the fund. While we will actively take steps to monitor, detect and deter short-term trading, we cannot ensure that such trading activity will be completely eliminated.

A purchase and a redemption of a unit of a fund within a short period of time may be subject to a short-term trading fee of up to 2.00% of the purchase price (excluding any sales charge) if you redeem your units of a fund within 90 days of buying them. The fee payable, if imposed, will be deducted from the redemption proceeds that are paid to you when you redeem your units of the

applicable fund and such fees will be retained by that fund. We, in our sole discretion, may waive the short-term trading fee.

Independent Review Committee

Set out below are the names of the three individuals who currently comprise the independent review committee (the **IRC**) for each fund:

- (a) Mr. Paul Little (Chairman)
Calgary, Alberta
- (b) Mr. Mark Benadiba,
Toronto, Ontario
- (c) Mr. Richard Knowles,
Toronto, Ontario

Each member of the IRC is independent of Davis-Rea, its affiliates and each fund. The IRC provides independent oversight and impartial judgment on conflicts of interest involving a fund that are referred to it by Davis-Rea. Its mandate is to consider such matters and to recommend to Davis-Rea what action Davis-Rea should take to achieve a fair and reasonable result for a fund in those circumstances; and to review and advise on or consent to, if appropriate, any other matter required by applicable securities laws. The IRC intends to meet at least two times a year.

Among other matters, the IRC prepares, at least annually, a report of its activities for unitholders of each fund which will be available on the internet at www.davisrea.com and upon request by any unitholder of a fund, at no cost, by calling: (416) 324-2200 or toll-free at (877) 391-9929 or e-mailing to: info@davisrea.com

Under securities legislation, the IRC may approve a change in the auditor of a fund in accordance with National Instrument 81-107 *Independent Review Committee for Investment Funds*. In such circumstances, a written notice describing the change in auditors will be sent to unitholders of the applicable fund(s) at least 60 days before the effective date of the change.

Each member of the IRC is paid an annual fee of \$7,500 and is reimbursed, by each fund, as applicable, for any fees and/or expenses he incurs in carrying out such duties for that fund.

Proxy Voting Policy

Davis-Rea, as portfolio adviser, has full responsibility for proxy voting and related duties in respect of the funds. In fulfilling these duties, Davis-Rea and the funds have adopted proxy policies and procedures (the "Proxy Policies") to ensure that proxies for units held by each fund are voted consistently and solely in the best economic interests of the funds. The Proxy Policies are more fully summarized below.

- The Proxy Policies set out the voting procedures to be followed in routine and non-routine matters, together with general guidelines suggesting a process to be followed in determining how and whether to vote proxies. Although the Proxy Policies allow for the creation of a standing policy for voting on certain routine matters, each routine and non-

routine matter must be assessed on a case-by-case basis to determine whether the applicable standing policy or general guidelines should be followed.

- The Proxy Policies also address situations in which Davis-Rea and the funds may not be able to vote, or where the costs of voting outweigh the benefits. Where a fund managed by Davis-Rea is invested in an underlying fund that is also managed by Davis-Rea, the proxy of the underlying fund will not be voted by us. However, we may arrange for you to vote the shares of those securities.
- Davis-Rea is responsible for the oversight of each fund's proxy voting process and has assigned a senior member of its staff to be responsible for this oversight.

Davis-Rea will compile and maintain annual proxy voting records for the Fund for the annual periods beginning July 1st in a year and ending June 30th of the following year. After completion of an annual period, the proxy voting record will be made available on Davis-Rea's website (www.davisrea.com) on August 31st following the annual period. Copies of the complete proxy voting procedures for the funds are available to investors free of charge upon request. Requests can be made by calling toll-free 1-877-391-9929 or by sending an email to info@davisrea.com. Investors may also send a request by mail addressed to the attention of Davis-Rea at 79 Wellington Street West, Suite 3535, P.O. Box 239 Toronto, Ontario M5K 1J3.

Calculation of Net Asset Value per Unit

All units of a class of a fund will be sold at the net asset value per unit of that class of the fund for that day. The net asset value per unit of a class of a fund is calculated before any units of that class of the fund are issued or redeemed. Any units of a class of a fund that are purchased or redeemed on that day are reflected in the net asset value per unit of that class of the fund the next time it is calculated. The net asset values for each class of unit of the funds are available at your request, and at no cost, by contacting Davis-Rea toll free at 1-877 391-9929 or by e-mail at info@davisrea.com

Valuation of Portfolio Assets

The value of a class of a fund (the "net asset value per unit of a class") is determined in Canadian dollars at the close of business of the Toronto Stock Exchange (the "valuation time") on each valuation date and is equal to the assets of that class of the fund minus the liabilities of that class of the fund divided by the number of units of that class of the fund that are outstanding. A valuation date for a fund is each day on which the Toronto Stock Exchange is open for business.

The assets of each class of a fund will be valued, as applicable, as follows:

- cash on hand, on deposit or on call, bills and notes, accounts receivable, prepaid expenses and cash dividends and accrued interest to be received are valued at face amount, unless we determine that they are worth less, in which case, they will be valued at their fair value, as determined by us;
- any security listed or dealt in on a stock exchange is valued at the closing sale price. Failing a sale on that day, it is valued at the average of the closing bid and closing asked

prices, as obtained from any report in common use or authorized as official by such stock exchange;

- any security not listed or dealt in on a stock exchange is valued at the last ascertainable sale price. Failing a sale on that day, it is valued at the average of the closing bid and closing asked prices as obtained from any report in common use;
- any treasury bill and other discounted short term debt obligation is valued at its amortized cost;
- dividend income is recognized on the ex-dividend date and interest income is accrued;
- all assets denominated or liabilities payable in a foreign currency are converted into Canadian currency at the current exchange rate obtained from any report in common use;
- forward foreign exchange contracts are valued as the difference between the value on the date the contract originated and the value of the contract on the valuation date. When the contract expires, we will recognize a realized foreign exchange gain or loss; and
- any security, the resale of which is restricted, whether by a representation, undertaking or agreement or by law, is valued at the lesser of: (i) its quoted value as reported in any report in common use and (ii) that percentage of the market value of securities of the same class or series the trading of which is not so restricted which is equal to the percentage which the fund's acquisition cost was of the market value of such securities at the time of acquisition; but taking into account, if appropriate, the amount of time until the restricted security will cease to be a restricted security.

Davis-Rea will use the fair value of a security when the security is not traded, where it is usually traded, and Davis-Rea will only deviate from these valuation principles in circumstances where the above methods do not accurately reflect the fair value of a particular security at any particular time.

The liabilities of a class of a fund on a valuation date include all of the expenses of the fund that are attributable to that class of the fund and have arisen or accrued on or before that valuation date.

For the purpose of the issuance and the redemption of units of a class of a fund and for any distribution to unitholders of the fund, the price, value or amount distributed by or paid to the fund is in Canadian funds. For the purpose of any conversions of monies from any other currency to Canadian currency, the current rate of exchange as quoted to a fund by its custodian as nearly as practicable at the time as of which the net asset value is being computed will be used.

Davis-Rea has not had to exercise its discretion to determine the fair market value of any asset or security in the past year.

The net asset value of a fund, for all purposes other than financial statements, is calculated using the valuation principles described above. Each fund is required to calculate its net assets for purposes of its financial statements in accordance with Canadian generally accepted accounting

principles (“Canadian GAAP”). Canadian GAAP requires that the fair value of actively traded securities held by a fund should be valued at the bid price, instead of the close price or last sale price of the securities for the day. Hence, the reported value of securities held by a fund in its annual and interim financial statements may be different from the unit value. The financial statements of a fund will include a reconciliation of the net assets contained in the financial statements to the net asset value used for unit pricing purposes.

Purchases of Units

An investor may buy units of a class of a fund, except class N units, in Canadian dollars from his or her dealer. Units of a class of a fund will not be issued to an investor until the investor’s dealer confirms to Davis-Rea that it has received the necessary funds from the investor to buy the units of that class of the fund. Certified cheques should be made payable to the name of the applicable fund. No certificates will be issued for any units of any class of a fund that are purchased.

Purchase orders for units of a class of a fund which are received by Davis-Rea at or prior to the close of business on any valuation date will be priced on that day. Any purchase orders for units of a class of a fund received after the close of business on a valuation date will be priced on the next valuation date.

Within three (3) business days following the valuation date on which a subscription for units of a class of a fund is accepted, Davis-Rea will issue the units of the class of the fund subscribed for at the net asset value per unit of that class of the fund on the valuation date. An investor may purchase units of a class of a fund by certified cheque, bank draft or wire transfer.

Davis-Rea has the right to accept or reject a purchase order for units of a class of a fund. Davis-Rea will decide to accept or reject a purchase order for units of a class of a fund within one (1) business day of receiving the purchase order. If Davis-Rea rejects a purchase order, it will immediately return any monies received with the purchase order to the investor.

An initial investment in units of a class of a fund must usually be at least \$5,000. Subsequent investments in that class of a fund must be at least \$100. The minimum subsequent investment per transaction for an investor interested in buying class A units, class B units or class F units of a fund by means of a pre-authorized chequing plan is \$25.

If Davis-Rea does not receive payment for units of a class of a fund from an investor’s dealer within three (3) days of processing an investor’s order, Davis-Rea will redeem the investor’s units of that class of the fund. If the proceeds of redemption are greater than what the investor owes, the fund will keep the difference. If the proceeds are less than what the investor owes, Davis-Rea will pay the difference to the fund and will collect this amount from the investor’s dealer, who may collect it from the investor.

Davis-Rea will arrange for the sale of units of each class of each fund through dealers qualified to sell mutual fund securities.

A dealer may make provision in arrangements that it has with an investor who wants to buy units of a class of a fund that will require the investor to compensate the dealer for any losses suffered by the dealer in connection with a failed settlement to buy units of that class of the fund which is caused by the investor.

Purchase Options

Units of class of a fund usually cannot be converted into units of another class of the fund.

Class A Units

Class A units of a fund are designed for retail investors. If an investor purchases class A units of a fund from Davis-Rea, the investor does not have to pay any sales charge.

If an investor purchases class A units of a fund through another dealer, the investor will negotiate with that dealer the sales charge that they will pay, which may be up to 5.00% (i.e. a front-end load sales charge). The investor's dealer will generally deduct the amount of the sales charge that is negotiated from the investor's subscription and will forward the net amount to Davis-Rea to be invested in class A units of the applicable fund. The amount of the sales commission depends on what the investor negotiates with his or her dealer. Subject to a fund's short-term trading fee, an investor can redeem his or her class A units of a fund under this option at any time and the investor does not have to pay any redemption fees.

Class B Units

Class B units of a fund are designed for retail investors who buy units of a fund through their own dealer.

An investor may have to pay a sales charge to its dealer if the investor purchases class B units of a fund. The investor will negotiate with its dealer the sales charge that they will pay, which may be up to 5.00% (i.e. a front-end load sales charge). The investor's dealer will generally deduct the amount of the sales charge that is negotiated from the investor's subscription and will forward the net amount to Davis-Rea to be invested in class B units of the applicable fund. The amount of the sales commission depends on what the investor negotiates with his or her dealer. Subject to a fund's short-term trading fee, an investor can redeem his or her class B units of a fund under this option at any time and the investor does not have to pay any redemption fees.

Davis-Rea will pay out of its management fee a trailer fee to those dealers distributing class B units of a fund. The trailer fee will be equal to 0.50% per annum of the average net asset value of the class B units purchased by the investors of a dealer.

Class F Units

Class F units of a fund are designed exclusively for investors who have entered into an investment management agreement with their dealers. This may include:

- (i) individual investors whose dealer participates in our class F program where Davis-Rea does not pay any sales charges, trailing fees or other fees to their dealer. In such a situation, the individual investor pays their dealer an all-inclusive set fee (usually based on assets under administration) for all services and advice that they provide to the investor; and
- (ii) other investors provided Davis-Rea does not pay any sales charges, trailing fees or other fees to their dealer.

An investor buying class F units of a fund does not pay any sales charge as the investor is already paying his or her dealer for the advice and other services that they are providing to the investor. However, the investor's dealer must be a participant in Davis-Rea's class F program. If Davis-Rea becomes aware that an investor is no longer eligible to hold class F units of a fund, Davis-Rea will give the investor 30 days' notice before Davis-Rea will switch the investor's class F units of the fund for class A units of the fund. Subject to a fund's short-term trading fee, an investor can redeem his or her class F units of a fund under this option at any time and the investor does not have to pay any redemption fees.

Class O Units

Class O units of a fund are designed exclusively for institutional investors and individual investors who have been approved by Davis-Rea. Each eligible investor must enter into a class O unit account agreement with Davis-Rea.

The criteria for approval may include the value of the investment. No management fees are charged to, or are payable by, a fund with respect to class O units. Each investor will negotiate a separate management fee directly payable to Davis-Rea, which will be specified in that investor's class O unit account agreement.

If an investor purchases class O units of a fund from Davis-Rea, the investor does not have to pay any sales charge.

If an investor purchases class O units of a fund through another dealer, the investor will negotiate with that dealer the sales charge that they will pay, which may be up to 5.00% (i.e. a front-end load sales charge). The investor's dealer will generally deduct the amount of the sales charge that is negotiated from the investor's subscription and will forward the net amount to Davis-Rea to be invested in class O units of the applicable fund. The amount of the sales commission depends on what the investor negotiates with his or her dealer. Subject to a fund's short-term trading fee, an investor can redeem his or her class O units of a fund under this option at any time and the investor does not have to pay any redemption fees.

Redemption of Units

A unitholder may redeem units of a class of a fund by sending a redemption order to us or their dealer. The unitholder may have to pay an administrative fee to their dealer. Davis-Rea will confirm with the unitholder's dealer that they have received all necessary information and instructions from the unitholder to redeem the unitholder's units of that class of the applicable fund.

Requests to redeem units of a class of a fund which are received by Davis-Rea at or prior to the close of business on any valuation date will be priced on that day and any redemption requests to redeem units of a class of the fund received after the close of business on such valuation date will be priced on the next valuation date.

The unitholder's dealer is responsible for sending the unitholder's redemption order to Davis-Rea on the same day that the dealer receives it from the unitholder. Davis-Rea will redeem the unitholder's units of a class of a fund on the business day Davis-Rea receives the redemption order from the unitholder's dealer, provided Davis-Rea receives it at or before the close of

business on such day. If Davis-Rea does not receive the unitholder's redemption order to redeem units of a class of a fund from the unitholder's dealer until after the close of business on such day, Davis-Rea will process the unitholder's redemption order on the next business day. Once Davis-Rea receives from the unitholder's dealer the instructions necessary to complete the redemption, Davis-Rea will send the redemption proceeds to the unitholder. If Davis-Rea does not receive these instructions from the unitholder's dealer within 10 business days of the redemption, the applicable fund will repurchase the unitholder's units of that class of such fund. If the redemption proceeds are greater than the repurchase amount, the applicable fund will keep the difference. If the redemption proceeds are less than the repurchase amount, Davis-Rea will pay the applicable fund the difference. Davis-Rea will then collect this difference from the unitholder's dealer, who may collect it from the unitholder.

The obligation to pay the redemption proceeds will be discharged when the monies are deposited into the unitholder's bank account or a cheque is mailed to the unitholder, unless the cheque is not honoured on presentation for payment. In certain limited situations, Davis-Rea may allow a unitholder to redeem his or her units of a class of a fund on an *in specie* basis.

A dealer may make provision in arrangements that it has with an investor that will require the investor to compensate the dealer for any losses suffered by the dealer in connection with any failure of the investor to satisfy the requirements of a fund or securities legislation for a redemption of units of a class of the fund.

No redemption fee is payable to Davis-Rea if an investor buys class A units, class B units, class F units or class O units of the fund, although a unitholder's dealer may charge the investor an administrative fee.

Units of a class of the fund are usually not redeemable at Davis-Rea's option.

Davis-Rea may suspend the redemption of units of each class of a fund:

- (i) if normal trading is suspended in the market, within or outside Canada, which represents more than 50% by value, or underlying market exposure, of the total assets of the fund without any allowance for liabilities and if the assets of the fund cannot be traded in any other market that represents a reasonably practical alternative for the fund; or
- (ii) with the consent of the Ontario Securities Commission.

Davis-Rea will not accept subscriptions for a fund during any time while the right to redeem units of each class of the fund is suspended.

The trust agreement of the funds provides that to the extent that it is required to sell securities to satisfy the payment of proceeds of redemption to a redeeming unitholder, it may allocate any taxable capital gains realized or income earned from such sale to such redeeming unitholder. For more details see "*Income Tax Considerations – Tax Status of a Fund*".

Reclassification

A reclassification of units from one class of a fund to another class of the same fund is not considered to be a disposition for tax purposes and, accordingly, a unitholder will not realize a gain or loss on such reclassification.

Switches

A unitholder can switch their investment from a class of units of one fund to the corresponding class of units of another fund through us or their dealer. Such a switch will result in a redemption of the units of the fund that the unitholder owns and a purchase of units of the new fund. Because the unitholder is moving their investment from one fund to another fund, the switch will be a taxable transaction to the unitholder who may realize a gain or loss in the same manner as the unitholder would otherwise realize on a redemption of units of a fund. A switch fee of up to 2.0% of the value of the units switched may be charged by the unitholder's dealer.

Fees and Expenses

A fund is responsible for paying all operating expenses incurred in the normal course of its activities including record keeping, fund and unitholder accounting costs, audit fees and expenses, reporting and filing fees, legal fees, insurance costs, custodial expenses, brokerage commissions and other expenses directly related to portfolio transactions of the fund and taxes payable by the fund. To the extent applicable these costs are borne by the class of units of a fund to which they apply.

Investment Restrictions

The funds are subject to certain restrictions and practices contained in securities legislation, including National Instrument 81-102 *Mutual Funds*, which are designed in part to ensure that the investments of the funds are diversified and relatively liquid and to ensure the proper administration of each fund. These restrictions and practices may only be varied with the prior consent of the Canadian Securities Administrators.

Each fund is managed in accordance with these restrictions and practices.

Each fund is currently a "registered investment" for purposes of the *Income Tax Act* (Canada). Therefore, units of each class of each fund are currently qualified investments for registered retirement savings plans (each a RRSP), registered retirement income funds (each a RRIF), deferred profit sharing plans (each a DPSP), registered disability savings plans (each a RDSP), registered education savings plans (each a RESP) and tax-free savings accounts (each a TFSA).

Income Tax Considerations

The following general summary describes the principal Canadian federal income tax considerations of an investment in units of a class of a fund to a unitholder who is an individual (other than a trust) resident in Canada, who holds units of that class of the fund as capital property and who deals at arm's length with, and is not affiliated with, the funds.

This summary takes into account the current provisions of the *Income Tax Act* (Canada) and the regulations thereunder, as well as all publicly announced proposed amendments to the *Income Tax Act* (Canada) and regulations as of the date hereof. It also takes into account the current published administrative policies and assessing practices of the Canada Revenue Agency.

The summary assumes that no fund will have any material investment in interests in (a) non-resident trusts deemed to be resident in Canada under the *Income Tax Act* (Canada); or (b) an “offshore investment fund property” within the meaning of the *Income Tax Act* (Canada).

This summary is not intended to be exhaustive. It does not address provincial, territorial or foreign tax considerations. Unitholders should consult their own tax advisors for advice with respect to the tax consequences of an investment in their particular circumstances.

Tax Status of a Fund

Each fund is a unit trust for purposes of the *Income Tax Act* (Canada) but, as of the date of this annual information form, none of the funds qualify as a “mutual fund trust” for purposes of the *Income Tax Act* (Canada). Each fund is currently a “registered investment” for purposes of the *Income Tax Act* (Canada).

It is assumed that at no time will “financial institutions” (as defined in section 142.2 of the *Income Tax Act* (Canada)) hold more than 50% of the fair market value of all of the units in any fund while the fund is not a “mutual fund trust.” If financial institutions held more than 50% of the fair market value of all of the units of a fund that is not a mutual fund trust, such fund will be subject to the “mark-to-market” rules on its “mark-to-market property.”

Taxation of a Fund

In general, a fund is not subject to income tax under Part I of the *Income Tax Act* (Canada) on such part of its net income for the year, including net realized capital gains, as is paid or payable or deemed to be payable in the year to unitholders of the fund and deducted by the fund in computing its income. Each fund will make payable (and deduct), in respect of each taxation year, sufficient net income and sufficient net realized capital gains so that it will generally not be liable to income tax under Part I of the *Income Tax Act* (Canada).

For taxation years throughout which a fund is not a mutual fund trust under the *Income Tax Act* (Canada), the fund may in certain circumstances be subject to alternative minimum tax even though its net income and net realized capital gains are paid or payable to its unitholders.

In accordance with the administrative practice of the Canada Revenue Agency, each fund treats gains and losses on short sales as being on income account (unless the short sale is a hedge against identical securities of the fund that are capital property). Gains and losses on certain derivatives are also treated by the funds as being on income account.

If at any time in a taxation year a fund is not a mutual fund trust for purposes of the *Income Tax Act* (Canada), the amount of distributions of net realized capital gains to unitholders of the fund in the taxation year and, therefore, the amount required to be included in the income of unitholders of the fund may exceed the amount of distributions of net realized capital gains that would otherwise be required to be made if qualified as a mutual fund trust throughout a taxation year.

Net losses incurred by a fund cannot be allocated to unitholders of the fund, but may be deducted by the fund in future years in accordance with the *Income Tax Act* (Canada).

Each fund is required to calculate its net income and net realized capital gains in Canadian dollars for purposes of the *Income Tax Act* (Canada), and may, as a consequence, realize income or capital gains from changes in the value of the U.S. dollar or other relevant currencies relative to the Canadian dollar.

For taxation years throughout which a fund is not a mutual fund trust under the *Income Tax Act* (Canada), the fund will be liable to a special tax under Part XII.2 of the *Income Tax Act* (Canada) if its unitholders include “designated beneficiaries” and the fund has “designated income”. If a fund has a “designated beneficiary” (which includes a non-resident of Canada, certain trusts and certain tax-exempt persons) and has “designated income” (which includes capital gains from the dispositions of “taxable Canadian property” and income from a business carried on in Canada), the fund will be liable to pay Part XII.2 tax on such designated income. Such tax will be effectively borne by the “designated beneficiaries” and all tax-exempt unitholders whereas taxable unitholders of the fund who are resident in Canada should generally achieve the same after-tax return as if the fund were not subject to Part XII.2 tax.

If a fund is a registered investment but not a mutual fund trust under the *Income Tax Act* (Canada), it will be liable to pay a penalty tax under the *Income Tax Act* (Canada) if, at the end of any month, the fund holds any investments that are not qualified investments for registered plans (such as a RRSP). The tax for a month is equal to 1% of the fair market value of the non-qualified investments at the time they were acquired by the fund.

Taxation of Unitholders of a Fund

Units Not Held in a Registered Plan

Distributions by a Fund

If a unitholder of a fund does not hold his or her units of the fund in a registered plan, the unitholder is required to include as part of the unitholder’s income (in Canadian dollars) for tax purposes all distributions of net income and net taxable capital gains, if any, paid or payable to the unitholder by the fund in a particular year, whether received in cash or reinvested in additional units of the fund.

To the extent that distributions to a unitholder of a fund in any year exceed the net income and net realized capital gains of the fund for the year paid or payable to the unitholder, such excess distributions will not be taxed in the unitholder’s hands but will reduce the adjusted cost base of the units of the fund held by the unitholder. If the unitholder’s adjusted cost base is reduced to less than zero, a capital gain equal to the negative amount is deemed realized and the adjusted cost base is increased to zero.

Each fund will designate, to the extent permitted by the *Income Tax Act* (Canada), such portion of the income paid or payable to unitholders of that fund as may reasonably be considered to consist of taxable dividends received by that fund on shares of taxable Canadian corporations. Any such designated amount will be deemed, for tax purposes, to be a taxable dividend received by unitholders of that fund in that year. Each fund will make similar designations in respect of any net taxable capital gains and in respect of income from foreign sources and foreign taxes paid thereon. Accordingly, where appropriate, dividend and foreign tax credits will also apply to distributions from each fund. You will be advised each year of the composition of amounts

payable to you in terms of net income, taxable dividends, net taxable capital gains, foreign income, foreign taxes paid and return of capital, where those items are applicable.

A unitholder's share of distributions paid by a fund will be based on the number of units of the fund held by the unitholder on the record date for the distribution regardless of how long the unitholder has owned units of the fund. When a unitholder buys units of a fund, the net asset value of the units of the fund, and therefore the price the unitholder pays for the units of the fund, may reflect income and gains that have accrued in the fund but which have not yet been realized or distributed. When such income and gains are distributed by a fund, the unitholder of the fund will be required to include the unitholder's share of the distribution in the unitholder's income even though some of the distribution the unitholder receives may be reflected in the purchase price the unitholder paid for such units of the fund. This effect could be particularly significant if the unitholder purchases units of a fund just before a record date for a distribution by the fund.

Disposition of Units

When a unitholder disposes of a unit of a fund, including on a deemed disposition or a redemption of the unit, the unitholder will realize a capital gain (or capital loss) equal to the amount by which the proceeds of disposition, net of reasonable costs of disposition, exceed (or are less than) the unitholder's adjusted cost base of the unit. At any time, the adjusted cost base of a unit of a fund will generally be the weighted average cost per unit of the applicable class of the fund for all units of that class of the fund that the unitholder owns at that time including any units of that class of the fund acquired on a reinvestment of distributions from the fund.

One half of a capital gain will be included in a unitholder's income, and one half of a capital loss may be deducted against a unitholder's taxable capital gains in accordance with and subject to detailed rules in the *Income Tax Act* (Canada).

Exchanging units of a fund for units of another fund will result in a disposition for tax purposes, and a capital gain or loss may arise.

In certain situations where a unitholder disposes of units of a fund and would otherwise realize a capital loss, the loss will be denied. This may occur if the unitholder, the unitholder's spouse or another person affiliated with the unitholder (including a corporation controlled by the unitholder) has acquired the same class of units of the fund (which are considered to be "substituted property") within 30 days before or after the unitholder disposes of such units. In these circumstances, the unitholder's capital loss may be deemed to be a "superficial loss" and denied. The amount of the denied capital loss will be added to the adjusted cost base to the owner of the units of the applicable class of the fund which are substituted property.

Pursuant to the trust agreement of the funds, we may at our discretion make payment for units that are redeemed by delivery of portfolio securities to the redeeming unitholder of a fund. If units of a fund are redeemed in such manner, the proceeds of disposition to the unitholder of such units will be equal to the fair market value of the securities so distributed less any income or capital gain realized by the fund in connection with the redemption of those units. Where income or capital gain realized by a fund in connection with the distribution of securities on the redemption of units of the fund has been designated by the fund to a redeeming unitholder, the unitholder will be required to include in income the income or taxable portion of the capital gain so designated. The cost of any property distributed by a fund to a unitholder upon redemption of

units of the fund will be equal to the fair market value of those securities at the time of the distribution.

Pursuant to the trust agreement of the funds, a fund may allocate and designate any income or capital gains realized by the fund as a result of any disposition of property of the fund undertaken to permit or facilitate the redemption of units of the fund to a unitholder whose units are being redeemed. In addition, each fund has the authority to distribute, allocate and designate any income or capital gains of that fund to a unitholder who has redeemed units of that fund during a year in an amount equal to the unitholder's share, at the time of redemption, of that fund's income and capital gains for the year or such other amount that is determined by that fund to be reasonable. Any such allocations will reduce the redeeming unitholder's proceeds of disposition.

Alternative Minimum Tax

In general terms, net income of a fund paid or payable to a unitholder that is designated as taxable dividends from taxable Canadian corporations or as net taxable capital gains, and capital gains realized by a unitholder on the disposition of units of a fund, may increase such unitholder's liability for alternative minimum tax under the *Income Tax Act* (Canada).

Statements

Unitholders of a class of a fund will receive an annual statement in order to complete their income tax returns in respect of their investment in the fund. Unitholders should keep records of the cost of units of a class of a fund acquired so that they can calculate any capital gain or loss on the redemption or other disposition of units of that class of the fund. Unitholders should consult their own tax advisors with respect to the extent to which the fees payable by them to us may be deductible.

Payment of Fees

Amounts paid in respect of fees and expenses directly by a unitholder in respect of units of a fund held directly (i.e., not in a registered plan) will be deductible for income tax purposes to the extent that such amounts are reasonable and represent amounts paid for advice provided to the unitholder in respect of the purchase and sale of units or services in respect of the administration or management of the units of the fund. The portion of the amounts paid directly by a unitholder that represents fees for services provided by the manager to a fund, rather than directly to the unitholder, will generally not be deductible for income tax purposes. Unitholders should consult their own tax advisors with respect to the deductibility of such amounts paid to the manager, a dealer or an advisor in their own particular circumstances. Fees paid in respect of units of a fund held in a registered plan are not deductible for income tax purposes.

Units Held in a Registered Plan

Units of each fund are currently qualified investments for RRSPs, RRIFs, DPSPs, RDSPs, RESPs and TFSAs.

Generally, distributions by a fund to an RRSP, RRIF, DPSP, RDSP, RESP or TFSA and gains realized by such registered plans upon the disposition of units of a class of a fund will not be subject to tax under the *Income Tax Act* (Canada). Amounts received from a registered plan (other than a TFSA) by an individual will generally be included in the individual's income for

tax purposes in the year of receipt. Unitholders should consult with their own tax advisor before withdrawing any amount from a registered plan.

If the units of a fund are “prohibited investments” for the purposes of a TFSA, RRSP, or RRIF, a unitholder who is a holder of such TFSA, or an annuitant of such RRSP or RRIF, will be subject to a penalty tax as set out in the *Income Tax Act* (Canada). A “prohibited investment” includes a unit of a trust which does not deal at arm’s length with the holder, or in which the holder has a significant interest. A significant interest, in general terms, means the ownership of 10% or more of the value of the fund’s outstanding units by the holder, either alone or together with persons and partnerships with whom the holder does not deal at arm’s length. Unitholders are advised to consult their own tax advisors in this regard.

Remuneration of Directors, Officers and Trustees

The Davis-Rea Mutual Funds do not have any directors or officers. As noted under the section entitled “*Responsibility for Fund Operations*”, CIBC Mellon Trust Company is the trustee of each fund. During 2015, CIBC Mellon Trust Company received an aggregate of \$13,750.11 for its services as trustee of the Davis-Rea Mutual Funds. In addition, the Davis-Rea Mutual Funds paid the IRC an aggregate of \$22,500 in 2015.

Material Contracts

The material contracts pertaining to the funds are listed below:

- (a) the amended and restated mutual fund trust agreement as referred to in the section entitled “*Name, Formation and History of the Fund*” and “*Responsibility for Fund Operations*”;
- (b) the fund administration services agreement as referred to in the section entitled “*Responsibility for Fund Operations*”; and
- (c) the custodial services agreement as referred to in the section entitled “*Responsibility for Fund Operations*”.

Copies of the foregoing material contracts may be inspected by prospective or existing unitholders during normal business hours at the principal office of the funds.

Certificate of the Funds and the Manager and Promoter of the Funds

This annual information form, together with the simplified prospectus and the documents incorporated by reference into the simplified prospectus, constitute full, true and plain disclosure of all material facts relating to the securities offered by the simplified prospectus as required by the securities legislation of Ontario and do not contain any misrepresentations.

August 26, 2016

“John O’Connell

John O’Connell
Chief Executive Officer and Director
Davis-Rea Ltd.

“Ana Maria Galarza”

Ana Maria Galarza
Signing in the capacity of Chief Financial
Officer
Davis-Rea Ltd.

On behalf of the Board of Directors
Davis-Rea Ltd.
as manager and promoter of the funds

“Zachary Curry”

Zachary Curry
Director
Davis-Rea Ltd.

DAVIS-REA MUTUAL FUNDS

Additional information about the funds is available in the funds' fund facts, management reports of fund performance and financial statements.

You can obtain a copy of these documents at no cost by calling us at (416) 324-2200 or toll-free at (877) 391-9929, by e-mail at info@davisrea.com or from your dealer.

These documents and other information about the funds, such as information circulars and material contracts, are also available on the Davis-Rea Mutual Funds internet site at www.davisrea.com or on the internet site of SEDAR (the System for Electronic Document Analysis and Retrieval) at www.sedar.com.

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