AstonHill
CAPITAL MARKETS

2014

# Australian Banc Income Fund

## Annual Report

February 28, 2014

**Australian Banc Income Fund Message to Unitholders**

**May 29, 2014**

**Dear Investor,**

We are pleased to provide you with the annual report for the Australian Banc Income Fund (the "Fund") for year ended February 28, 2014. The Fund's investment objectives are to:

(i) provide Unitholders with quarterly distributions;
(ii) provide the opportunity for capital appreciation; and
(iii) lower overall volatility of portfolio returns than would be experienced by owning common shares of the Australian banks directly.

We launched this Fund because we believe the Australian banks are safe, conservative financial institutions whose business models are underpinned by the strong Australian economy. The Fund provides exposure to the strong Australian economy which is similar to Canada but with less exposure to the U.S. and increased Asian exposure. The Australian banks also have higher dividend yields than Canadian banks and a good track record of growth.

For the one year period ending on February 28, 2014, the Fund generated a total return of 11.54%. Since inception, the Fund has generated a total return of 16.37% per annum. Each of the five banks in the portfolio made a positive contribution to the Fund's performance during the year led by Macquarie Group which returned 48.5% during the period in Canadian dollars.

We are pleased with the performance of the Fund. The big Australian banks have been growing, increasing their dividends and in general, have been meeting or beating the market's expectations. The Australian economy has been slowing down as the growth in demand for commodities has declined, but the economy is still quite strong when compared to other developed countries. The Australian dollar weakened slightly during the period recently as the Reserve Bank of Australia has cut their cash rate target from 6.0% to 2.5%.

Please check our website for quarterly investment updates and other timely information. We appreciate your investment in the Fund and look forward to continued strong performance by the Fund.

Yours truly,

W. Neil Murdoch
Chief Executive Officer
Aston Hill Capital Markets Inc.

# Management Report of Fund Performance

This annual management report of fund performance for **Australian Banc Income Fund** (the "Fund"), contains financial highlights but does not contain the complete annual financial statements of the Fund. **The annual financial statements and accompanying notes are attached to this report.**

You can obtain a copy of the annual financial statements at no cost by writing to Aston Hill Capital Markets Inc. (the "Manager") to the following address: 77 King Street West, Suite 2110, Toronto, Ontario M5K 1G8, or calling 1-800-513-3868 or visiting the Manager's website at www.astonhill.ca or by visiting www.sedar.com.

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

Note that any reference to "Net Assets" or "Net Assets per Unit" or "GAAP Net Assets" means that the value was determined in accordance with the Canadian Generally Accepted Accounting Principles "GAAP" for financial statements purposes. Also, any reference to "Net Asset Value" or "Net Asset Value per Unit" or "Transactional NAV" means that the value was determined for valuation and transactional purposes in accordance with the Canadian Securities Administrators. An explanation of the difference between both values can be found in note 3 to the financial statements.

## Investment Objectives and Strategies

The Fund is a non-redeemable investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement dated February 24, 2011. The Fund offered Class A Units and Class F Units, each at a price of $10.00 per Unit. The Class F Units are designed for fee-based accounts and are not listed on a stock exchange but may be converted into Class A Units on a weekly basis.

The Fund was created to invest in a Portfolio of common shares of the five largest Australian banks: Australia and New Zealand Banking Group, Commonwealth Bank of Australia, Macquarie Group Limited, National Australia Bank Limited and Westpac Banking Corporation. The Fund's investment objectives are to: (i) provide Unitholders with quarterly distributions; (ii) provide the opportunity for capital appreciation; and (iii) lower overall volatility of portfolio returns than would be experienced by owning common shares of the Australian banks directly.

The Manager may sell covered call options on approximately and not more than, 25% of the common shares of each Bank held in the Portfolio. The Manager may decide, in its discretion, not to sell covered call options from time to time if it determines that market conditions render it impracticable to do so.

On June 11, 2013, Connor, Clark & Lunn Financial Opportunities Fund ("GFO") merged with the Fund (the "Merger"). The Fund was identified as the acquirer and the continuing fund. The objectives of the Merger were to provide GFO Unitholders with the opportunity to continue their investment in foreign financial services equities in a single fund that will have a larger market capitalization, increased liquidity for the units and a lower management expense ratio including lower management fees.

## Risk

No material changes in the risk profile of the Fund took place over the year. For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated February 24, 2011 or to the Fund's most recent Annual Information Form. Both are available at www.astonhill.ca or www.sedar.com.

## Recent Developments

### *International Financial Reporting Standards (IFRS)*

For the Fund's fiscal years following March 1, 2014, the Fund will prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and provide comparative statements on an IFRS basis. The first IFRS financial statements for this Fund will be its interim financial statements for the period ending August 31, 2014, in accordance with IFRS.

The Manager has reviewed and developed its IFRS changeover plan that included performing an impact assessment and identifying differences between existing Canadian GAAP and IFRS. Management has monitored developments in IFRS and has assessed the likely impacts on accounting policies, implementation decisions, internal controls, information systems and training. Based on management's assessment to date, the more significant changes impacting the financial statements may be how the Fund measures fair values of its investments and the classification of net assets representing unitholders' equity. The Manager does not consider this to be comprehensive list of the accounting changes when the Fund adopts IFRS but in the view of the Manager represent the key differences.

Under Canadian GAAP, the Fund measures the fair values of its investments in accordance with the CPA Canada Handbook Section 3855, Financial Instruments – Recognition and Measurement. This section requires the use of bid prices for the long positions and asks prices for the short positions to the extent such prices are available. In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. The impact of this may result in the elimination of the differences between the transactional NAV and net assets at the financial statements reporting dates.

Under Canadian GAAP, the Funds are not required to provide a statement of cash flows. In addition to the financial statements currently presented for the Funds, a statement of cash flows will now be included in the financial statements in accordance with the requirements of IFRS, and prepared in accordance with IAS 7, Statement of Cash Flows.

The Fund's outstanding redeemable unit entitlement includes a contractual obligation to deliver cash or another financial asset on the Fund's fixed termination date, and therefore the ongoing redemption feature is not the units only contractual obligation. The liability method will be used to present the financial statements. The impact of this standard is on classification and disclosure only and does not impact net assets per unit.

Management will continue to monitor the Fund's IFRS changeover plan to address the key elements of the IFRS conversion.

# Results of Operations

## *Caution regarding forward-looking statements*

The analysis in the document includes forward-looking statements. The use of any of the words anticipate, may, will, expect, estimate, should, believe and similar expressions are intended to identify forward-looking statements. Such statements reflect the opinion of the Manager and the Portfolio's portfolio managers regarding factors that might be reasonably expected to affect the performance and the distributions on units of the Portfolio, and are based on information available at the time of writing. The Fund's Manager believes that the expectations reflected in these forward-looking statements and in the analysis are reasonable but no assurance can be given that these expectations or the analysis will prove to be correct and accordingly, they should not be unduly relied on. These statements speak only as of the date of this report. Actual events and outcomes may differ materially from those described in these forward-looking statements or analysis.

## *Portfolio Manager Commentary (May 23, 2014)*

### *Australia's Economy*

**Underlying Trends - Demographics**

Population size and the proportion of people engaged in the labour force tell a lot about how quickly an economy can grow in the long term, and Australia's population is growing at a rate far in excess of most developed economies. The number of full time residents has risen by 9% over the past five years and a further 9% gain is expected in the next five. By comparison Canada's population has grown by 6% over the past five years; the US by 4%; EU population has stagnated, growing about 1.3% over the same period; and Germany and Japan have both seen marginal declines.

Over half the growth has come from immigration: 28% of Australia's current population was born overseas, the second-highest proportion, after Switzerland, in the OECD, and the highest level in Australia in over 100 years. Immigrants provide an outsized boost to the economy by virtue of being younger than the average Australian by almost ten years and more likely to have post-secondary qualifications.

In common with the rest of the developed economies, Australia is feeling the impact of an ageing population. As the size of families declined over the past 40 years, the share of the population of working age (15 to 64 year-olds) rose steadily, peaking around 2009, while the proportion under 15 declined. Today, however, the growing cohort of 65+ residents, at just less than 15% of the total population, is having an impact. Labour force participation, the percent of the adult population that is working or looking for work, recently began to reverse a long-term rising trend and stands at 2006 levels today.

The following table shows comparative population and labour force projections for 2015 and 2030. Australia displays both high relative population growth for the period and high relative growth of the working age population.

### Projected Percent of Population Aged 15 to 64 and Size of Total Workforce (millions)*

| | Population % aged 15 to 64 | | Projected Size of Labour Force (millions) | | | |
|---|---|---|---|---|---|---|
| | **2015** | **2030** | **2015** | **2030** | **Change** | **Total Population % Change 2015-2030** |
| **Australia** | 65.9% | 62.0% | 15,756 | 17,596 | 11.7% | 18.6% |
| **Canada** | 67.6% | 61.2% | 24,217 | 24,575 | 1.5% | 12.0% |
| **China** | 72.4% | 68.0% | 1,014,520 | 987,570 | -2.7% | 3.7% |
| **Europe** | 67.1% | 62.1% | 497,379 | 457,343 | -8.0% | -0.7% |
| **Japan** | 60.7% | 57.1% | 76,941 | 68,912 | -10.4% | -4.9% |
| **South-east Asia** | 67.1% | 68.2% | 427,035 | 492,906 | 15.4% | 13.5% |
| **United States** | 65.7% | 61.3% | 214,392 | 222,198 | 3.6% | 11.2% |

*Source: United Nations, medium variant projections.

### Underlying Trends - Productivity and Innovation

The impact of labour force on the economy depends on its size and productivity. Productivity (often stated as GDP per number of hours worked) and the innovation that drives it allow things to be done more efficiently, which accelerates economic growth. Both are difficult to measure and interpret, especially over the short-term.

Australia has enjoyed two decades of increased standards of living, boasting higher growth in real GDP per capita than most advanced economies and a very high rating for human development. In the 1990s productivity growth was the main driver of GDP growth, and in the 2000s, rising commodities prices boosted Australia's terms of trade to record levels. Productivity growth has been low for most of the past decade, however, and commodities prices have now stabilized. Recent slow labour productivity growth has been exacerbated by a decline in the productivity of capital, which is a result of big investments in less productive sectors including mining and electrical transmission, as well as a decline in manufacturing productivity. By contrast, labour productivity has been increasing at near its historic average rate. From 2003-04 to 2012-13, capital productivity shrank 23% while labour productivity increased 14%.

Innovation is at the heart of productivity growth; to understand the prospects for productivity, it is useful to examine the conditions that might foster innovation. Australia's proximity to the Asia could be one driver. As Asian markets mature, solid innovation will be increasingly necessary to compete, and the rewards to innovation should grow. Innovation isn't just a matter of adopting the latest efficient practices. New-to-the-world designs and processes are invaluable when selling high value added goods and services. Currently, Australian businesses rank fairly high on an international scale with respect to adopting innovation, but low on developing their own new-to-the-world innovations. The rewards apparent in the huge Asian market may overcome that trend. Domestic demographics including increasing diversity through immigration and overall population growth are supportive of an increasingly innovative culture. As in the rest of the developed world, incentives to innovate will need to do battle against the tendency of an aging and increasingly wealthy population to avoid taking risks.

### Recent Data

Australia's unemployment rate fell from 6.1 percent in February to 5.8% in March, catching analysts, economists and the Reserve Bank of Australia (RBA) off-guard. The turnaround in hiring was, however, consistent with recent improvements in business conditions surveys and jobs creation data. Recent job growth was focused in non-mining sectors, with gains made in states such as New South Wales and South Australia, which had languished amid the resources boom. According to Barclay's economist Kieran Davies: "The handover from the resources sector to the rest of the economy is happening and that will bring a regional switch to where the growth is." 88,000 jobs have been created so far in 2014, more than in all of 2013.

The positive jobs news helped send the Aussie dollar to a 5-month high of near $0.95 USD, and propelled the ASX 200 to a new post financial crisis high of 5480.8. It is no secret that the RBA would like the dollar to trade much lower, probably in the mid-$0.80's, but with monetary policy otherwise in balance and repeated attempts to talk the dollar down proving inert, Glenn Stevens and company have retreated to the sidelines for now.

Business conditions improved slightly in March, according to the National Australia Bank's monthly survey, going to positive one from zero in February. However, business confidence appeared to be slipping and came in below its long-term trend. The mining industry pulled survey results down, reflecting concern among coal miners. The coal industry recently declared that the $60bn sector is "under extreme pressure" with world coal prices off by more than half from 2011 levels. Meanwhile, services, construction and retail showed the strongest improvement.

In Governor Glenn Stevens' monthly statement released April 1st, the RBA stayed the course. The Governor cited signs of improvement in business conditions and continued overall confidence, with increased house construction and rising exports. Rising house prices and a newly strengthened Aussie dollar have the RBA facing a juggling act in which it must try to contain traces of a housing bubble while stimulating growth in other sectors. With inflation expected to be near the target 2%-3% band over the next two years, the cash rate was left unchanged at its historic low of 2.5% for the eighth consecutive month.

## *Australian Banks*

The RBA's semi-annual Financial Stability Review was published in late March, and reflected a healthy banking sector as 2013 closed out. Over the year, asset performance improved, with charges for bad and doubtful debt continuing to decline. The big four banks should be well placed to meet the higher regulatory capital requirements which kick in in 2016 from internally generated funds, according to RBA. The new requirements are a result of the banks' being deemed regionally systemically important under Basel III by the Australian Prudential Regulatory Authority ("APRA"). The banks are also expected to easily meet new liquidity requirements mandated by Basel III, which become effective in January of next year.

Australia's major banks earned $14 billion in aggregate in the latest reported half-year, 23% higher than a year earlier. Earnings were supported by a decline in bad and doubtful debt charges and by increased efficiency, as operating expenses fell slightly. The banks' average cost to income ratio, a key measure of efficiency, improved marginally to 43% as the big four retained their place among the world's most efficient banks. Net interest margin, the difference between the cost of borrowing and income from lending, was slightly down as a result of increased competition for housing and business loans.

The banks benefitted from decreased non-performing loans in their domestic portfolios. Non-performers fell from 1.4% of risk-weighted assets at the end of June, 2013 to 1.2% by the end of December, down from a 2010 high of 1.9%. With the effects of the 2008 financial crisis receding, the ratio of newly impaired loans to total assets has finally retreated to its long-term average. Improved ratios partly reflect tighter lending standards since 2008 as well as improvements in the property market. Non-performing domestic house loans were down to 0.6% at year-end, well off their 2011 peak of 0.9%.

Domestic lending, which the banks depend on to drive revenue and profit, continues to expand only moderately. Housing credit increased at an annualized rate of about 6.5%, a bit faster than over the past few years. Loans for investment properties climbed more quickly, at 8.5%. However, a continued trend to high pre-payment rates moderated overall loan book growth. Increased competition in the housing loans market manifested itself in increased discounts from published mortgage rates, waived application fees and raised commissions to brokers. Apart from price competition, lending standards appear to have held steady.

Growth in business lending remained slow and, as a result, lending standards may be easing in the commercial market. Competition among lenders amid low demand has led to lower margins, longer maturities and, in some cases, to looser covenants. The RBA points out that low bad debts and a soft lending market limit the sources for profit growth for banks. Increased regulatory capital and liquidity requirements also hit profits. As a result, there is a risk that banks will be motivated to relax credit standards and increase risk appetite. Low interest rates and easy credit add to the danger of speculation and of a possible bubble. To date, standards appear to be holding up overall, household savings rates remain high and there is little evidence of financial stress among consumers or businesses.

The big four banks have about 25% of their total assets in international claims, a smaller proportion than many equivalent banking systems. All four have large operations in New Zealand, making up about 9% of assets in aggregate. Exposure there is mainly to household and agricultural loans. Fearing a bubble, the Reserve Bank of New Zealand put restrictions on high loan-to-value ratio loans in 2013. The New Zealand portfolios of the banks have performed well since the change.

Asia makes up about 20% of the international assets of the banks and is growing fast. Generally, the banks have taken on a lower risk profile in their Asian loan books.

### *Capital transactions*

The beneficial interest in the net assets and net income of the Fund is divided into two classes of Units, Class A Units and Class F Units. The Fund is authorized to issue an unlimited number of Units of each class.

On March 18, 2011, the Fund completed its initial public offering pursuant to the Prospectus dated February 24, 2011. $80,000,000 was raised through the issue of 8,000,000 Class A Units at $10.00 per Unit. Agents' fees and issue expenses were $4,728,283 or $0.59 per Unit. $1,603,000 was raised through the issue of 160,300 Class F Units at $10.00 per Unit. Agents' fees and issue expenses were $47,784 or $0.30 per Unit.

On April 5, 2011, the Agents exercised an over-allotment option in respect of 419,502 Class A Units, raising a further $4,195,020. Agents' fees were $220,239 or $0.53 per Unit.

On June 11, 2013, following the Merger with GFO, the Fund issued 800,969 Class A Units with an aggregated value of $7,953,862 and 30,914 Class F Units with an aggregated value of $322,000, representing the Unitholders of the GFO that accepted the merger proposal. Pursuant to the Merger, each holder of Class A Units of GFO automatically received approximately 0.557596 Class A Units of the Fund for each GFO Class A Unit held and each holder of Class F Units of GFO automatically received approximately 0.550557 Class F Units of the Fund for each GFO Class F Unit held.

During the year ended February 28, 2014, there were 26,200 Class F Units converted to 27,542 Class A Units for a total value of $301,455 (31,300 Class F Units were converted to 32,636 Class A Units for a total value of $310,091, during the year ended February 28, 2013). During the same period, there were also 1,264,808 Class A Units redeemed for net payment of $13,910,379 and 10,500 Class F Units redeemed for net payment of $121,065 (357,275 Class A Units were redeemed for net payment of $3,320,157 and 5,500 Class F Units were redeemed for net payment of $53,189, during the year ended February 28, 2013).

### *Market repurchases*

The Trust Agreement provides that the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Class A Units for cancellation subject to applicable law and stock exchange requirements, based on the Manager's assessment that such purchases are accretive to Unitholders, in all cases at a price per Class A Unit not exceeding the most recently calculated Net Asset Value per Class A Unit immediately prior to the date of any such purchase of Units.

The Fund did not purchase any Class A Units for cancellation during the years ended February 28, 2014 and 2013.

## Distributions

The Fund does not have fixed distributions but initially paid quarterly distributions at $0.1875 per Class A Unit and Class F Unit respectively for total annual distributions of $0.75 per Unit representing a return of 7.5% per annum on the Unit issue price.

The Fund made all its scheduled quarterly distributions of $0.1875 per Class A and Class F Unit respectively during the year ended February 28, 2014 and February 28, 2013. The total distributions paid during the year ended February 28, 2014 were $0.75 per Class A Unit and $0.75 per Class F Unit. ($0.8668 per Class A Unit and $0.8668 per Class F Unit during the year ended February 28, 2013).

# Related Party Transactions

## *Management Fees*

As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Fund, the Manager is entitled to an annual management fee in an amount equal to 0.65% per annum of the Net Asset Value of the Fund to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Fund during the year ended February 28, 2014 were $594,803 plus applicable taxes ($517,047 plus applicable taxes during the year ended February 28, 2013).

## *Service Fees*

The Fund pays to the Manager a service fee which is payable to dealers whose clients hold Class A Units of the Fund. The service fee is calculated and paid at the end of each calendar quarter in arrears and is equal to 0.40% per annum of the Net Asset Value of the Class A Units. No service fee is payable in respect of the Class F Units.

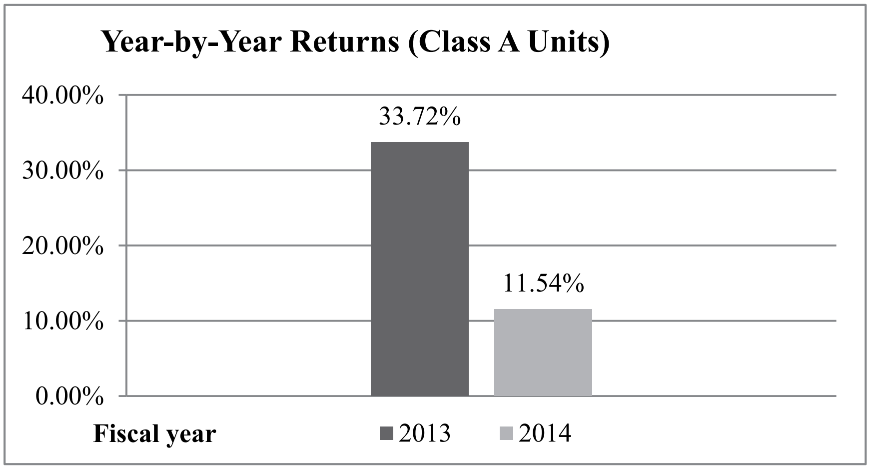
The service fees charged to the Fund during the year ended February 28, 2014 were $358,400 ($315,370 during the year ended February 28, 2013).

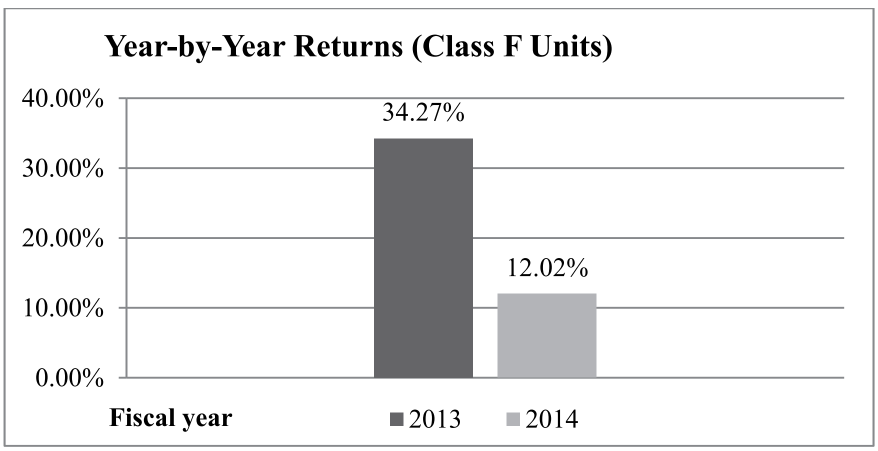
# Recommendations or Reports by the Independent Review Committee

The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Fund during the year ended February 28, 2014.

## Past Performance

The following bar charts and table shows the Fund's annual performance of the Class A Units and Class F Units by showing both annual returns by fiscal year and annualized compound returns from inception assuming all the distributions made by the Fund during the year shown were reinvested. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. The bar charts show, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period. Past performance is not necessarily indicative of future performance.




### *Annual Compound Returns*

| | Past Year | Since Inception [(1)] |
|---|---|---|
| Based on NAV (Class A Units) | 11.54% | 16.37% |
| Based on share price (Class A Units) | 13.68% | 13.50% |
| Based on NAV (Class F Units) | 12.02% | 16.90% |
| S&P/ASX 200 Banks Index | 10.32% | 21.07% |

(1) Annualized for the period from March 18, 2011 (commencement of operations) to February 28, 2014.

The Fund's performance will differ from the S&P/ASX 200 Banks Index, in part due to the different composition of the index (which include strategy regional banks not included in the Fund's portfolio and does not include Macquarie Group which is included in the Fund's portfolio). The Fund's performance will also differ due to the Fund's covered call writing program.

# Financial Highlights

The following tables show selected key financial information about the Fund and are intended to aid in understanding the Fund's financial performance since inception. This information is derived from the Fund's audited annual financial statements:

## *Class A Units:*

The Fund's Net Assets per Class A Unit:

| | February 28, 2014 | February 28, 2013 | February 29, 2012 (1) |
|---|---|---|---|
| **Net Assets, beginning of period** | **11.26** | **9.21** | **10.00** |
| **Unit issue expense** (2) | – | – | **(0.59)** |
| **Increase (decrease) from operations:** | | | |
| Total revenues | 0.58 | 0.60 | 0.60 |
| Total expenses | (0.19) | (0.16) | (0.15) |
| Realized gains (losses) for the period | 1.39 | 0.92 | (0.04) |
| Unrealized gains (losses) for the period | (0.48) | 1.51 | (0.02) |
| **Total increase (decrease) from operations** (3) | **1.30** | **2.87** | **0.39** |
| **Distributions:** | | | |
| From income | (0.68) | (0.19) | (0.38) |
| From dividends | – | – | – |
| From capital gains | (0.01) | (0.67) | (0.21) |
| Return of capital | (0.06) | – | – |
| **Total Distributions** (4) | **(0.75)** | **(0.86)** | **(0.59)** |
| **Net Assets, end of period** (5) | **11.72** | **11.26** | **9.12** |

(1) Results for the period from March 18, 2011 (commencement of operations) to February 29, 2012.
(2) Issue expenses of $4,948,522 incurred in connection with the Class A Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes.
(3) 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 8,157,187 units outstanding as of February 28, 2014 (February 28, 2013 – 8,285,676 units).
(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.
(5) This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class A Units):

| | February 28, 2014 | February 28, 2013 | February 29, 2012 (1) |
|---|---|---|---|
| Net asset value (000's) | 89,769 | 91,136 | 77,656 |
| Number of units outstanding | 7,658,566 | 8,094,863 | 8,419,502 |
| Base Management expense ratio (annualized) (2) (3) | 1.55% | 1.41% | 1.41% |
| Issue expenses ratio (2) (3) | 0.00% | 0.00% | 6.50% |
| Management expense ratio (annualized) (3) | 1.55% | 1.41% | 7.91% |
| Management expense ratio before waivers or absorptions (annualized) (3) | 1.55% | 1.41% | 7.91% |
| Portfolio turnover rate (4) | 184.96% | 228.55% | 90.16% |
| Trading expense ratio (5) | 0.17% | 0.32% | 0.31% |
| Net asset value per unit (6) | 11.72 | 11.26 | 9.22 |
| Closing market price (TSX) | 11.44 | 10.80 | 9.12 |

(1) Results for the period from March 18, 2011 (commencement of operations) to February 29, 2012.
(2) A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all Agents' fees and unit issue expenses.
(3) Management expense ratio is based on total expenses for the stated period excluding trading commissions and is expressed as an annualized percentage of daily average net assets during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, are not annualized.
(4) The Fund's turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.
(5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.
(6) The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio, whereas the net assets per unit (GAAP Net Assets) is based on the closing bid prices of the underlying portfolio; hence the difference between the two amounts.

## *Class F Units:*

## *The Fund's Net Assets per Class F Unit:*

| | February 28, 2014 | February 28, 2013 | February 29, 2012 [(1)] |
|---|---|---|---|
| **Net Assets, beginning of period** | **11.78** | **9.58** | **10.00** |
| **Unit issue expense** [(2)] | – | – | (0.30) |
| **Increase (decrease) from operations:** | | | |
| Total revenues | 0.61 | 0.63 | 0.65 |
| Total expenses | (0.16) | (0.13) | (0.12) |
| Realized gains (losses) for the period | 1.46 | 0.95 | (0.05) |
| Unrealized gains (losses) for the period | (0.36) | 1.41 | (0.02) |
| **Total increase (decrease) from operations** [(3)] | **1.55** | **2.86** | **0.46** |
| **Distributions:** | | | |
| From income | (0.68) | (0.20) | (0.38) |
| From dividends | – | – | – |
| From capital gains | (0.01) | (0.68) | (0.21) |
| Return of capital | (0.06) | – | – |
| **Total Distributions** [(4)] | **(0.75)** | **(0.88)** | **(0.59)** |
| **Net Assets, end of period** [(5)] | **12.36** | **11.78** | **9.58** |

(1) Results for the period from March 18, 2011 (commencement of operations) to February 29, 2012.

(2) Issue expenses of $47,784 incurred in connection with the Class F Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes.

(3) 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 127,480 units outstanding as of February 28, 2014 (February 28, 2013 – 139,317 units).

(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.

(5) This is not a reconciliation between the opening and the closing net assets per unit.

## *Ratios and Supplemental Data (Class F Units):*

| | February 28, 2014 | February 28, 2013 | February 29, 2012 [(1)] |
|---|---|---|---|
| Net asset value (000's) | 1,422 | 1,423 | 1,511 |
| Number of units outstanding | 115,014 | 120,800 | 157,600 |
| Base Management expense ratio (annualized) [(2) (3)] | 1.18% | 1.01% | 1.02% |
| Issue expenses ratio [(2) (3)] | 0.00% | 0.00% | 3.19% |
| Management expense ratio (annualized) [(3)] | 1.18% | 1.01% | 4.21% |
| Management expense ratio before waivers or absorptions (annualized) [(3)] | 1.18% | 1.01% | 4.21% |
| Portfolio turnover rate [(4)] | 184.96% | 228.55% | 90.16% |
| Trading expense ratio [(5)] | 0.17% | 0.32% | 0.31% |
| Net asset value per unit [(6)] | 12.36 | 11.78 | 9.59 |

(1) Results for the period from March 18, 2011 (commencement of operations) to February 29, 2012.

(2) A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all Agents' fees and unit issue expenses.

(3) Management expense ratio is based on total expenses for the stated period excluding trading commissions and is expressed as an annualized percentage of daily average net assets during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, are not annualized.

(4) The Fund's turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

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

(6) The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio, whereas the net assets per unit (GAAP Net Assets) is based on the closing bid prices of the underlying portfolio; hence the difference between the two amounts.

## Summary of Investment Portfolio as of February 28, 2014

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available at www.astonhill.ca and www.sedar.com.

| Portfolio by Category | Market Value $ | % of NAV |
|---|---|---|
| Financials | 71,493,171 | 78.4% |
| Cash | 2,323,511 | 2.5% |
| Other assets net of other liabilities (1) | 17,374,513 | 19.1% |
| | | |
| **Top 25 Holdings (2)** | | |
| Macquarie Group Limited | 17,789,263 | 19.5% |
| Westpac Banking Corporation | 13,858,058 | 15.2% |
| Australia and New Zealand Banking Corporation | 13,340,458 | 14.6% |
| Commonwealth Bank of Australia | 13,268,452 | 14.6% |
| National Australia Bank Limited | 13,236,940 | 14.5% |
| Cash | 2,323,511 | 2.5% |
| | | |
| **Net asset value (NAV)** | **91,191,195** | |

(1) Includes $17,087,963 receivable from investments sold.
(2) There are less than 25 holdings in the Fund.

# Management's Responsibility for Financial Reporting

The accompanying financial statements of **Australian Banc Income Fund** (the "Fund") and all of the information therein have been prepared by Aston Hill Capital Markets Inc. in its capacity as Manager of the Fund and have been approved by the Board of Directors of the Manager. The Fund's Manager is responsible for all of the information and representations contained in these financial statements and other sections of the annual report. Management maintains appropriate process to ensure that relevant and reliable financial information is produced.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements are not precise since they include certain amounts based on estimates and judgements. The Manager has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP on behalf of the Unitholders. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the financial statements. Their report is contained within.

W. Neil Murdoch
President and Chief Executive Officer
Aston Hill Capital Markets Inc.

Darren N. Cabral
Vice President and Chief Financial Officer
Aston Hill Capital Markets Inc.

Toronto, Canada
May 29, 2014

pwc

May 29, 2014

## Independent Auditor's Report

### To the Unitholders of Australian Banc Income Fund (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investments as at February 28, 2014, the statements of net assets as at February 28, 2014 and February 28, 2013, and the statements of operations, and changes in net assets, retained earnings (deficit) and contributed surplus for the years ended February 28, 2014 and February 28, 2013, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

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

**Auditor's responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at February 28, 2014 and February 28, 2013 and the results of its operations and the changes in its net assets, retained earnings (deficit) and contributed surplus for the years ended February 28, 2014 and February 28, 2013 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

**Chartered Professional Accountants, Licensed Public Accountants**

*PricewaterhouseCoopers LLP*
*PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2*
*T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca*

# Australian Banc Income Fund

Statements of Net Assets

**As at February 28, 2014 and 2013**

| | 2014 | 2013 |
|---|---|---|
| | **$** | **$** |
| **Assets** | | |
| Cash | 2,323,511 | 21,791,982 |
| Investments at fair value (cost - $62,925,309; 2013 - $79,449,628) | 71,478,557 | 92,075,618 |
| Dividends receivable | 433,625 | 442,309 |
| Receivable from investments sold | 17,087,963 | 454,539 |
| Prepaid expenses | - | 684 |
| | 91,323,656 | 114,765,132 |
| **Liabilities** | | |
| Payable for investment purchases | - | 21,482,546 |
| Written options at fair value | - | 570,450 |
| Accounts payable and accrued liabilities | 125,364 | 119,010 |
| Management fees payable | 21,711 | 39,690 |
| | 147,075 | 22,211,696 |
| **Net Assets and Unitholders' Equity** | 91,176,581 | 92,553,436 |
| **Net Assets** | | |
| **Class A Units** | 89,755,090 | 91,130,178 |
| **Class F Units** | 1,421,491 | 1,423,258 |
| | 91,176,581 | 92,553,436 |
| **Units issued and outstanding** (note 5) | | |
| **Class A Units** | 7,658,566 | 8,094,863 |
| **Class F Units** | 115,014 | 120,800 |
| **Net assets per unit** | | |
| **Class A Units** | 11.72 | 11.26 |
| **Class F Units** | 12.36 | 11.78 |
| **Unitholders' Equity** (note 5) | | |
| Unit capital | 75,662,763 | 80,356,494 |
| Contributed surplus | - | 176,581 |
| Retained earnings (Deficit) | 15,513,818 | 12,020,361 |
| **Total Unitholders' Equity** | 91,176,581 | 92,553,436 |

**Approved by the Manager**
**Aston Hill Capital Markets Inc.**

**Director** **Director**

(See accompanying notes to financial statements)

## Australian Banc Income Fund

Statements of Operations

**For the years ended February 28, 2014 and 2013**

| | 2014 | 2013 |
|---|---|---|
| | $ | $ |
| **Income** | | |
| Dividends (net of withholding taxes of $1,864,035; 2013 - $1,564,091) | 4,749,179 | 5,027,876 |
| Interest | 42,012 | 39,778 |
| | 4,791,191 | 5,067,654 |
| **Expenses** | | |
| Management fees (note 9) | 594,803 | 517,047 |
| Service fees (note 7) | 358,400 | 315,370 |
| Forward fees (note 14) | 200,000 | - |
| Transaction costs (note 11) | 150,966 | 252,596 |
| Custodial and other unitholders' fees | 57,929 | 85,528 |
| Harmonized sales tax | 39,495 | 75,490 |
| Legal fees | 33,110 | 3,793 |
| Audit fees | 26,640 | 36,389 |
| Administration fees | 24,880 | 22,189 |
| TSX Listing fees | 19,409 | 13,680 |
| Filing fees | 17,707 | 11,680 |
| Other fees | 16,237 | 11,296 |
| Transfer agent fees | 10,993 | 15,499 |
| Printing fees | 2,819 | 6,257 |
| Independent Review Committee fees | 2,210 | 2,924 |
| Interest expense | 615 | 286 |
| | 1,556,213 | 1,370,024 |
| **Net Investment income** | 3,234,978 | 3,697,630 |
| **Net realized gain (loss) on investments** | | |
| Net realized gain (loss) on investments | 7,413,857 | 4,050,055 |
| Net realized gain (loss) on foreign exchange | (953,858) | 94,603 |
| Net realized gain (loss) on forward agreement (note 14) | 3,224,898 | - |
| Net realized gain (loss) on written options | 1,847,796 | 3,570,774 |
| | 11,532,693 | 7,715,432 |
| **Unrealized gain (loss) on investments** | | |
| Change in unrealized gain (loss) on investments | (4,072,742) | 12,773,705 |
| Change in unrealized gain (loss) on foreign exchange | (18,180) | 74,354 |
| Change in unrealized gain (loss) on written options | 92,998 | (93,988) |
| | (3,997,924) | 12,754,071 |
| **Net gain (loss) on investments** | 7,534,769 | 20,469,503 |
| **Increase (decrease) in net assets from operations** | 10,769,747 | 24,167,133 |
| **Increase (decrease) in net assets from operations for** | | |
| Class A Units | 10,572,417 | 23,768,193 |
| Class F Units | 197,330 | 398,940 |
| **Increase (decrease) in net assets from operations per unit *** | | |
| Class A Units | 1.30 | 2.87 |
| Class F Units | 1.55 | 2.86 |

* (Based on average number of units outstanding during the year)

(See accompanying notes to financial statements)

## Australian Banc Income Fund

Statements of Changes in Net Assets, Retained Earnings (Deficit) and Contributed Surplus

**For the years ended February 28, 2014 and 2013**

| | Class A | | Class F | | Total | |
|---|---|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| **Increase (decrease) in net assets from operations** | 10,572,417 | 23,768,193 | 197,330 | 398,940 | 10,769,747 | 24,167,133 |
| **Distributions to unitholders from:** (note 8) | | | | | | |
| Income | (5,757,166) | (1,613,123) | (90,191) | (27,319) | (5,847,357) | (1,640,442) |
| Capital gains | (62,085) | (5,590,814) | (973) | (94,683) | (63,058) | (5,685,497) |
| Return of capital | (473,192) | (720) | (7,413) | (12) | (480,605) | (732) |
| | (6,292,443) | (7,204,657) | (98,577) | (122,014) | (6,391,020) | (7,326,671) |
| **Unitholders' transactions:** | | | | | | |
| Issuance of units on merger (note 5) | 7,953,862 | - | 322,000 | - | 8,275,862 | - |
| Class F units converted to Class A (note 5) | 301,455 | 310,091 | (301,455) | (310,091) | - | - |
| Payment on redemption / cancellation of units (notes 4 & 5) | (13,910,379) | (3,320,157) | (121,065) | (53,189) | (14,031,444) | (3,373,346) |
| | (5,655,062) | (3,010,066) | (100,520) | (363,280) | (5,755,582) | (3,373,346) |
| **Change in net assets during the year** | (1,375,088) | 13,553,470 | (1,767) | (86,354) | (1,376,855) | 13,467,116 |
| **Net assets - Beginning of year** | 91,130,178 | 77,576,708 | 1,423,258 | 1,509,612 | 92,553,436 | 79,086,320 |
| **Net assets - End of year** | 89,755,090 | 91,130,178 | 1,421,491 | 1,423,258 | 91,176,581 | 92,553,436 |
| **Retained Earnings (Deficit), beginning of year** | 11,823,874 | (4,740,382) | 196,487 | (80,451) | 12,020,361 | (4,820,833) |
| Increase (decrease) in net assets from operations | 10,572,417 | 23,768,193 | 197,330 | 398,940 | 10,769,747 | 24,167,133 |
| Distributions to unitholders | (5,819,251) | (7,203,937) | (91,164) | (122,002) | (5,910,415) | (7,325,939) |
| Cost of shares repurchased in excess of original issue price | (1,355,421) | - | (10,454) | - | (1,365,875) | - |
| **Retained Earnings (Deficit), end of year** | 15,221,619 | 11,823,874 | 292,199 | 196,487 | 15,513,818 | 12,020,361 |
| **Contributed surplus, beginning of year** | 172,905 | - | 3,676 | 1,424 | 176,581 | 1,424 |
| Cost of shares redeemed/ repurchased at less than (in excess of) average price per unit | (172,905) | 172,905 | (3,676) | 2,252 | (176,581) | 175,157 |
| **Contributed surplus, end of year** | - | 172,905 | - | 3,676 | - | 176,581 |

(See accompanying notes to financial statements)

# Australian Banc Income Fund

Statement of Investments

**As at February 28, 2014**

| | Number of Shares/Units | Average Cost $ | Fair Value $ | % of NAV |
|---|---|---|---|---|
| **Investments** | | | | |
| **Common Stock (Australia)** | | | | |
| **Financials** | | | | |
| Macquarie Group Limited | 319,154 | 14,189,044 | 17,782,941 | 19.5% |
| Westpac Banking Corporation | 417,990 | 12,569,838 | 13,853,918 | 15.2% |
| Australia and New Zealand Banking Group | 419,029 | 12,084,230 | 13,336,306 | 14.6% |
| Commonwealth Bank of Australia | 179,412 | 12,521,656 | 13,268,452 | 14.6% |
| National Australia Bank Limited | 384,660 | 11,611,127 | 13,236,940 | 14.5% |
| **Total Common Stock** | | 62,975,895 | 71,478,557 | 78.4% |
| **Total investments (before transaction costs)** | | 62,975,895 | 71,478,557 | 78.4% |
| Transaction costs - Section 3855 adjustment (note 3) | | (50,586) | - | 0.0% |
| **Total investments** | | 62,925,309 | 71,478,557 | 78.4% |
| **Cash** | | | 2,323,511 | 2.5% |
| **Other assets net of other liabilities** | | | 17,374,513 | 19.1% |
| **Net assets** | | | 91,176,581 | 100.0% |

(See accompanying notes to financial statements)

## 1 Formation of Fund

Australian Banc Income Fund (the "Fund") is a close-ended investment trust established under the laws of the Province of Ontario and governed by the Trust Agreement dated February 24, 2011 (the "Trust Agreement") between Aston Hill Capital Markets Inc. (the "Manager") in its capacity as manager and RBC Investor & Treasury Services (formerly "RBC Dexia Investor Services Trust") (the "Trustee") as trustee and commenced operations on March 18, 2011. The fiscal year-end of the Fund is the last day of February. The Fund offers Class A Units and Class F Units. The Class A Units are listed on the Toronto Stock Exchange (the "TSX") under the symbol AUI.UN. The Class F Units are designed for fee-based accounts and are not listed on a stock exchange but may be converted into Class A Units on a weekly basis.

On June 11, 2013, Connor, Clark & Lunn Financial Opportunities Fund ("GFO") merged with the Fund (the "Merger"). The Fund was identified as the acquirer and the continuing fund. The objectives of the Merger were to provide GFO Unitholders with the opportunity to continue their investment in foreign financial services equities in a single fund that will have a larger market capitalization, increased liquidity for the units and a lower management expense ratio including lower management fees.

The Fund has a term of approximately ten years, terminating on or about March 31, 2021.

## 2 Investment objectives

The Fund was created to invest in a Portfolio of common shares of the five largest Australian banks: Australia and New Zealand Banking Group, Commonwealth Bank of Australia, Macquarie Group Limited, National Australia Bank Limited and Westpac Banking Corporation (the "Banks").

The Fund's investment objectives are to: (i) provide Unitholders with quarterly distributions; (ii) provide the opportunity for capital appreciation; and (iii) lower overall volatility of portfolio returns than would be experienced by owning common shares of the Australian banks directly.

The Manager may sell call options on approximately, and not more than, 25% of the common shares of each Bank held in the Portfolio. The Manager may decide, in its discretion, not to sell call options from time to time if it determines that market conditions render it impracticable to do so.

## 3 Summary of significant accounting policies

**Basis of presentation**

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of the significant accounting policies of the Fund.

**Valuation of investments**

Investments are deemed to be categorized as "held for trading" in accordance with CPA Canada 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore, are recorded at fair value, established by the closing bid price for a security on the recognized exchange on which it is principally traded ("GAAP Net Assets" or "net assets"). Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred. The Canadian Securities Administrators allow investment funds to calculate the daily net asset value for the purpose of processing Unitholder transactions using the last traded price for the day as fair value of financial instruments traded in an active market, which is referred to as a "Transactional NAV" or "NAV". The Fund processes Unitholder transactions using Transactional NAV.

There were no significant differences between the Transactional NAV and the GAAP Net Assets as at February 28, 2014 and 2013. On February 28, 2014, the GAAP Net Assets per Unit were $11.72 per Class A Units (2013 – $11.26) and $12.36 per Class F Units (2013 – $11.78).

**Cash and short-term investments**

Cash and short-term investments include cash and cash equivalents with maturities of less than 90 days from the date of acquisition.

**Income recognition**

Income from investments is recognized on an accrual basis. Dividend income is recognized at the time a security trades on an ex-dividend basis. Interest income is based on the number of days the investment is held during the period. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash and cash equivalents) are attributable to investments and derivatives which are deemed held for trading. Realized gains (losses) are recorded on the transaction date they are incurred.

**Foreign currency translation**

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the end of the year. Purchases and sales of investments and income and expenses are translated into Canadian dollars at the exchange rate prevailing on the transaction dates.

Realized foreign currency gains and losses on monetary assets and liabilities other than investments denominated in foreign currencies are included in the Statements of Operations in "Net realized gain (loss) on foreign exchange". Unrealized foreign currency gains and losses on monetary assets and liabilities other than investments denominated in foreign currencies are included in the Statements of Operations in "Change in unrealized gain (loss) on foreign exchange".

**Expense recognition**

Expenses that are directly attributable to the Fund are recorded on an accrual basis as incurred.

**Initial fees and expenses**

The issue expenses and agents' fees incurred in connection with the initial units issuance are deducted from the unit capital for accounting purposes.

**Designation of financial assets and liabilities**

For the purpose of measuring and recognizing assets and liabilities, the following designations have been made: All investments, including derivatives, if any, are initially recognized at fair value and are designated as held for trading. Accrued interest and dividends receivable, amounts receivable for capital shares sold and securities sold and other assets are designated as loans and receivables and reported at cost or amortized cost. Amounts payable for securities purchased and capital shares redeemed, other liabilities and accrued expenses are designated as other financials liabilities and reported at amortized cost.

**Written options contracts**

Written options contracts are valued at their ask prices at the close of each Valuation Date. If no ask prices are available then they are valued at their closing prices. The premium received on these written options is included in the cost of the options. The unrealized and realized gain or loss on the written options is reflected in the Statements of Operations.

**Related party transactions**

All related party transactions occur in the normal course of operations and are recorded at an amount of consideration agreed to by the parties.

**Increase (decrease) in net assets from operations per unit**

This calculation is based on the increase (decrease) in net assets from operations attributable to each class divided by the weighted average number of units of that class outstanding during the period.

**Valuation of a class and class allocations**

A separate net assets per unit is calculated for each class. The net assets of a class are computed by calculating the class' proportionate share of the assets and liabilities to all classes, less the liabilities attributable only to that class. Expenses directly attributable to a class are charged to that class. Other expenses, income, realized and unrealized gains and losses are allocated proportionately to each class based upon the relative net assets of each class.

**International Financial Reporting Standards (IFRS)**

For the Fund's fiscal years following March 1, 2014, the Fund will prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and provide comparative statements on an IFRS basis. The first IFRS financial statements for this Fund will be its interim financial statements for the period ending August 31, 2014, in accordance with IFRS.

The Manager has reviewed and developed its IFRS changeover plan that included performing an impact assessment and identifying differences between existing Canadian GAAP and IFRS. Management has monitored developments in IFRS and has assessed the likely impacts on accounting policies, implementation decisions, internal controls, information systems and training. Based on management's assessment to date, the more significant changes impacting the financial statements may be how the Fund measures fair values of its investments and the classification of net assets representing unitholders' equity. The Manager does not consider this to be comprehensive list of the accounting changes when the Fund adopts IFRS but in the view of the Manager represent the key differences.

Under Canadian GAAP, the Fund measures the fair values of its investments in accordance with the CPA Canada Handbook Section 3855, Financial Instruments – Recognition and Measurement. This section requires the use of bid prices for the long positions and asks prices for the short positions to the extent such prices are available. In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. The impact of this may result in the elimination of the differences between the transactional NAV and net assets at the financial statements reporting dates.

Under Canadian GAAP, the Funds are not required to provide a statement of cash flows. In addition to the financial statements currently presented for the Funds, a statement of cash flows will now be included in the financial statements in accordance with the requirements of IFRS, and prepared in accordance with IAS 7, Statement of Cash Flows.

The Fund's outstanding redeemable unit entitlement includes a contractual obligation to deliver cash or another financial asset on the Fund's fixed termination date, and therefore the ongoing redemption feature is not the units only contractual obligation. The liability method will be used to present the financial statements. The impact of the requirements of International Auditing Standards 32 - Financial Instruments Presentation is on classification only and does not impact net assets per unit.

Management will continue to monitor the Fund's IFRS changeover plan to address the key elements of the IFRS conversion.

## 4 Market Purchase Program

The Trust Agreement provides that the Fund may, in its sole discretion, from time to time, purchase (in the open market or by invitation for tenders) Class A Units for cancellation subject to applicable law and stock exchange requirements, based on the Manager's assessment that such purchases are accretive to Unitholders, in all cases at a price per Class A Unit not exceeding the most recently calculated NAV per Class A Unit immediately prior to the date of any such purchase of Units.

The Fund did not purchase any Class A Units for cancellation under the market purchase program during the years ended February 28, 2014 and 2013.

## 5 Units of the Fund

The beneficial interest in the net assets and net income of the Fund is divided into two classes of Units, Class A Units and Class F Units. The Fund is authorized to issue an unlimited number of Units of each class.

On March 18, 2011, the Fund completed an initial public offering pursuant to the Prospectus dated February 24, 2011. $80,000,000 was raised through the issue of 8,000,000 Class A Units and $1,603,000 was raised through the issue of 160,300 Class F Units. The Class A Units were issued at $10.00 per Unit and incurred Agents' fees and issue expenses of $4,728,283 or $0.59 per Unit. The Class F Units were issued at $10.00 per Unit and incurred Agents' fees and issue expenses of $47,784 or $0.30 per Unit.

On April 5, 2011, the Agents exercised an over-allotment option in respect of 419,502 Class A Units, raising a further $4,195,020. Agents' fees were $220,239 or $0.53 per Unit.

On June 11, 2013, following the Merger mentioned in Note 1, the Fund issued 800,969 Class A Units with an aggregated value of $7,953,862 and 30,914 Class F Units with an aggregated value of $322,000, representing the Unitholders of the GFO that accepted the merger proposal. Pursuant to the Merger, each holder of Class A Units of GFO automatically received approximately 0.557596 Class A Units of the Fund for each GFO Class A Unit held and each holder of Class F Units of GFO automatically received approximately 0.550557 Class F Units of the Fund for each GFO Class F Unit held.

The Class A Units and Class F Units may be redeemed on an Annual Redemption Date, which is the second last Business Day of September of each year, subject to certain conditions and in order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the last Business Day of August in the year of redemption. Unitholders whose Units are redeemed on an Annual Redemption Date will receive a redemption price in an amount equal to 100% of the Annual Redemption Price, which is the redemption price per Unit equal to 100% of the NAV per Unit of the relevant class, less any costs associated with the redemption, including brokerage costs and any net realized capital gains or income to the Fund that are distributed to a Unitholder concurrently with the proceeds of disposition on redemption.

In addition to the annual redemption right, the Class A Units and Class F Units may also be redeemed on a Monthly Redemption Date, which is the second last Business Day of each month other than the month of September, subject to certain conditions and in order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the last Business Day of the month preceding the Monthly Redemption Date. Unitholders surrendering a Class A Unit for redemption will receive a redemption price equal to the lesser of (i) 95% of the Market Price of a Class A Unit, which is the weighted average trading price on the TSX (or such other stock exchange on which such security is listed), for the 10 trading days immediately preceding such Monthly Redemption Date and (ii) 100% of the Closing Market Price of a Class A Unit on the applicable Monthly Redemption Date, which is the closing price of such security on the TSX on such Monthly Redemption Date (or such other stock exchange on which such security is listed) or, if there was no trade on the relevant Monthly Redemption date, the average of the last bid and the last asking prices of the security on the TSX on such Monthly Redemption Date (or such other stock exchange on which the security is listed), less in each case, any costs associated with the redemption, including brokerage costs and less any net realized capital gains or income of the Fund that are distributed to a Unitholder concurrently with the proceeds of disposition on redemption, being the Monthly Redemption Amount. Unitholders surrendering a Class F Unit for redemption will receive an amount equal to the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated NAV per Unit of a Class F Unit and the denominator of which is the most recently calculated NAV per Unit of a Class A Unit.

The Class F Units may be converted into Class A Units on a weekly basis. A holder of Class F Units may convert such Class F Units into Class A Units from time to time and it is expected that liquidity for the Class F Units will be obtained primarily by means of conversion into Class A Units. The Class F Units may be converted in any week on the first Business Day of such week by delivering a notice and surrendering such Class F Units by 3:00 p.m. (Toronto time) at least five Business Days prior to the applicable Conversion Date. For each Class F Unit so converted, a holder will receive that number of Class A Units equal to the NAV per Class F Unit as of the close of trading on the Business Day immediately preceding the Conversion Date divided by the NAV per Class A Unit as of the close of trading on the Business Day immediately preceding the Conversion Date. No fraction of a Class A Unit will be issued upon any conversion of Class F Units.

During the year ended February 28, 2014, there were 26,200 Class F Units converted to 27,542 Class A Units for a total value of $301,455 (31,300 Class F Units were converted to 32,636 Class A Units for a total value of $310,091, during the year ended February 28, 2013). During the same period, there were also 1,264,808 Class A Units redeemed for net payment of $13,910,379 and 10,500 Class F Units redeemed for net payment of $121,065 (357,275 Class A Units were redeemed for net payment of $3,320,157 and 5,500 Class F Units were redeemed for net payment of $53,189, during the year ended February 28, 2013).

Changes in outstanding units during the years ended February 28, 2014 and 2013 are summarized as follows:

| | **Class A Units** | | **Class F Units** | |
|---|---|---|---|---|
| | **February 28, 2014** | **February 28, 2013** | **February 28, 2014** | **February 28, 2013** |
| Balance – beginning of year | 8,094,863 | 8,419,502 | 120,800 | 157,600 |
| Units issued from merger | 800,969 | – | 30,914 | – |
| Class F Units converted to Class A Units | 27,542 | 32,636 | (26,200) | (31,300) |
| Units redeemed | (1,264,808) | (357,275) | (10,500) | (5,500) |
| Balance – end of year | 7,658,566 | 8,094,863 | 115,014 | 120,800 |

The Unit Capital dollar amount represents the face value of the Fund's units minus any return on capital distributions and issue costs paid since March 18, 2011 (commencement of operations) to February 28, 2014. If the redemption price is lower than the average cost per unit, the difference is included in Contributed Surplus on the Statements of Net Assets. If the redemption price is greater than the average cost per unit, the difference is first charged to Contributed Surplus until the balance in Contributed Surplus is eliminated and the remaining amount is charged to Retained Earnings (Deficit).

The Fund considers capital to include all units issued and outstanding. The Fund manages its capital in accordance with the objectives outlined in note 2.

## 6 Fund Administration

Pursuant to a Trust Agreement (the "Trust Agreement"), the Fund has retained RBC Investor & Treasury Services (formerly "RBC Dexia Investor Services Trust") to also act as custodian (the "Custodian") of the assets of the Fund. The Custodian also carries out certain aspects of the day-to-day administration of the Fund, including calculating Transactional NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. The Custodian is rated AA- by Standard & Poor's ("S&P") as at February 28, 2014 and February 28, 2013.

## 7 Service Fees

The Fund pays a service fee to dealers whose clients hold Class A Units in the Fund. The service fee is calculated and payable each calendar quarter in arrears and is equal to 0.40% annually of the NAV of the Class A Units held by clients of the dealers. The total service fees charged to the Fund during the year ended February 28, 2014 were $358,400 ($315,370 during the year ended February 28, 2013).

## 8 Distributions

The Fund does not have fixed distributions but initially pays quarterly distributions at $0.1875 per Class A Unit and Class F Unit respectively, for total annual distributions of $0.75 per Unit representing a return of 7.5% per annum on the Unit issue price.

The Fund made all its scheduled quarterly distributions of $0.1875 per Class A and Class F Unit respectively during the years ended February 28, 2014 and 2013. The total distributions paid during the year ended February 28, 2014 were $0.75 per Class A Unit and $0.75 per Class F Unit. ($0.8668 per Class A Unit and $0.8668 per Class F Unit during the year ended February 28, 2013).

## 9 Management fees

Pursuant to a Trust Agreement, the Fund retained Aston Hill Capital Markets Inc. to act as manager (the "Manager"). As compensation for coordinating the organization of and managing the ongoing business and administrative affairs of the Fund, the Manager is entitled to an annual management fee in an amount equal to 0.65% per annum of the NAV of the Fund to be calculated and payable monthly in arrears, plus applicable taxes.

The total management fees charged to the Fund during the year ended February 28, 2014 were $594,803 plus applicable taxes ($517,047 plus applicable taxes during the year ended February 28, 2013).

## 10 Income taxes

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and accordingly, is subject to tax on its investment income, including net realized capital gains, for any calendar year in which its net investment income or sufficient net realized capital gains are not paid or payable to its Unitholders as at the end of the calendar year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains will be distributed to Unitholders on a calendar year basis such that Canadian income taxes payable by the Fund will be minimized. As a result thereof and of the deduction of expenses in computing its taxable income, no provisions for income taxes are made in the financial statements.

The Fund did not have any net taxable capital losses or non-capital losses carry forward balances as at tax year ends December 31, 2013 and 2012.

## 11 Broker commission charges and soft dollar services

There were $150,966 broker commissions paid during the year ended February 28, 2014 in connection with portfolio transactions ($252,596 during the year ended February 28, 2013). No soft dollar services were included in the broker commission charges.

## 12 Financial instruments

For the purposes of categorization in accordance with CPA Canada Section 3862, Financial Instruments - Disclosures, cash is reported at fair value, while prepaid expenses and dividends receivable are deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities and management fees payable are deemed to be financial liabilities and reported at amortized cost.

The following tables illustrate the classification of the Fund's financial instruments within the fair value hierarchy as at February 28, 2014 and February 28, 2013.

| **Assets at fair value as at February 28, 2014** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Equities** | 71,478,557 | – | – | 71,478,557 |
| **Total** | **71,478,557** | – | – | **71,478,557** |

| **Assets at fair value as at February 28, 2013** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Equities** | 92,075,618 | – | – | 92,075,618 |
| **Total** | **92,075,618** | – | – | **92,075,618** |

| **Liabilities at fair value as at February 28, 2013** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **Written options** | 570,450 | – | – | 570,450 |
| **Total** | **570,450** | – | – | **570,450** |

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

*Equities and written options:* The Fund's long equity and written option positions are classified as Level 1 as all these securities are actively traded and a reliable quote is observable.

There were no transfers among the three levels during the years ended February 28, 2014 and 2013.

## 13 Financial instrument risk

The Fund's activities expose it to a variety of financial risks. The Fund's Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional, experienced portfolio advisors, by daily monitoring of the Fund's positions and market events and periodically through the use of derivatives to hedge certain risk exposures.

**Currency risk**

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's functional currency. The Fund is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates.

The Fund's portfolio is denominated in Australian dollars. The Fund's Prospectus, dated February 24, 2011, stipulates that the Manager will take currency exposure into account in managing the Portfolio and may hedge, from time to time, all or any portion of the value of the portfolio back to the Canadian dollar. Although the Manager does not expect to hedge any amounts in respect of Australian dollars, the Manager may utilize a hedging strategy from time to time in respect of Australian dollars when it considers it appropriate to do so. If a hedging strategy was applied, the Fund intends to use derivative instruments for currency hedging purposes only.

The tables below summarize the Fund's exposure to foreign currencies as at February 28, 2014 and 2013. Amounts shown are based on the carrying values of monetary and non-monetary assets as well as the underlying principal amounts of foreign currency derivatives such as forward contracts. The tables below summarize the Fund's exposure to foreign currencies and the approximate impact on net assets had the Canadian dollar ("CAD") weakened by 5% in relation to these currencies. If the Canadian dollar were to strengthen relative to these currencies, the opposite would occur. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

***As at February 28, 2014:***

| | Monetary instruments $ | Non-monetary instruments $ | Derivative instruments $ | Net Exposure $ | % of Net Assets | Sensitivity (based on devaluation of CAD) $ |
|---|---|---|---|---|---|---|
| Australian dollar | 19,774,978 | 71,478,557 | – | 91,253,535 | 100.1% | 4,563,000 |

***As at February 28, 2013:***

| | Monetary instruments $ | Non-monetary instruments $ | Derivative instruments $ | Net Exposure $ | % of Net Assets | Sensitivity (based on devaluation of CAD) $ |
|---|---|---|---|---|---|---|
| Australian dollar | 1,161,650 | 91,505,168 | – | 92,666,818 | 100.1% | 4,633,000 |

**Other market risk**

Other market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Fund's Manager moderates this risk through writing at-the-money covered call options on approximately and not more than, 25% of the five securities held in its portfolio. Except for written options, the maximum risk resulting from financial instruments is equivalent to their fair value. Possible losses from written options can be unlimited. The Fund's equity instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

If equity prices had increased or decreased by 10% on February 28, 2014, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately $7,148,000 and $7,148,000 (February 28, 2013 – $6,906,000 and $8,637,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

**Credit risk**

Credit risk is the risk that the Fund is exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer.

The Fund was exposed to the credit risk of the Custodian, whose S&P credit rating was AA- as at February 28, 2014 and 2013.

**Interest rate risk**

Interest rate risk is the risk that the fair value of the Fund's interest-bearing investments will fluctuate due to changes in prevailing levels of market interest rates. Other assets and liabilities are short-term in nature and non-interest bearing. As at February 28, 2014 and 2013, interest rate risk was negligible as the Fund had no exposure to interest-bearing investments.

**Liquidity risk**

Liquidity risk is the risk of not being able to meet the Fund's cash requirements in a timely manner and includes the risk of not being able to liquidate assets at reasonable prices. The Fund is also exposed to unlimited annual anniversary redemptions on September 30 of every year and monthly redemptions (see note 5); therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed. In addition, the Fund retains sufficient cash and/or cash equivalent positions to meet its daily cash requirements.

All liabilities are due within three months.

**Concentration Risk**

The Portfolio is comprised of common shares issued by the five largest Australian banks. Accordingly, the performance of the Fund is largely impacted by the performance of such Banks and the prices at which the portfolio trades in the market, all of which are in turn, impacted by the Australian banking sector and the Australian economy in general. Factors unique to each Bank, such as changes in their management, strategic direction, achievement of goals, mergers, acquisitions and divestitures, changes in distribution policies and other events, may affect the value of the common shares and other securities in the Portfolio. Any adverse changes to the Australian banking sector or economy will have a material adverse impact on the portfolio and the return to Unitholders.

## 14 Share Forward Agreement

On June 17, 2013, the Fund entered into a Share Forward Agreement (the "Forward Agreement") with the Bank of Nova Scotia (the "Counterparty" or "BNS") whose S&P credit rating was A+ as of February 28, 2014. The Forward Agreement had a 60 day term which expired on August 19, 2013 and was entered into for portfolio management and tax purposes. The realized gain associated with this transaction was $3,224,898 and the fees were $200,000. There were no similar agreements held at year ended February 28, 2014.