BAB Trust

Semi-Annual Report
March 31, 2014

Management Report of Fund Performance

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

You can obtain a copy of the semi-annual financial statements at no cost by writing to Aston Hill Capital Markets Inc. (the "Manager") to the following address: Aston Hill Capital Markets Inc., 77 King Street West, Suite 2110, PO Box 92, 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.

Securityholders 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 Strategy

The Fund is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement (the "Trust Agreement") between the Manager of the Fund and RBC Investor & Treasury Services (formerly "RBC Dexia Investor Services Trust") (the "Trustee") dated January 28, 2010. The Fund's principal office is located at 77 King Street West, Suite 2110, Toronto, Ontario, M5K 1G8. The fiscal year-end of the Fund is September 30. The Fund has one class of Units.

The Fund's investment objectives are to:

(i) provide the Unitholder with distributions; and

(ii) maximize total return for the Unitholder, while seeking to reduce risk.

In order to achieve the Fund's investment objectives, Nuveen Asset Management (the "Sub-Advisor"), the Fund's Sub-Advisor, actively manages its Portfolio. The Portfolio includes a minimum of 80% Build America Bonds (measured at the time of purchase), with the remainder of the Portfolio, if any, to be comprised of other Permissible Securities ("Permissible Securities" means U.S. Treasury Securities, U.S. Government Agency Securities, other Investment Grade (measured at time of purchase) municipal obligations and cash and cash equivalents). The Fund may also use derivatives for hedging purposes only.

Build America Bonds are bonds issued by U.S. state and local governments to finance capital projects that meet essential needs such as public schools, roads, water and transportation infrastructure, bridges, ports and public buildings, among others, pursuant to the American Recovery and Reinvestment Act of 2009 or other related, similar or successor legislation. Many Build America Bonds are general obligation bonds, which are backed by the full faith and taxing power of the governments issuing them. Most issuers of Build America Bonds receive a subsidy from the U.S. federal government equal to 35% of the interest paid to investors, which allows such issuers to issue bonds that pay interest rates that are competitive with the rates typically paid by private bond issuers. This form of government bond, with the credit going to the issuer, makes the bonds attractive to entities that pay no U.S. income tax, such as pension plans and non-U.S. investors, as well as to investors seeking potential high rates of interest income.

Risk

There were no changes in the risk exposure of the Fund for the period six month period ended March 31, 2014.

For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated January 28, 2010 or to the Fund's most recent Annual Information Form. Both are available at www.sedar.com.

Recent Developments

International Financial Reporting Standards

For the Fund's fiscal years following April 1, 2014, the Fund will prepare its annual 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 Fund will also report its interim financial statements for the period ending September 30, 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.

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 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.

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 Portfolio Manager regarding factors that might be reasonably expected to affect the performance and the distribution on units of the Fund and are based on information available at the time of writing. The Portfolio 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.

The Sub-Advisor's Commentary (April 2014)

Economy and Inflation

After the unusually harsh winter, the economy seems poised to strengthen. Among the encouraging signs are:

- Nonfarm payrolls expanded at a healthy pace in the last two months, with the number of workers increasing by 197,000 in February, and by 192,000 in March. The Household report was even more robust, indicating that employment had increased by 476,000 in March. The lengthening of the average workweek from 34.3 to 34.5 hours adds to the potential growth in gross domestic product.

- The Institute for Supply Management's index of manufacturing activity rose from 53.2 in February to 53.7 in March (where values above 50 indicate growth). Manufacturing production had already climbed by 0.9% in February.

- Retail sales rose by 0.3% in February, and by 1.5% from February 2013.

- The housing market has remained solid as the number of permits increased from 945,000 in January to 1.014 million in February even though prices were up by 13.3% year-over-year through January according to the Case-Shiller Index of 20 cities.

- Inflation still does not appear to pose a problem for the economy. The consumer price index rose in February by just 0.1% (seasonally-adjusted), which produced a year-over-year increase of 1.1%. Prices apart from food and energy likewise inched up by 0.1% in February, which resulted in modest 1.6% year-over-year gain. The prices index of the ISM manufacturing survey drifted down from 60.0 in February to 59.0 in March. Average hourly earnings have also been restrained, having increased by 2.1% during the year ended in March. Long-term inflation expectations remain subdued. From the end of December to the end of March, the spread between 10-year Treasuries and 10-year inflation-indexed securities dropped from 2.3% to 2.1%, while the 5-year spread increased from 2.1% to 2.2%, which means that the expectation for the annual inflation rate over the five year period beginning five years from now fell from 2.4% to 2.1%.

Interest Rates

During the first quarter, the yield curve steepened between 1 and 3 years, but flattened between 3 and 28 years as 1-year yields slipped by -0.02%, 3-year yields rose by 0.19%, and yields fell on maturities of 7 years and longer. Yields dropped by -0.30% on 10-year bonds, by -0.47% on 20-year bonds, and by -0.56% on 30-year bonds. The rally and the flattening of the yield curve during the first quarter allowed longer maturity ranges to outperform shorter maturities consistently. Within the Standard & Poor's Municipal Bond Index, bonds with maturities of 2 to 4 years produced a total return of 0.40%, while maturities of 8 to 12 years returned 3.14%, and bonds due in 22 years and longer returned 6.26%. The average for all maturities was 3.53%.

After a period of underperformance, bonds rated BBB/Baa have managed to outperform higher rated bonds in each of the last three months. During the quarter, bonds rated BBB/Baa generated a total return of 5.60%, while bonds rated triple-A only returned 2.39%. Once again, the performance of the BBB/Baa rating category was heavily affected by the Puerto Rico bonds it contained. For the quarter as a whole the analysis is even more complicated because most of Puerto Rico's debt was downgraded to below investment grade during February. Consequently, while Puerto Rico accounted for 19.8% of all bonds rated BBB/Baa in February, the island's bonds only accounted for 6.2% of bonds rated BBB/Baa in March. Meanwhile, the percentage of bonds rated BB/Ba attributed to Puerto Rico jumped from 1.7% in February to 49.8% in March. For the quarter as a whole, Puerto Rico's debt constituted 15.9% of the BBB/Baa category, and 26.0% of the BB/Ba category. If Puerto Rico were excluded from the Index, the return of bonds rated BBB/Baa would have been 0.62% lower, and the return of bonds rated BB/Ba would have been 1.82% higher.

The markets have had to recalibrate their reactions to the signals from the Federal Reserve since Janet Yellen assumed her responsibilities as chairperson. The three key questions are: When will the Fed start raising the fed funds rate? How quickly will they raise the rate? And how high will it go? The answers will likely depend on when the economy is growing at its full potential, but that assessment is complicated by changes in the labor force. A study by the Philadelphia Fed estimates that much of the decline in the labor force participation rate since 2007 has been a consequence of retirements and disabilities, which is not likely to be reversed. Similarly, a study by the Congressional Budget Office projects that economic output in

2017 will be 7.3% lower than the CBO had projected in 2007, and that labor force participation in 2017 will be 0.4% lower due to structural changes in the economy. Both studies imply that there may be less slack in the labor markets than would appear, which would suggest a need to start raising rates sooner, and that the terminal rate may be lower than expected because the economy's potential growth rate will be lower.

Past experience indicates that inflation accelerates when the real, inflation-adjusted, fed funds rate is well below the potential growth rate of the economy, and that disinflation occurs when the real fed funds rate exceeds potential growth. Assuming a 2% inflation rate, and economic growth between 2% and 3%, an equilibrium fed funds rate of 4% by 2016 seems reasonable. The pace at which the rate increases will likely depend on whether the Fed seeks to restrain inflation before it exceeds 2% (which would allow a slower pace), or decides to let inflation exceed 2% for a time to compensate for years of slower inflation (which would require faster action starting at a later date).

Credit Conditions

The Rockefeller Institute of Government reports that state tax revenue from major sources rose by 3.0% in the fourth quarter of 2013 compared to the same quarter in 2012, and tax revenue has posted year-over-year increases for the last 16 quarters. Because of efforts to accelerate income into 2012 due to pending tax rate increases, personal income tax revenue rose by just 1.0% year-over-year, but sales tax revenue, which better reflects economic growth, climbed by 5.5%. The latest report from the Bureau of Economic Analysis indicates that state and local governments have continued to be conservative in their spending. Compared to the first nine months of calendar year 2012, expenditures in the first nine month of 2013 rose by just 0.73%, even as revenues grew by 3.06%.

According to the April edition of Distressed Municipal Debt Newsletter, in 2013, 50 municipal issuers began to default on their debt (where a draw from a debt service reserve is treated as a default). That figure compares to 135 obligors that first defaulted in 2012, and 147 that defaulted in 2011. During the first three months of 2014, seven issuers have defaulted.

Portfolio Strategy and Performance

As we entered the fiscal first quarter (4th quarter 2013), we believed the overall portfolio structure was well positioned to prosper in the expected investment environment. As a result, trading activity over the next six months was muted and centered around minor relative value trades and raising cash to post collateral for the foreign currency hedge.

In November a $500,000 par value AA-rated North Carolina Turnpike Authority 6.70% coupon bond due in 2039 was purchased swapping out a non-index security; the single-A rated Metropolitan Government Convention Center, 7.431% coupon bond due in 2043. This trade modestly increased the overall credit quality of the portfolio as well as enhancing portfolio liquidity. The only other purchase during the six month period was an odd-lot matching position in Las Vegas Valley Water District, a 7.013% coupon bond due in 2039.

Separately, but also in November, the par value $750,000 Clark County Airport Revenue 6.82% coupon position was sold to raise cash to cover our FX hedge that was coming due at a loss. The bond was sold with a gain of just over $180,000. In January $500,000 par value positions in both the Cook County General Obligation Bonds and the Illinois State General Obligation Bonds were also sold to raise cash to post collateral for the FX hedge.

Given the light trading, the sector allocations were largely unchanged and were as follows:

Sector	Allocation in Percent
General Obligation/Appropriation	39%
Water/Sewer	18%
Public Power	16%
Toll Roads	13%
Dedicated Tax	7%
Airports	2%
T-Bills/Collateral	4%
Cash	1%

At the fiscal year half way point, the portfolio has earned a return of 6.80% compared to 8.80% for the Barclays BABs Index. Over the same six month time frame, the core BABs portfolio posted a return of 8.08%. Following are returns of selected indices over the last 6-month period ending on 3/31/2014.

- Barclays Build America Bond Index: 8.80%
- S&P Muni BABs Select Index 8.55%
- Barclays U.S. Aggregate: 1.70%
- Barclays U.S. Long Corporates: 8.18%
- Barclays U.S. Gov't Long: 3.83%

The primary drivers of relative performance over the period were the interest rate and currency hedges. Although the interest rate hedge was a source of value in the fiscal first quarter, it was more than offset in the fiscal second quarter when the 30-year Treasury bond rallied by 41 basis points to close the quarter with a yield of 3.56%. The currency hedge was also a detractor from performance as the Canadian dollar declined in value during the quarter as well.

Within the core BABs portfolio, the quality allocation had a negative effect on performance. Relative to the benchmark, the portfolio has been overweight AA and BBB rated bonds and underweight single-A rated securities. Over the course of the last six months, A-rated bonds posted 753 basis points of excess performance. In contrast, AA-rated securities outperformed Treasurys by 545 basis points. Although recently enjoying very solid excess performance, over the six-month period, BBBs lagged the rest of the BABs market posting 507 basis points of excess return.

In addition, the portfolio is modestly overweight callable securities versus non-callables. In the rallying market that was just experienced, callable structures underperformed, as would be expected.

Lastly, the underweight to California general obligation bonds was a modest detractor from performance as they outperformed during the period.

Capital transactions

The Fund is authorized to issue an unlimited number of redeemable, transferable one class of units (the "Units"), each of which represents an equal, undivided interest in the net assets of the Fund, subject to the terms and conditions of the Trust Agreement.

On February 18, 2010, the Fund completed an initial offering pursuant to the Prospectus dated January 28, 2010. $29,666,219 was raised through the issue of 1,270,700 Units. The Units were issued at $23.35 per Unit.

During the six month period ended March 31, 2014, the Fund paid $210,000 to redeem 9,262 Units (no capital transactions during the six month period ended March 31, 2013).

Distributions

The Fund pays distributions if, as and when declared by the Fund from time to time. The Fund declared $1,001,000 in distributions during the six month period ended March 31, 2014 ($1,141,000 during the six month period ended March 31, 2013).

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Fund tabled no special reports and made no extraordinary material recommendations to management of the Fund during the six month period ended March 31, 2014.

Related Party Transactions

Management Fees

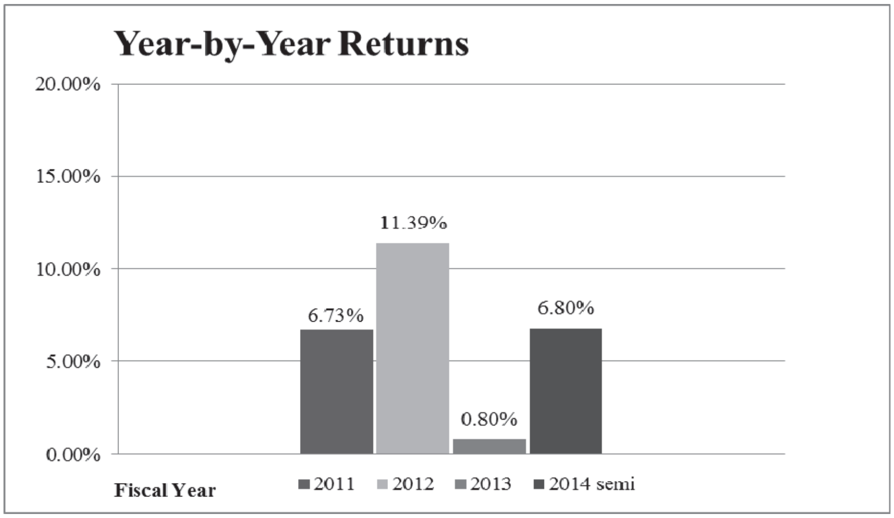
In consideration for management services and investment advice, the Manager receives a management fee from the Fund equal in the aggregate to 0.50% per annum of the applicable Net Asset Value, calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the six month period ended March 31, 2014 were $54,337 plus applicable taxes ($65,372 plus applicable taxes during the six month period ended March 31, 2013).

The Manager is responsible for payment of the sub-advisory fees out of these management fees.

Past Performance

The following bar chart shows the Fund's annual performance as well as the semi-annual performance for the six month period ended March 31, 2014, assuming all the distributions made by the Fund were reinvested. The performance information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns or performance. The bar chart shows, 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.



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 and unaudited semi-annual financial statement:

The Fund's Net Assets per Unit:

	March 31, 2014 (2)	September 30, 2013	September 30, 2012	September 30, 2011	September 30, 2010 (1)
Net Assets, beginning of period	**22.83**	**24.12**	**23.08**	**23.04**	**23.35**
Increase (decrease) from operations:					
Total revenues	0.65	1.26	1.15	1.27	0.82
Total expenses	(0.06)	(0.15)	(0.10)	(0.10)	(0.07)
Realized gains (losses) for the period	(1.11)	0.64	(2.43)	0.65	0.44
Unrealized gains (losses) for the period	2.04	(1.50)	3.96	(0.22)	(0.85)
Total increase (decrease) from operations (3)	**1.52**	**0.25**	**2.58**	**1.60**	**0.34**
Distributions:					
From income (excluding dividends)	–	(0.25)	(1.51)	(0.47)	(0.75)
From dividends	–	–	–	–	–
From capital gains	–	–	–	–	(0.06)
Return of capital	(0.78)	(1.27)	–	(1.02)	–
Total Distributions (4)	**(0.78)**	**(1.52)**	**(1.51)**	**(1.49)**	**(0.81)**
Net Assets, end of period (5)	**23.57**	**22.83**	**24.12**	**23.08**	**23.04**

(1) Results for the period from February 18, 2010 (commencement of operations) to September 30, 2010.
(2) Results for the six month period ended March 31, 2014.
(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 1,281,971 units outstanding as of March 31, 2014 (September 30, 2013 – 1,450,967 units).
(4) The percentages used to allocate distributions among income, dividends, capital gain and return of 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:

	March 31, 2014 (2)	September 30, 2013	September 30, 2012	September 30, 2011	September 30, 2010 (1)
Net asset value (000's)	30,200	29,458	35,655	36,587	40,423
Number of units outstanding	1,281,016	1,290,278	1,478,263	1,585,346	1,754,643
Management expense ratio (annualized) (3)	0.48%	0.62%	0.44%	0.43%	0.46%
Management expense ratio before waivers or absorptions (annualized) (3)	0.48%	0.62%	0.44%	0.43%	0.46%
Portfolio turnover rate (4)	2.68%	20.80%	41.24%	47.81%	68.37%
Trading expense ratio (5)	0.00%	0.00%	0.00%	0.00%	0.00%
Net asset value per unit (6)	23.57	22.83	24.12	23.08	23.04

(1) Results for the period from February 18, 2010 (commencement of operations) to September 30, 2010.
(2) Results for the six month period ended March 31, 2014.
(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 asset value during the period.
(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 asset value 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.

Summary of Investment Portfolio as of March 31, 2014

The summary of investment portfolio may change due to on-going portfolio transactions of the Fund. A quarterly update is available at www.astonhill.ca.

	Coupon Rate %	Maturity date	Fair value $	% of NAV
Portfolio by Category				
United States of America State and Municipal Bonds (US$)			27,976,851	92.6 %
Interest rate swaps			1,291,853	4.3 %
Short-term investments			1,323,283	4.4 %
Cash and cash equivalents			265,605	0.9 %
Foreign currency forward contracts			(1,143,808)	-3.8%
Other assets net of other liabilities			485,837	1.6 %
Top 25 Holdings				
California State Public Works Board	8.36%	01/10/2034	1,429,492	4.7 %
Los Angeles County Public Works Financing Authority	7.62%	01/08/2040	1,425,044	4.7 %
City of Chicago IL Waterworks Revenue	6.74%	01/11/2040	1,403,836	4.6 %
Colorado Bridge Enterprise	6.08%	01/12/2040	1,352,494	4.5 %
Metropolitan Washington Airports Authority	8.00%	01/10/2047	1,348,863	4.5 %
U.S. Treasury Bills	0.09%	08/01/2015	1,323,283	4.4 %
Bay Area Toll Authority	6.79%	01/04/2030	1,319,454	4.4 %
American Municipal Power Inc.	6.05%	15/02/2043	1,303,053	4.3 %
South Carolina State Public Service Authority	6.45%	01/01/2050	1,298,631	4.3 %
Interest rate swaps			1,291,853	4.3 %
Los Angeles Department of Water & Power	5.72%	01/07/2039	1,291,258	4.3 %
Commonwealth Financing Authority	6.22%	01/06/2039	1,288,113	4.3 %
City of Chicago IL Wastewater Transmission Revenue	6.90%	01/01/2040	1,277,770	4.2 %
City of New York NY	6.65%	01/12/2031	1,271,291	4.2 %
Denver City & County School District No. 1	5.66%	01/12/2033	1,254,139	4.2 %
New York City Municipal Water Finance Authority	6.45%	15/06/2041	1,234,106	4.1 %
New Jersey Transportation Trust Fund Authority	6.10%	15/12/2028	1,223,444	4.1 %
East Baton Rouge Sewerage Commission	6.09%	01/02/2045	832,869	2.8 %
Las Vegas Valley Water District	7.01%	01/06/2039	767,724	2.5 %
Louisville & Jefferson County Metropolitan Sewer District	6.25%	15/05/2043	682,257	2.3 %
Indianapolis Local Public Improvement Bond Bank	6.12%	15/01/2040	678,030	2.2 %
Metropolitan Washington Airports Authority	7.46%	01/10/2046	672,859	2.2 %
New York City Transitional Finance Authority	6.83%	15/07/2040	662,459	2.2 %
Dallas Convention Center Hotel Development Corp.	7.09%	01/01/2042	662,163	2.2 %
Metropolitan Government of Nashville & Davidson County	6.73%	01/07/2043	656,700	2.2 %
Net asset value			**30,199,621**	

BAB Trust

Financial Statements (Unaudited)
March 31, 2014

Notice to Reader:

These interim financial statements and related notes for thesix month period ended March 31, 2014 have been prepared by Management of Aston Hill Capital Markets Inc. The auditors of the Fund have not audited or reviewed these interim financial statements.

BAB Trust

Statements of Net Assets (Unaudited)

As at March 31, 2014 and September 30, 2013

	2014	2013
Assets	$	$
Cash	265,605	114,292
Short-term notes (cost - $1,333,825; 2013 - $1,474,640)	1,323,550	1,442,839
Investments at fair value (cost - $23,310,923; 2013 - $25,205,978)	27,970,780	26,950,684
Interest receivable	504,059	500,773
Unrealized gain on interest rate swap contracts	1,291,853	1,672,666
	31,355,847	30,681,254
Liabilities		
Unrealized loss on foreign currency forward contracts	1,143,808	1,196,860
Accounts payable and accrued liabilities	8,566	15,491
Management fees payable	9,891	10,530
	1,162,265	1,222,881
Net assets and unitholder's equity	30,193,582	29,458,373
Units outstanding (note 5)	1,281,016	1,290,278
Net assets per unit	23.57	22.83
Unitholder's equity (note 5)		
Unit Capital	25,847,605	27,042,732
Retained Earnings	4,345,977	2,415,641
Total Unitholder's equity	30,193,582	29,458,373

Approved on behalf of the Manager,
Aston Hill Capital Markets Inc.

Director **Director**

(See accompanying notes to financial statements)

BAB Trust

Statements of Operations (Unaudited)

For the six month periods ended March 31, 2014 and 2013

	2014	2013
	$	$
Income		
Interest income	833,310	900,414
Expenses		
Management fees (note 7)	54,337	65,372
Harmonized sales tax	7,809	56,023
Audit fees	4,883	4,883
Custodial and other unitholder fees	1,643	2,014
Other fees	1,601	1,155
Interest expense	421	52
	70,694	129,499
Investment income (loss)	762,616	770,915
Unrealized gain (loss)		
Change in unrealized gain (loss) on investments	2,915,151	1,178,007
Change in unrealized gain (loss) on foreign exchange	21,125	75,393
Change in unrealized gain (loss) on foreign currency forward contracts	53,052	(1,037,060)
Change in unrealized gain (loss) on interest rate swap contracts	(380,813)	945,998
	2,608,515	1,162,338
Realized gain (loss)		
Net realized gain (loss) on investments	431,467	183,464
Net realized gain (loss) on foreign exchange	46,275	(32,572)
Net realized gain (loss) on foreign currency forward contracts	(1,902,664)	-
	(1,424,922)	150,892
Net gain (loss) on investments	1,183,593	1,313,230
Increase (decrease) in net assets from operations	1,946,209	2,084,145
Increase (decrease) in net assets from operations per unit *	1.52	1.41

*(Based on weighted average number of units outstanding during the period).

(See accompanying notes to financial statements)

BAB Trust

Statements of Changes in Net Assets and Retained Earnings (Unaudited)

For the six month periods ended March 31, 2014 and 2013

	2014	2013
	$	**$**
Increase (decrease) in net assets from operations	1,946,209	2,084,145
Distributions to unitholder from: (note 6)		
Return on capital	(1,001,000)	(1,141,000)
Unitholder's transactions (note 5)		
Payments on redemption of units	(210,000)	-
Change in net assets during the period	735,209	943,145
Net assets - Beginning of period	29,458,373	35,655,182
Net assets - End of period	30,193,582	36,598,327
Retained Earnings, beginning of period	2,415,641	2,569,211
Increase (decrease) in net assets from operations	1,946,209	2,084,145
Cost of shares redeemed in excess of average price per unit (note 5)	(15,873)	-
Retained Earnings, end of period	4,345,977	4,653,356

(See accompanying notes to financial statements)

BAB Trust

Statements of Cash Flows (Unaudited)

For the six month periods ended March 31, 2014 and 2013

	2014	2013
	$	$
Operating Activities		
Increase (decrease) in net assets from operations	1,946,209	2,084,145
Items not affecting cash:		
Unrealized (gain) loss on investments	(2,915,151)	(1,178,007)
Unrealized (gain) loss on short-term notes foreign exchange	(21,526)	(71,421)
Unrealized (gain) loss on foreign currency forward contracts	(53,052)	1,037,060
Unrealized (gain) loss on interest rate swap contracts	380,813	(945,998)
Net realized (gain) loss on investments	(431,467)	(183,464)
Changes in non-cash working capital:		
(Increase) decrease in interest receivable	(3,286)	(28,898)
Increase (decrease) in accounts payable and accrued liabilities	(6,925)	(6,910)
Increase (decrease) in management fees payable	(639)	441
Purchase of investments	(2,059,149)	(3,270,623)
Proceeds on disposition of investments	4,526,486	3,860,598
Net cash flow provided by operating activities	1,362,313	1,296,923
Financing Activities		
Distributions to unitholder	(1,001,000)	(1,141,000)
Payments on redemption of units	(210,000)	-
Net cash flow (used in) financing activities	(1,211,000)	(1,141,000)
Net increase (decrease) in cash	151,313	155,923
Cash - beginning of period	114,292	71,717
Cash - end of period	265,605	227,640
Supplementary Information		
Interest paid	421	52

(See accompanying notes to financial statements)

BAB Trust

Statement of Investment Portfolio (Unaudited)

As at March 31, 2014

Investments	Coupon Rate %	Maturity date	Number of shares / par value US $	Average cost $	Fair value $	% of Net Assets
Foreign short-term notes						
U.S. Treasury Bills*	0.09%	08/01/2015	1,200,000	1,333,825	1,323,550	4.4 %
				1,333,825	1,323,550	4.4 %
Fixed Income						
United States of America State and Municipal Bonds (US$)						
California State Public Works Board	8.36%	01/10/2034	1,000,000	1,070,008	1,428,388	4.6 %
Los Angeles County Public Works Financing Authority	7.62%	01/08/2040	1,000,000	1,004,853	1,425,043	4.6 %
City of Chicago IL Waterworks Revenue	6.74%	01/11/2040	1,100,000	1,104,395	1,403,835	4.6 %
Colorado Bridge Enterprise	6.08%	01/12/2040	1,000,000	1,112,402	1,351,391	4.5 %
Metropolitan Washington Airports Authority	8.00%	01/10/2047	1,000,000	1,031,151	1,347,759	4.5 %
Bay Area Toll Authority	6.79%	01/04/2030	990,000	1,085,630	1,319,454	4.4 %
American Municipal Power Inc.	6.05%	15/02/2043	1,040,000	1,021,706	1,303,053	4.3 %
South Carolina State Public Service Authority	6.45%	01/01/2050	1,000,000	1,012,438	1,298,631	4.3 %
Los Angeles Department of Water & Power	5.72%	01/07/2039	1,000,000	1,122,432	1,290,155	4.3 %
Commonwealth Financing Authority	6.22%	01/06/2039	1,000,000	1,180,037	1,288,113	4.3 %
City of Chicago IL Wastewater Transmission Revenue	6.90%	01/01/2040	1,000,000	1,016,807	1,277,770	4.2 %
City of New York NY	6.65%	01/12/2031	1,000,000	1,003,351	1,270,188	4.2 %
Denver City & County School District No. 1	5.66%	01/12/2033	1,000,000	1,166,146	1,254,139	4.2 %
New York City Municipal Water Finance Authority	6.45%	15/06/2041	1,010,000	1,046,773	1,234,106	4.1 %
New Jersey Transportation Trust Fund Authority	6.10%	15/12/2028	1,000,000	1,032,412	1,223,444	4.1 %
East Baton Rouge Sewerage Commission	6.09%	01/02/2045	700,000	755,658	832,869	2.8 %
Las Vegas Valley Water District	7.01%	01/06/2039	630,000	827,634	767,724	2.5 %
Louisville & Jefferson County Metropolitan Sewer District	6.25%	15/05/2043	500,000	657,109	682,257	2.3 %
Indianapolis Local Public Improvement Bond Bank	6.12%	15/01/2040	500,000	657,009	678,030	2.2 %
Metropolitan Washington Airports Authority	7.46%	01/10/2046	500,000	531,150	672,859	2.2 %
New York City Transitional Finance Authority	6.83%	15/07/2040	485,000	518,511	662,459	2.2 %
Dallas Convention Center Hotel Development Corp.	7.09%	01/01/2042	500,000	582,546	662,163	2.2 %
Metropolitan Government of Nashville & Davidson County	6.73%	01/07/2043	500,000	553,539	656,148	2.2 %
Municipal Electric Authority of Georgia	6.66%	01/04/2057	530,000	550,724	652,813	2.2 %
North Carolina Turnpike Authority	6.70%	01/01/2039	500,000	568,324	601,545	2.0 %
Illinois State Toll Highway Authority	6.18%	01/01/2034	405,000	433,037	543,688	1.8 %
County of Clark NV Airport System Revenue	6.82%	01/07/2045	255,000	264,260	372,182	1.2 %
County of Clark NV Airport System Revenue	6.88%	01/07/2042	200,000	192,729	237,998	0.8 %
State of Illinois	7.35%	01/07/2035	180,000	208,152	232,576	0.8 %
				23,310,923	27,970,780	92.6 %
Total investments				24,644,748	29,294,330	97.0 %

Foreign currency forward contracts	Maturity date	Contract price / rate $	Unrealized gain (loss) $	% of Net Assets
Counterparty: Bank of Montreal (S&P credit rating: A+)				
Bought CAD 27,818,000 sold USD 26,166,870	31/07/2014	1.0631	(1,143,808)	(3.8%)
			(1,143,808)	(3.8%)

Interest rate swap	Notional amount US $	Fund receives floating rate index	Fund pays Fixed rate (Annualized)	Termination Date	Unrealized gain (loss) $	% of Net Assets
Counterparty: Bank of Montreal (S&P credit rating: A+)	(13,000,000)	3-Month USD-LIBOR	3.025%	30/05/2041	1,291,853	4.3%
					1,291,853	4.3%
Other assets net of other liabilities					751,207	2.5 %
Net assets					30,193,582	100.0 %

* This is pledged as collateral for interest rate swaps and foreign currency forward contracts.

1 Corporate activities

BAB Trust (the "Fund") is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement (the "Trust Agreement") between Aston Hill Capital Markets Inc. (the "Manager") the Manager of the Fund and RBC Investor & Treasury Services (formerly "RBC Dexia Investor Services Trust") (the "Trustee") dated January 28, 2010. The Fund's principal office is located at 77 King Street West, Suite 2110, Toronto, Ontario, M5K 1G8. The fiscal year-end of the Fund is September 30. The Fund commenced operations on February 18, 2010. The Fund has one class of units.

2 Investment objectives

The Fund's investment objectives are to:

(i) provide the Unitholder with distributions; and

(ii) maximize total return for the Unitholder, while seeking to reduce risk.

In order to achieve the Fund's investment objectives, Nuveen Asset Management (the "Sub-Advisor"), the Fund's Sub-Advisor, actively manages its Portfolio. The Portfolio includes a minimum of 80% Build America Bonds (measured at the time of purchase), with the remainder of the Portfolio, if any, to be comprised of other Permissible Securities ("Permissible Securities" means U.S. Treasury Securities, U.S. Government Agency Securities, other Investment Grade (measured at time of purchase) municipal obligations and cash and cash equivalents). The Fund may also use derivatives for hedging purposes only.

Build America Bonds are bonds issued by U.S. state and local governments to finance capital projects that meet essential needs such as public schools, roads, water and transportation infrastructure, bridges, ports and public buildings, among others, pursuant to the American Recovery and Reinvestment Act of 2009 or other related, similar or successor legislation. Many Build America Bonds are general obligation bonds, which are backed by the full faith and taxing power of the governments issuing them. Most issuers of Build America Bonds receive a subsidy from the U.S. federal government equal to 35% of the interest paid to investors, which allows such issuers to issue bonds that pay interest rates that are competitive with the rates typically paid by private bond issuers. This form of government bond, with the credit going to the issuer, makes the bonds attractive to entities that pay no U.S. income tax, such as pension plans and non-U.S. investors, as well as to investors seeking potential high rates of interest income.

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 March 31, 2014 and September 30, 2013.

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. 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) are attributable to investments and derivatives, which are deemed held for trading. Realized gains (losses) are recorded on the transaction date they are incurred.

Expense recognition

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

Foreign currency forward contracts

The Fund may enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The carrying fair value of these contracts is the gain or loss that would be realized if the position were closed out on the valuation date and is recorded as an unrealized gain or loss. Upon closing of a contract, the gain or loss is recorded as a net realized gain or loss on foreign currency forward contracts.

Interest rate swap contracts

The Fund may enter into interest rate swap contracts to hedge against interest rate fluctuations. The carrying value of these contracts is the gain or loss that would be realized if the position were closed out on the valuation date and is recorded as an unrealized gain or loss on interest rate swap contracts. Upon closing of a contract, the gain or loss is recorded as a net realized gain or loss on interest rate swap contracts.

Increase (decrease) in net assets from operations per unit

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

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. Cash is reported at fair value. Interest receivable, unrealized gain on interest rate swap contracts and foreign currency forward contracts are designated as loans and receivables and reported at amortized cost. Accounts payable and accrued liabilities, management fees payable, unrealized loss on interest rate swap contracts and foreign currency forward contracts are designated as other financial liabilities and reported at amortized cost.

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.

International Financial Reporting Standards

For the Fund's fiscal years following April 1, 2014, the Fund will prepare its annual 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 Fund will also report its interim financial statements for the period ending September 30, 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.

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 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 Custodian

Pursuant to the Trust Agreement, RBC Investor & Treasury Services (formerly "RBC Dexia Investor Services Trust") (the "Custodian") also acts as custodian of the assets of the Fund. The Custodian is responsible for certain aspects of the Fund's day-to-day operations, including calculating Transactional NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. In consideration for these services, the Fund pays a fee to the Custodian. The Custodian is rated AA- by S&P as of March 31, 2014 and September 30, 2013.

5 Unitholder's equity

The Fund is authorized to issue an unlimited number of redeemable, transferable one class of units (the "Units"), each of which represents an equal, undivided interest in the net assets of the Fund, subject to the terms and conditions of the Trust Agreement. All the Fund's units are held by its sole unitholder (Bank of Montreal).

On February 18, 2010, the Fund completed an initial offering pursuant to the Prospectus dated January 28, 2010. The Fund raised $29,666,219 through the issue of 1,270,700 Units. The Units were issued at $23.35 per Unit.

During the six month period ended March 31, 2014, $210,000 was paid to redeem 9,262 Units (no capital transactions during the six month period ended March 31, 2013).

Changes in outstanding units during the six month periods ended March 31, 2014 and 2013 are summarized as follows:

	March 31, 2014	**March 31, 2013**
Balance – beginning of period	1,290,278	1,478,263
Units redeemed	(9,262)	–
Balance – end of period	1,281,016	1,478,263

The Unit Capital dollar amount represents the face value of the fund's Units minus any return on capital distributions. 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.

6 Distributions

The Fund pays distributions if, as and when declared by the Fund from time to time. The Fund declared $1,001,000 in distributions during the six month period ended March 31, 2014 ($1,141,000 during the period ended March 31, 2013).

7 Management fees

In consideration for management services and investment advice, the Manager receives a management fee from the Fund equal in the aggregate to 0.50% per annum of the applicable Net Asset Value, calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the six month period ended March 31, 2014 were $54,337 plus applicable taxes ($65,372 plus applicable taxes during the six month period ended March 31, 2013).

The Manager is responsible for payment of the sub-advisory fees out of these management fees.

8 Income taxes

The Fund is a financial institution for purposes of the "specified debt obligation" and "mark-to-market" rules contained in the Income Tax Act (Canada) at any time if more than 50% of the fair market value of all interests in the Fund are held at that time by one or more such financial institutions. The Fund will be subject to tax in each taxation year under Part I of the Income Tax Act (Canada) on the amount of its income for the year, including net realized gains, if any, less the portion thereof that it deducts in respect of the amount paid or payable to unitholders in the year. The Fund may also be subject to "minimum tax" under the Tax Act. It is the intention of the Manager that all annual net taxable income will be distributed to the unitholder 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 statement.

As at tax year end December 31, 2013, the Fund had capital losses of $nil (December 31, 2012 – $1,566,273) and non-capital losses of $3,806,089 (December 31, 2012 – $1,600,530), which will expire within the next twenty years as shown in the following table:

Year of the realized non-capital tax loss	**Amount of tax loss**	**Expiry date**
2012	1,600,530	2032
2013	2,205,559	2033
Total	**3,806,089**	

9 Broker commission charges and soft dollar services

There were $nil of broker commissions paid during the six month period ended March 31, 2014 in connection with portfolio transactions ($nil during the six month period ended March 31, 2013). No contractual arrangements for soft dollar services exist in the broker commission charges.

10 Financial instruments

For the purposes of categorization in accordance with CPA Canada Section 3862, Financial Instruments – Disclosures, cash is reported at fair value while interest receivable is deemed to be loans and receivables and recorded at amortized cost. Similarly, management fees payable and accounts payable and accrued liabilities 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 March 31, 2014 and September 30, 2013:

Assets at fair value as at March 31, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Short-term investments	–	1,323,550	–	1,323,550
Bonds	–	27,970,780	–	27,970,780
Interest rate swaps	–	1,291,853	–	1,291,853
Total	**–**	**30,586,183**	**–**	**30,586,183**

Liabilities at fair value as at March 31, 2014	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	1,143,808	–	1,143,808
Total	**–**	**1,143,808**	**–**	**1,143,808**

Assets at fair value as at September 30, 2013	Level 1	Level 2	Level 3	Total
Short-term investments	–	1,442,839	–	1,442,839
Bonds	–	26,950,684	–	26,950,684
Interest rate swaps	–	1,672,666	–	1,672,666
Total	**–**	**30,066,189**	**–**	**30,066,189**

Liabilities at fair value as at September 30, 2013	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	1,196,860	–	1,196,860
Total	**–**	**1,196,860**	**–**	**1,196,860**

Financial instruments 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.

Bonds and short-term investments: Bonds and short-term investments are classified as Level 2 as they are valued using observable inputs, including interest rate curves, credit spreads and volatilities.

Interest rate swaps and foreign currency forward contracts: Contracts for which inputs, including interest rates, forward market rates and credit spreads are observable and reliable or for which unobservable inputs are determined not to be significant to fair value, are classified as Level 2.

There were no transfers among the three levels during the six month period ended March 31, 2014 and year ended September 30, 2013.

11 Financial instrument risk

The Fund's activities expose it to a variety of financial risks. The Investment Manager may invest in derivatives for the purpose of hedging interest rate exposure. The Investment Manager also invests in foreign currency forward contracts to hedge the Fund's foreign exchange risk exposure.

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds and short-term notes. The Fund is exposed to the risk that the value of interest-sensitive financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The tables below summarize the Fund's exposure to interest rate risks. It includes the Fund's assets and trading liabilities at fair values, categorized by the earlier of contractual re-pricing or maturity dates.

March 31, 2014:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	–	–	27,970,780	–	**27,970,780**
Cash and short-term investments	1,323,550	–	–	–	265,605	**1,589,155**
Foreign currency forward contract	–	–	–	–	(1,143,808)	**(1,143,808)**
Interest rate swap	–	–	–	1,291,853	–	**1,291,853**
Other assets	–	–	–	–	504,059	**504,059**
Liabilities	–	–	–	–	(18,457)	**(18,457)**
Net assets						**30,193,582**

September 30, 2013:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	–	–	26,950,684	–	**26,950,684**
Cash and short-term investments	1,442,839	–	–	–	114,292	**1,557,131**
Foreign currency forward contract	–	–	–	–	(1,196,860)	**(1,196,860)**
Interest rate swap	–	–	–	1,672,666	–	**1,672,666**
Other assets	–	–	–	–	500,773	**500,773**
Liabilities	–	–	–	–	(26,021)	**(26,021)**
Net assets						**29,458,373**

As at March 31, 2014, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately $1,031,000 or $1,743,000 (September 30, 2013 – $1,058,000 or $1,729,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

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 Statement of Investments identifies all securities denominated in foreign currencies.

The tables below summarize the Fund's exposure to foreign currencies as at March 31, 2014 and September 30, 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. Other financial assets and liabilities that are denominated in foreign currencies do not expose the Fund to significant currency risk. The tables below summarize the Fund's significant 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.

March 31, 2014:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
U.S. dollar	29,531,915	–	(28,881,755)	(650,160)	(2.2%)	(33,000)

September 30, 2013:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
U.S. dollar	28,500,521	–	(28,781,120)	(280,599)	(1.0%)	(14,000)

Credit risk

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 carrying amount of debt investments and unrealized gain (loss) on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at March 31, 2014 and September 30, 2013.

The tables below summarize the Fund's exposure to credit risk as of March 31, 2014 and September 30, 2013. Amounts shown are based on the carrying value of short-term notes and bonds and the unrealized gain (loss) on derivative instruments outstanding with counterparties.

Rating	March 31, 2014 (% of NAV)
AA+	13.2%
AA	13.0%
AA-	35.1%
A+	17.6%
A	6.5%
A-	5.4%
BBB+	2.2%
BBB	4.5%
Total	**97.5%**

Rating	September 30, 2013 (% of NAV)
AA+	12.6%
AA	11.7%
AA-	35.9%
A+	17.5%
A	7.7%
A-	6.6%
BBB+	2.0%
BBB	3.9%
Total	**97.9%**

As at March 31, 2014 and September 30, 2013, no debt securities were contractually past due and no longer meeting interest payment obligations.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

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. This risk arises mainly from the Fund's exposure to unlimited annual redemptions in any given year; 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 positions to maintain liquidity. All liabilities are due within three months.

Other price risk

Other price 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 Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value. The Fund's equity instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments. As at March 31, 2014 and September 30, 2013, other price risk was negligible as the Fund did not hold any equity instruments.