CS Trust

Annual Report
August 31, 2012

Management Report of Fund Performance

This annual management report of fund performance for **CS Trust** (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 the Manager to the following address: Connor, Clark & Lunn Capital Markets Inc., 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7, or calling (416) 862-2020 or visiting the Manager's website at www.cclcapitalmarkets.com 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 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 an investment fund established under the laws of the Province of Ontario and governed by the Fund's Trust Agreement dated September 28, 2010 between Connor, Clark & Lunn Capital Markets Inc., (the "Manager") the Manager of the Fund and RBC Investor Services Trust (formerly "RBC Dexia Investor Services Trust") (the "Trustee"). The Fund's registered and head office is located at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The fiscal year-end of the Fund is August 31. The beneficial interest in the net assets and net income of the Fund is divided into units of two classes, Class A Units and Class U Units. The Fund is authorized to issue an unlimited number of Units of each class. The Class U Units are designed for investors wishing to make their investments in U.S. dollars.

The Fund's investment objectives are to: (i) provide Unitholders with distributions and (ii) provide an investment in the Capital Securities (the 8.125% Perpetual Subordinated Capital Securities, Series 1 issued by HSBC Holdings plc and the 8.00% Perpetual Subordinated Capital Securities, Series 2 also issued by HSBC). The Fund pays distributions if, as and when declared by the Fund from time to time. Distributions, if any, that are paid on the Class A Units will be in Canadian dollars and distributions, if any, that are paid on the Class U Units will be in U.S. dollars.

Risk

There were no changes in the risk exposure of the Fund during the year ended August 31, 2012.

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

Recent Developments

Future accounting changes

On October 31, 2012, the International Accounting Standards Board (the "IASB") issued an amendment to IFRS 10 exempting investment entities from consolidating their controlled investments. The Fund qualifies as investment entity and measures all controlled investments at fair value with changes in fair value recognized through profit or loss.

On December 12, 2011, the Canadian Accounting Standards Board (the "AcSB") extended the deferral of the mandatory International Financial Reporting Standards ("IFRS") changeover date for investment companies to fiscal year beginning on or after January 1, 2014.

On May 12, 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 disclosure about fair value measurements. It only applies when other IFRSs require or permit fair value measurement. 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. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in eliminating the difference between the net asset value per unit and the net assets per unit under the current Canadian GAAP. The Manager is currently assessing the Fund's Unitholder structure and investments to determine the impact of these standards. The Manager has determined that there will likely be no material impact to the net asset value versus net assets per unit from the changeover to IFRS.

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

Manager's Commentary (November 2012)

HSBC Group half-year update

HSBC performed well in generally deteriorating global economic conditions in the first half of 2012. Underlying revenue (revenue from other than one-time items) increased 4% over the first half of 2011, led by growth in the Global Banking and Markets business. Commercial Banking also experienced strong revenue growth across most products and particularly in the faster-growing regions of Hong Kong, Rest of Asia-Pacific and Latin America. Gains were somewhat offset by lower income in Retail Banking and Wealth Management due to the continued run-down of HSBC's U.S. consumer businesses. Underlying revenues grew in Hong Kong by 13%, in Rest of Asia-Pacific by 13% and in Latin America by 8%, with double digit revenue growth in the priority markets of mainland China, India, Brazil and Argentina.

Reported profit before tax was U.S. $12.7 billion, U.S. $1.3 billion, or 11%, higher than in the first half of 2011. This was primarily due to a U.S. $3.1 billion gain on the sale of the U.S. Card and Retail Services business and a U.S. $661 million gain from the sale of 138 retail branches in the U.S. (a further 57 branches are expected to be sold in the third quarter). These gains were partially offset by falling credit spreads, which increased the value of HSBC's outstanding debt obligations by U.S. $2.2 billion.

On an underlying basis, profit before tax was $10.6 billion, 3% lower than for the first half of 2011, with higher operating expenses reflecting an increase in one-time costs. Costs included provisions for customer redress in the U.K. of U.S. $1.3 billion; U.S. anti-money laundering, Bank Secrecy Act and Office of Foreign Asset Control investigations of U.S. $700 million; and restructuring costs of U.S. $563 million. Underlying profits exclude changes in the value of HSBC's own debt, the results of acquisitions and disposals, and changes due to foreign currency translation.

Operating expenses were somewhat lower for the period, a result of successful cost saving initiatives. During the first half of 2012, staff count was reduced by more than 16,700. Sustainable savings of U.S. $800 million were realized during the quarter. Since announcing its major strategic shift in early 2011, HSBC has completed 36 disposals and closures, exiting non-strategic markets and selling businesses and non-core investments. A major thrust of the strategy is to simplify HSBC, removing layers of management, clarifying reporting lines and making the organization easier to manage. The number of full-time equivalent employees is now 271,500, down from a peak of 299,000 in the first quarter of 2011. Since May of 2011, HSBC has achieved $2.7 billion of sustainable yearly cost savings.

HSBC's reported cost efficiency ratio (operating expenses divided by net operating income) remained at 57.5%. On an underlying basis, the cost efficiency ratio increased as a result of higher one-off costs. Return on average ordinary shareholders' equity was 10.5%, down from 12.3% as a result of a higher tax charge. The core tier 1 ratio increased during the period from 10.1% at the end of 2011 to 11.3%, driven by profit generation and a reduction in risk weighted assets following the business disposals.

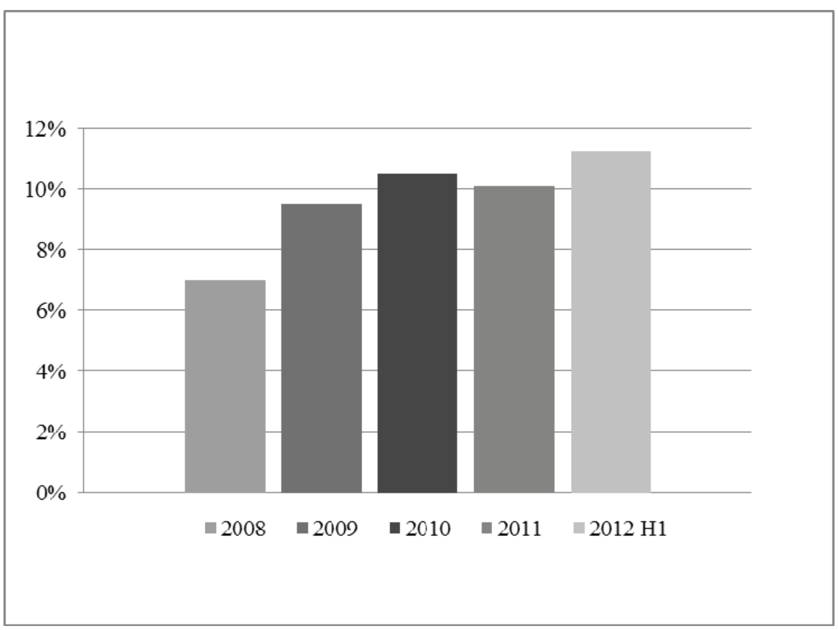
Key Metrics, First Half 2012

	Half-Year Ended June		
Metric	**2012**	**2011**	**Target/ Benchmark**
Return on average ordinary shareholders' equity (ann.)	10.5%	12.3%	12% - 15%
Cost efficiency ratio	57.5%	57.5%	48% - 52%
Core tier 1 ratio	11.3%	10.8%	9.5% - 10.5%
Underlying profit before tax U.S. $b	10.61	10.97	N/A

Source: HSBC

The core tier 1 capital ratio is a key measure of risk used by regulators. The ratio is calculated by dividing equity capital (including capital such as non-redeemable preferred stock that acts like equity in helping to buffer the banks obligations), by risk-weighted assets (the sum of all the bank's assets weighted by credit risk). Under the Basel III regulations to be phased in from 2013, HSBC is considered one of the 29 Global Systemically Important Banks and as a result will be held to a minimum core tier 1 ratio of 9.5%, 2.5% above the level required of banks not judged to be of global or country-specific systemic importance.

Core Tier 1 Capital



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 U Units, with the Class U Units being denominated in U.S. dollars. The Fund is authorized to issue an unlimited number of Units of each class.

During the year ended August 31, 2012, the Fund issued 315,138 Class A Units for a total value of $7,166,719 and 258,874 Class U Units for a total value of $5,936,358. During the same period, the Fund paid $16,037,302 to redeem 691,942 Class A Units and $8,515,958 to redeem 370,854 Class U Units. (During the period from October 13, 2010 (commencement of operations) to August 31, 2011, the Fund issued 6,978,361 Class A Units for the amount $164,390,845 and 1,231,647 Class U Units for the amount $29,144,352. During the same period, the Fund also paid $1,039,704 to redeem 46,414 Class A Units and $605,238 to redeem 26,881 Class U Units.)

Distributions

The Fund pays distributions if, as and when declared by the Fund from time to time. During the year ended August 31, 2012, the Fund declared $11,617,942 in distributions to Class A Unitholders and $1,916,242 to Class U Unitholders. The amount of $69,116 for Class U was reinvested and the Class U Units consolidated. (During the period from October 13, 2010 (commencement of operations) to August 31, 2011, the Fund paid $9,169,322 in distributions to Class A Unitholders and $1,563,307 to Class U Unitholders.)

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Board of Advisors tabled no special reports and made no extraordinary material recommendations to management of the Fund during the year ended August 31, 2012.

Related Party Transactions

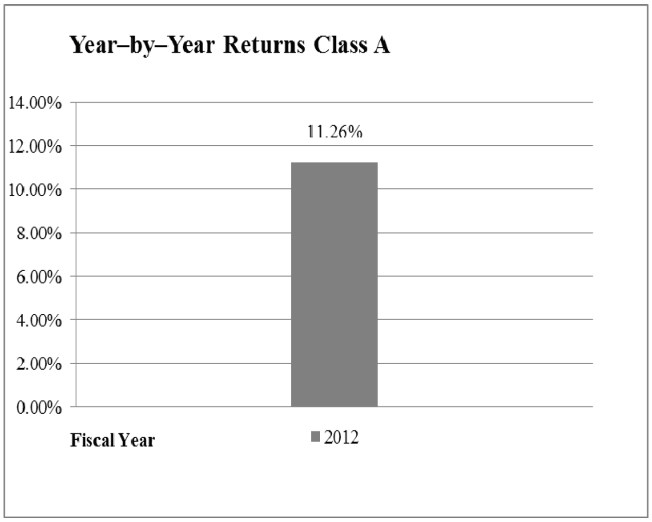
Management Fees

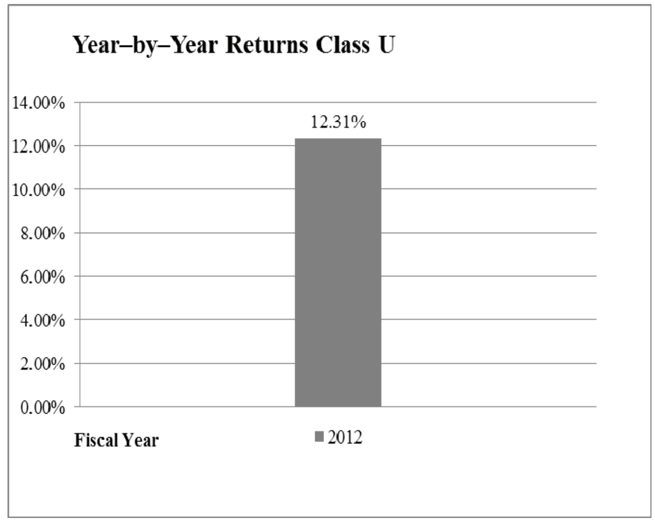
In consideration for management services and investment advice, the Manager receives a management fee from the Fund equal in the aggregate to 0.25% per annum of the applicable Net Asset Value, calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the year ended August 31, 2012 were $441,600 ($397,199 during the period from October 13, 2010 (commencement of operations) to August 31, 2011).

Past Performance

The following bar charts show the Fund's annual performance of the Class A and Class U Units assuming all the distributions made by the Fund during the period shown were reinvested. The performance information does not take into account sales, redemptions 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 Class A NAV	11.26%	7.14%
Based on Class U NAV	12.31%	6.45%
HSBC Holdings PLC, Series 2, 8.0%, December 15, 2015	11.84%	7.87%

(1) Annualized for the period from October 13, 2010 to August 31, 2012.

The Fund is benchmarked to HSBC Holdings PLC, Series 2, 8.0%, December 15, 2015. The benchmark is the largest position in the investment portfolio of the Fund, representing 92.6% of its net asset value as at August 31, 2012. The Fund's return will differ from the benchmark due to a variety of factors, including the impact of fees and expenses, leverage and currency movements and transactions.

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:

	August 31, 2012 CAD	August 31, 2011 [1] CAD
Net Assets, beginning of period	**22.77**	**23.56**
Increase (decrease) from operations:		
Total revenues	1.68	1.64
Total expenses	(0.06)	(0.07)
Realized gains (losses) for the period	(0.04)	0.16
Unrealized gains (losses) for the period	0.96	(1.19)
Total increase (decrease) from operations [2]	**2.54**	**0.54**
Distributions:		
From income (excluding dividends)	(1.64)	(0.53)
From dividends	–	–
From capital gains	–	–
Return of capital	(0.05)	(0.82)
Total Distributions [3]	**(1.69)**	**(1.35)**
Net Assets, end of period [4]	**23.61**	**22.77**

(1) Results for the period from October 13, 2010 (commencement of operations) to August 31, 2011.

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of 6,855,120 Class A Units outstanding as of August 31, 2012 (6,790,386 Class A Units outstanding as of August 31, 2011).

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

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

Ratios and Supplemental Data (Class A Units):

	August 31, 2012 CAD	August 31, 2011 [1] CAD
Net asset value (000's)	154,552	158,151
Number of units outstanding	6,555,143	6,931,947
Management expense ratio (annualized) [2]	0.26%	0.26%
Management expense ratio before waivers or absorptions (annualized) [2]	0.26%	0.26%
Portfolio turnover rate [3]	1.01%	0.84%
Trading expense ratio [4]	0.01%	0.09%
Net asset value per unit [5]	23.58	22.81

(1) Results for the period from October 13, 2010 (commencement of operations) to August 31, 2011.

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

(3) The Fund's turnover rate indicates how actively the Fund's portfolio adviser 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.

(4) 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.

(5) 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 U Units:

The Fund’s Net Assets per Class U Unit:

	August 31, 2012 USD	August 31, 2011 (1) USD
Net Assets, beginning of period	**22.84**	**23.59**
Increase (decrease) from operations:		
Total revenues	1.71	1.68
Total expenses	(0.06)	(0.08)
Realized gains (losses) for the period	(0.21)	0.10
Unrealized gains (losses) for the period	1.35	(1.76)
Total increase (decrease) from operations (2)	**2.79**	**(0.06)**
Distributions:		
From income (excluding dividends)	(1.65)	–
From dividends	–	–
From capital gains	–	–
Return of capital	–	(1.31)
Total Distributions (3)	**(1.65)**	**(1.31)**
Net Assets, end of period (4)	**23.74**	**22.84**

(1) Results for the period from October 13, 2010 (commencement of operations) to August 31, 2011.

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of 1,107,479 Class U Units outstanding as of August 31, 2012 (1,190,445 Class U Units outstanding as of August 31, 2011).

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

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

Ratios and Supplemental Data (Class U Units):

	August 31, 2012 USD	August 31, 2011 (1) USD
Net asset value (000's)	25,905	27,576
Number of units outstanding	1,092,786	1,204,766
Management expense ratio (annualized) (2)	0.25%	0.28%
Management expense ratio before waivers or absorptions (annualized) (2)	0.25%	0.28%
Portfolio turnover rate (3)	20.44%	2.98%
Trading expense ratio (4)	0.01%	0.09%
Net asset value per unit (5)	23.71	22.89

(1) Results for the period from October 13, 2010 (commencement of operations) to August 31, 2011.

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

(3) The Fund’s turnover rate indicates how actively the Fund’s portfolio adviser 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.

(4) 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.

(5) 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 August 31, 2012

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

	Fair value CAD $	% of NAV
Portfolio by Category		
Financials	174,586,794	97.0%
Foreign currency forward contracts	2,672,231	1.5%
Cash and short-term investments	939,184	0.5%
Top 25 Holdings		
HSBC Holdings PLC, Series 2, 8.000%, December 15, 2015	166,742,226	92.6%
HSBC Holdings PLC, Series 1, 8.125%, April 15, 2013	7,844,568	4.4%
Foreign currency forward contracts	2,672,231	1.5%
Cash and short-term investments	939,184	0.5%
Net asset value	**180,116,198**	

Management's Responsibility for Financial Reporting

The accompanying financial statements to **CS Trust** (the "Fund") and all the information therein have been prepared by Connor, Clark & Lunn 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 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 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 Unitholder. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholder their opinion on the financial statements. Their report is set below.

W. Neil Murdoch
President and Chief Executive Officer
Connor, Clark & Lunn Capital Markets Inc.

Darren N. Cabral
Vice President and Chief Financial Officer
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada
November 29, 2012

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November 29, 2012

Independent Auditor's Report

To the Unitholder of
CS Trust (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at August 31, 2012, the statement of net assets as at August 31, 2012 and 2011, the statements of operations, changes in net assets and surplus (deficit) and contributed surplus, and cash flows for the year ended August 31, 2012 and the period from October 13, 2010 (commencement of operations) to August 31, 2011, 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 an 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.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at August 31, 2012 and 2011 and the results of its operations, the changes in its net assets and cash flows for the year ended August 31, 2012 and the period from October 13, 2010 (commencement of operations) to August 31, 2011, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

CS Trust

Statements of Net Assets

As at August 31, 2012 and 2011

	2012	**2011**
	$	**$**
Assets		
Cash	149,945	63,115
Short-term investments	789,239	-
Investments at fair value (cost - $179,515,277; 2011 - $191,753,603)	174,827,925	177,634,153
Interest and dividends receivable	3,014,345	3,117,105
Unrealized gain on foreign currency forward contracts	2,672,231	3,970,687
	181,453,685	184,785,060
Liabilities		
Payable on securities purchased	1,043,635	-
Accounts payable and accrued liabilities	15,092	15,294
Management fees payable	37,629	36,858
	1,096,356	52,152
Net assets and unitholder's equity	180,357,329	184,732,908
Net Assets		
Class A	154,758,769	157,825,266
Class U	25,598,560	26,907,642
Class U (USD)	USD 25,939,789	USD 27,517,100
Units issued and outstanding (note 5)		
Class A	6,555,143	6,931,947
Class U	1,092,786	1,204,766
Net assets per unit		
Class A	23.61	22.77
Class U	23.43	22.33
Class U (USD)	USD 23.74	USD 22.84
Unitholder's equity (note 5)		
Unit Capital	173,415,004	184,648,363
Contributed surplus	-	84,545
Surplus	6,942,325	-
Total Unitholder's equity	180,357,329	184,732,908

Approved on behalf of the Manager,
Connor, Clark & Lunn Capital Markets Inc.

Director **Director**

(See accompanying notes to financial statements)

CS Trust

Statements of Operations

For the year ended August 31, 2012 and for the period from October 13, 2010 (commencement of operations) to August 31, 2011

		2012		2011
		$		$
Income				
Dividends		13,428,467		12,995,283
Interest		839		118,445
		13,429,306		13,113,728
Expenses				
Management fees (note 7)		441,600		397,199
Broker commission charges (note 9)		26,793		140,994
Audit fees		10,686		11,161
Custodial and other unitholder fees		9,933		11,799
Interest expense		2,499		7,094
Other fees		2,817		3,162
		494,328		571,409
Investment income		12,934,978		12,542,319
Unrealized gain (loss)				
Change in unrealized gain (loss) on investments		9,432,098		(14,119,450)
Change in unrealized gain (loss) on foreign exchange		(29,618)		-
Change in unrealized gain (loss) on foreign currency forward contracts		(1,298,456)		3,970,687
		8,104,024		(10,148,763)
Realized gain (loss)				
Net realized gain (loss) on investments		(735,789)		(17,461)
Net realized gain (loss) on foreign exchange		236,459		1,199,187
		(499,330)		1,181,726
Net gain (loss) on investments		7,604,694		(8,967,037)
Increase (decrease) in net assets from operations		20,539,672		3,575,282
Increase (decrease) in net assets from operations for				
Class A Units		17,422,028		3,643,447
Class U Units		3,117,644		(68,165)
Class U Units (USD) *	USD	3,089,086	USD	(69,282)
Increase (decrease) in net assets from operations per unit **				
Class A Units		2.54		0.54
Class U Units		2.82		(0.06)
Class U Units (USD) *	USD	2.79	USD	(0.06)

* (based on average exchange rate for the period)

** (based on average number of units outstanding during the period)

(See accompanying notes to financial statements)

CS Trust

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

For the year ended August 31, 2012 and for the period from October 13, 2010 (commencement of operations) to August 31, 2011

	Class A		Class U		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**	**$**	**$**
Increase (decrease) in net assets from operations	17,422,028	3,643,447	3,117,644	(68,165)	20,539,672	3,575,282
Distributions to unitholder from: (note 6)						
Net investment income	(11,248,492)	(3,575,282)	(1,916,242)	-	(13,164,734)	(3,575,282)
Return on capital	(369,450)	(5,594,040)	-	(1,563,307)	(369,450)	(7,157,347)
	(11,617,942)	(9,169,322)	(1,916,242)	(1,563,307)	(13,534,184)	(10,732,629)
Unitholder's transactions						
Proceeds from issue of units (note 5)	7,166,719	164,390,845	5,936,358	29,144,352	13,103,077	193,535,197
Distributions reinvested (note 6)	-	-	69,116	-	69,116	-
Payments on redemption of units (note 5)	(16,037,302)	(1,039,704)	(8,515,958)	(605,238)	(24,553,260)	(1,644,942)
	(8,870,583)	163,351,141	(2,510,484)	28,539,114	(11,381,067)	191,890,255
Change in net assets during the period	(3,066,497)	157,825,266	(1,309,082)	26,907,642	(4,375,579)	184,732,908
Net assets - beginning of period	157,825,266	-	26,907,642	-	184,732,908	-
Net assets - end of period	154,758,769	157,825,266	25,598,560	26,907,642	180,357,329	184,732,908
Surplus (deficit), beginning of period	68,165	-	(68,165)	-	-	-
Increase (decrease) in net assets from operations	17,422,028	3,643,447	3,117,644	(68,165)	20,539,672	3,575,282
Distributions to unitholder	(11,248,492)	(3,575,282)	(1,916,242)	-	(13,164,734)	(3,575,282)
Cost of shares redeemed in excess of the original issue price	(241,768)	-	(190,845)	-	(432,613)	-
Surplus (deficit), end of period	5,999,933	68,165	942,392	(68,165)	6,942,325	-
Contributed surplus, beginning of period	53,692	-	30,853	-	84,545	-
Cost of shares redeemed at less than (in excess of) original issue price	(53,692)	53,692	(30,853)	30,853	(84,545)	84,545
Contributed surplus, end of period	-	53,692	-	30,853	-	84,545

(See accompanying notes to financial statements)

CS Trust

Statements of Cash Flows

For the year ended August 31, 2012 and for the period from October 13, 2010 (commencement of operations) to August 31, 2011

	2012	2011
	$	**$**
Operating Activities		
Increase (decrease) in net assets from operations	20,539,672	3,575,282
Items not affecting cash:		
Change in unrealized (gain) loss on investments	(9,432,098)	14,119,450
Change in unrealized (gain) loss on foreign currency forward contracts	1,298,456	(3,970,687)
Net realized (gain) loss on investments	735,789	17,461
Changes in non-cash working capital:		
(Increase) decrease in interest and dividends receivable	102,760	(3,117,105)
Increase (decrease) in accounts payable and accrued liabilities	(202)	15,294
Increase (decrease) in management fees payable	771	36,858
Purchase of investment	(5,605,926)	(193,812,220)
Proceeds on disposition of investment	18,152,098	2,041,156
Net cash flow provided by (used in) operating activities	25,791,320	(181,094,511)
Financing Activities		
Proceeds from issuance of units	13,103,077	193,535,197
Distributions paid to unitholder	(13,465,068)	(10,732,629)
Payments on redemption of units	(24,553,260)	(1,644,942)
Net cash flow provided by (used in) financing activities	(24,915,251)	181,157,626
Net increase (decrease) in cash and short-term investments	876,069	63,115
Cash and short-term investments - beginning of period	63,115	-
Cash and short-term investments - end of period	939,184	63,115
Supplementary Information		
Interest paid	2,499	7,094

(See accompanying notes to financial statements)

CS Trust

Statement of Investment Portfolio

As at August 31, 2012

	Maturity date	Number of shares / par value $	Average cost $	Fair value $	% of NAV
Short-term investments					
Bearer deposit notes					
Royal Bank of Canada	09/13/2012	800,000	818,512	789,239	0.4%
Total short-term investments			818,512	789,239	0.4%
Investments					
Preferred Stock (USD)					
Financials					
HSBC Holdings PLC, Series 1, 8.125%, April 15, 2013		303,518	8,486,918	7,844,568	4.3%
HSBC Holdings PLC, Series 2, 8.000%, December 15, 2015		6,108,637	171,058,202	166,983,357	92.6%
Total investments (before transaction costs)			179,545,120	174,827,925	96.9%
Transaction costs - Section 3855 adjustment (note 3)			(29,843)	-	0.0%
Total investments			179,515,277	174,827,925	96.9%

	Maturity date	Contract price / rate $	Unrealized gain (loss) $	% of NAV
Foreign currency forward contracts				
Bought CAD 137,525,694 sold USD 131,944,444	12/15/2015	1.0423	2,672,231	1.5%
Other assets net of other liabilities			2,067,934	1.2%
Net assets			180,357,329	100.0%

(See accompanying notes to financial statements)

1 Trust activities

CS Trust (the "Fund") is an investment fund established under the laws of the Province of Ontario and governed by the Fund's Trust Agreement dated September 28, 2010 between Connor, Clark & Lunn Capital Markets Inc. (the "Manager") and RBC Investor Services Trust (formerly "RBC Dexia Investor Services Trust") (the "Trustee"). The Manager performs or arranges for the performance of management services, including portfolio management services, for the Fund and is responsible for the overall undertaking of the Fund. The Fund's registered office is located at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The fiscal year-end of the Fund is August 31.

The beneficial interest in the net assets and net income of the Fund is divided into units of two classes, Class A Units and Class U Units. The Fund is authorized to issue an unlimited number of Units of each class. The Class U Units are denominated and offered in U.S. dollars.

2 Investment objectives

The Fund's investment objectives are to: (i) provide Unitholders with distributions and (ii) provide an investment in the Capital Securities (the 8.125% Perpetual Subordinated Capital Securities, Series 1 issued by HSBC Holdings plc and the 8.00% Perpetual Subordinated Capital Securities, Series 2, also issued by HSBC).

The Fund pays distributions if, as and when declared by the Fund from time to time. Distributions, if any, that are paid on the Class A Units will be in Canadian dollars and distributions, if any, that are paid on the Class U Units will be in U.S. dollars.

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 CICA 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 difference between the net asset value per unit and the net assets per unit as shown on the Statements of Net Assets is due to the different pricing methodology discussed above. The reconciliation between the Transactional NAV and the GAAP Net Assets is as follows:

	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets
August 31, 2012			
Class A	23.58	0.03	23.61
Class U	23.39	0.04	23.43
Class U (USD)	23.71	0.03	23.74
August 31, 2011			
Class A	22.81	(0.04)	22.77
Class U	22.38	(0.05)	22.33
Class U (USD)	22.89	(0.05)	22.84

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 accrued 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.

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.

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. The Fund's functional currency is Canadian dollar.

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

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. The increase (decrease) in net assets from operations per unit for the Class U Units is converted into U.S. dollars using the average exchange rate for the period.

Valuation of a class

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. On any valuation date, the net assets per unit for the Class U units are converted into U.S. dollars at the rate of exchange available from the Custodian on that same valuation date.

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.

Future accounting changes

On October 31, 2012, the International Accounting Standards Board (the "IASB") issued an amendment to IFRS 10 exempting investment entities from consolidating their controlled investments. The Fund qualifies as investment entity and measures all investments at fair value with changes in fair value recognized through profit or loss.

On December 12, 2011, the Canadian Accounting Standards Board (the "AcSB") extended the deferral of the mandatory International Financial Reporting Standards ("IFRS") changeover date for investment companies to fiscal year beginning on or after January 1, 2014.

On May 12, 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 disclosure about fair value measurements. It only applies when other IFRSs require or permit fair value measurement. 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. It allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. This may result in eliminating the difference between the NAV per unit and net assets per unit under the current Canadian GAAP. The Manager is currently assessing the Fund's Unitholder structure and investments to determine the impact of these standards. The Manager has determined that there will likely be no material impact to the NAV versus net assets per unit from the changeover to IFRS.

4 Custodian

Pursuant to the Trust Agreement, RBC Investor Services Trust (formerly "RBC Dexia Investor Services Trust") (the "Custodian") acts as 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. In consideration for these services, the Fund pays a fee to the Custodian. The Custodian is rated AA- by Standard & Poor's ("S&P") as of August 31, 2012 and 2011.

5 Unitholder's equity

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 U Units, with the Class U Units being denominated in U.S. dollars. The Fund is authorized to issue an unlimited number of Units of each class. All Units of the Fund are held by one unitholder.

During the year ended August 31, 2012, the Fund issued 315,138 Class A Units for the amount of $7,166,719 and 258,874 Class U Units for the amount of $5,936,358 (6,978,361 Class A Units were issued for the amount of $164,390,845 and 1,231,647 Class U Units were issued for the amount of $29,144,352 during the period from October 13, 2010 (commencement of operations) to August 31, 2011). During the same period, the Fund also paid $16,037,302 to redeem 691,942 Class A Units and $8,515,958 to redeem 370,854 Class U Units (46,414 Class A Units were redeemed for a total value of $1,039,704 and 26,881 Class U Units were redeemed for a total value of $605,238 during the period from October 13, 2010 (commencement of operations) to August 31, 2011).

Changes in outstanding units during the year ended August 31, 2012 and during the period from October 13, 2010 (commencement of operations) to August 31, 2011 are summarized as follows:

	Class A Units		Class U Units	
	August 31, 2012	**August 31, 2011**	**August 31, 2012**	**August 31, 2011**
Balance – beginning of year	6,931,947	–	1,204,766	–
Units issued	315,138	6,978,361	258,874	1,231,647
Units redeemed	(691,942)	(46,414)	(370,854)	(26,881)
Balance – end of year	6,555,143	6,931,947	1,092,786	1,204,766

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 Surplus (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 Distributions

The Fund pays distributions if, as and when declared by the Fund from time to time. During the year ended August 31, 2012, the Fund paid $11,617,942 in distributions to Class A Unitholders and $1,916,242 in distribution to Class U Unitholders. The amount of $69,116 for Class U was reinvested and the Class U Units consolidated. (During the period from October 13, 2010 (commencement of operations) to August 31, 2011, the Fund paid $9,169,322 in distributions to Class A Unitholders and the Fund also paid $1,563,307 in distributions to Class U Unitholders).

7 Management Fees

The Manager receives a management fee from the Fund equal in the aggregate to 0.25% per annum of the applicable net asset value, calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the year ended August 31, 2012 were $441,600 ($397,199 during the period from October 13, 2010 (commencement of operations) to August 31, 2011.

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) as more than 50% of the fair market value of all interests in the Fund are held any time by one or more such financial institutions. The Fund is 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 unrealized 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 under present legislation will be eliminated. 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 capital losses as at tax year ends December 31, 2011 and 2010. The Fund also did not have any non-capital losses as at December 31, 2011 (December 31, 2010 – $6,370,414).

9 Broker commission charges and soft dollar services

There was $26,793 of broker commissions paid during the year ended August 31, 2012 in connection with portfolio transactions ($140,994 during the period from October 13, 2010 (commencement of operations) to August 31, 2011). No contractual arrangements for soft dollar services exist in the broker commission charges.

10 Financial instruments

	August 31, 2012	August 31, 2011
Assets	**$**	**$**
Cash	149,945	63,115
Held for trading	178,289,395	181,604,840
Loans and receivables	3,014,345	3,117,105
Total assets	**181,453,685**	**184,785,060**
Liabilities		
Financial liabilities at amortized cost	1,096,356	52,152
Total liabilities	**1,096,356**	**52,152**

For the purposes of categorization in accordance with CICA Section 3862, Financial Instruments - Disclosures, cash is reported at fair value, while interest and dividends receivable are deemed to be loans and receivables and are recorded at cost or amortized cost. Similarly, interest payable, distributions payable, 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 August 31, 2012 and 2011:

August 31, 2012:

Assets at fair value	Level 1	Level 2	Level 3	Total
Equities	174,827,925	–	–	**174,827,925**
Short-term investments	–	789,239	–	**789,239**
Foreign currency forward contracts	–	2,672,231	–	**2,672,231**
Total	**174,827,925**	**3,461,470**	**–**	**178,289,395**

August 31, 2011:

Assets at fair value	Level 1	Level 2	Level 3	Total
Equities	177,634,153	–	–	**177,634,153**
Foreign currency forward contracts	–	3,970,687	–	**3,970,687**
Total	**177,634,153**	**3,970,687**	**–**	**181,604,840**

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: The Fund's long equity positions are classified as Level 1 as the security held is actively traded and a reliable quote is observable.

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

Foreign currency forward contracts: Foreign currency forward 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 year ended August 31, 2012 and during the period from October 13, 2010 (commencement of operations) to August 31, 2011.

11 Financial instrument risk

The Fund's activities expose it to a variety of financial risks. The Manager may invest in derivatives for the purpose of hedging interest rate exposure. The Manger also invests in foreign currency forward contracts to hedge the Fund's Class A 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. Certain equity instruments, such as preferred shares that pay fixed rate dividends, are also sensitive to changes in the level of prevailing market interest rates. Due to their sensitivity to interest rates, the preferred shares held by the Fund are included in the analysis of interest rate risk. The tables below summarize the Fund's exposure to interest rate risk and include the assets and liabilities of the Fund at fair value. The tables below assume the preferred shares will be called on their first call date.

August 31, 2012:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	7,844,568	–	166,983,357	–	2,672,231	**177,500,156**
Cash and short-term investments	789,239	–	–	–	149,945	**939,184**
Other assets	–	–	–	–	3,014,345	**3,014,345**
Liabilities	–	–	–	–	(1,096,356)	**(1,096,356)**
Net assets	**8,633,807**	–	**166,983,357**	–	**4,740,165**	**180,357,329**

August 31, 2011:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	11,991,190	165,642,963	–	3,970,687	**181,604,840**
Cash and short-term investments	–	–	–	–	63,115	**63,115**
Other assets	–	–	–	–	3,117,105	**3,117,105**
Liabilities	–	–	–	–	(52,152)	**(52,152)**
Net assets	**–**	**11,991,190**	**165,642,963**	**–**	**7,098,755**	**184,732,908**

As at August 31, 2012, 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 $4,833,000 and $4,949,090 (August 31, 2011 – $6,081,000 and $6,340,000). 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 functional currency of the Fund, which is the Canadian dollar ("CAD"). 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 Investment Portfolio identifies all securities denominated in foreign currencies.
The tables below summarize the Class A exposure to foreign currencies held by the Fund. The tables show sensitivity evaluation due to exposure to the U.S. dollar for the Class A Units only (the Class U Units are denominated in U.S. dollars). 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 such denominated in foreign currencies do not expose the Fund to significant currency risk. The tables below summarize the significant exposure to foreign currencies and the approximate impact on net assets had the functional currency of the Class A Units weakened by 5% in relation to the U.S. dollar. If the Canadian dollar were to strengthen relative to the U.S. dollar, the opposite would occur. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

August 31, 2012:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
U.S. dollar	80,912	150,014,167	(130,208,761)	19,886,318	12.8%	994,000

August 31, 2011:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
U.S. dollar	49,739	151,760,494	(129,022,094)	22,788,139	14.4%	1,139,000

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 and debt-like securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of these investments and the unrealized gain on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at August 31, 2012 and 2011.

The tables below summarize the Fund's exposure to credit risk as of August 31, 2012 and 2011. Amounts shown are based on the carrying value of debt and debt-like investments, such as the preferred shares held by the Fund and the unrealized gain on derivative instruments outstanding with counterparties.

Rating	August 31, 2012 (% of Net Assets)
AA-	1.5%
A-	96.9%
A-1+	0.4%
Total	**98.8%**

Rating	August 31, 2011 (% of Net Assets)
AA-	2.1%
A-	96.2%
Total	**98.3%**

As at August 31, 2012 and 2011, 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. The Fund invests the majority of its assets in investments that can be readily disposed. In addition, the Fund retains sufficient cash positions to maintain liquidity. All liabilities are due within three months.