2013

Canadian Banc Capital Securities Trust

Annual Report

December 31, 2013

Canadian Banc Capital Securities Trust Message to Unitholders

March 28, 2014

Dear Investor,

We are pleased to provide you with the annual report for Canadian Banc Capital Securities Trust (the "Fund") for the year ending December 31, 2013. The Fund is scheduled to mature on June 30, 2014. We continue to believe that there are attractive investment opportunities in this sector and plan to make a proposal to unitholders in the coming weeks to extend the term of the Fund.

The Fund has been designed to provide investors with tax-efficient exposure to an actively managed portfolio consisting primarily of Innovative Tier 1 Capital Securities of the largest Canadian banks. The portfolio is actively managed by Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager"). The Fund's investment objectives are to: i) provide Unitholders with attractive tax-advantaged quarterly cash distributions; and ii) return to Unitholders the original issue price of the Units upon termination of the Fund on June 30, 2014. Distributions are initially targeted to be $1.50 per annum per Unit consisting primarily of returns of capital, representing a return on the issue price of 6.0% per annum.

The Fund continues to perform well. The net asset value ("NAV") for Class A units at December 31, 2013 was $27.11 and distributions of $6.84 were paid out since inception. This compares favourably with the opening NAV of $23.47 after the deduction of agents' fees and issuance expenses. The return for 2013 was 2.31%. Its benchmark, the DEX Universe Bond Index, was -1.19% over the same period. The increase in net asset value is primarily due to a decrease in credit spreads for the banking sector which was more than enough to overcome a significant move higher in government bond yields. The Fund has delivered a compound annual growth rate of 9.06% from opening NAV.

The Investment Manager expects that the global economy will continue to improve but remain slightly below its potential growth rate. While the headwinds that prevailed earlier this year have diminished somewhat, there are still risks associated with the overall rise in interest rates as well as many of the unresolved issues in Europe. The Investment Manager remains cautiously optimistic that monetary authorities within emerging countries will be able to contain rising inflation pressures which would otherwise be problematic for the broader global economy.

The Investment Manager's team believe that we have seen the lows in interest rates remains intact. However, they also believe that the path to higher rates will be very protracted given the significant debt levels that still exist globally. As such, their forecasted range for the Canada 10-year rate remains between 2.25% to 3.00%. They continue to expect that the improvements in the economy bode well for credit in general, particularly financials, which should benefit from an orderly increase in interest rates.

The Federal government's budget on March 21st changed the rules regarding funds that use tax advantaged structures such as that employed by Canadian Banc Capital Securities Trust. Our current understanding of the government's intentions is that the Fund will be grandfathered and therefore, not impacted by the changes.

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

Yours truly,

W. Neil Murdoch

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

Management Report of Fund Performance

This annual management report of fund performance for **Canadian Banc Capital Securities 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 Aston Hill Capital Markets Inc. (formerly Connor, Clark & Lunn Capital Markets Inc.) (the “Manager”) to the following address: 77 King Street West, Suite 2110, Toronto, Ontario M5K 1G8, or calling 1-800-513-3868 or visiting the Manager’s website at www.astonhill.ca or by visiting www.sedar.com.

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 Strategies

The Fund is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement between the Manager of the Fund and RBC Investor & Treasury Services (the “Trustee”) dated May 22, 2009. 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 December 31. Beneficial interest in the net assets and net income of the Fund is divided into units of two classes, Class A Units (the “Class A Units”) and Class F Units (the “Class F Units”). The Class A Units are listed on the Toronto Stock Exchange (the “TSX”) under the symbol CSB.UN. The Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis. The principal differences between the Class A Units and the Class F Units are that the Agents’ fees payable with respect to the original issuance of the units were lower for the Class F Units and that the service fee component of the Manager’s fee and the TSX listing fees are not paid by the Class F Units.

The Fund’s investment objectives are to:

(i) provide Unitholders with attractive tax-advantaged quarterly cash distributions; and

(ii) return to Unitholders the original issue price of the Units upon termination of the Fund on June 30, 2014.

Distributions are targeted to be $1.50 per annum per Unit consisting primarily of returns of capital, representing a return on the issue price of 6.0% per annum.

In order to achieve the Fund’s investment objectives, the Fund obtains exposure, in a tax-efficient manner, to the performance of a portfolio (the “Portfolio”) held by Portfolio Trust (the “Portfolio Trust” or the “Trust”). Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”), the Trust’s investment manager, actively manages the Portfolio. The Portfolio consists primarily of Innovative Tier 1 Capital Securities of the six largest Canadian banks and large Canadian life insurance companies. The Portfolio includes a minimum of 80% Canadian Bank Capital Securities. The Investment Manager may also invest up to 20% of the Portfolio (measured at the time of investment) in Bank Shares and Life Insurance Company Securities. The Fund may also invest in other securities issued by Canadian financial institutions, including subordinated debt, preferred shares and common shares.

The Fund does not invest directly in the portfolio of Portfolio Trust. The Fund used the net proceeds of the initial public offering of its Class A and Class F Units to pre-pay its purchase obligations under a forward purchase and sale agreement (the “Forward Agreement”) with the Bank of Montreal (the “Counterparty” or “BMO”). Under the Forward Agreement, the Fund will receive, on or before June 23, 2014, a specified portfolio consisting of securities of Canadian public issuers that are “Canadian securities” for the purposes of the Tax Act (“Canadian Securities”) in an amount equal to the value of Portfolio Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by Portfolio Trust. A fee of 0.35% per annum, calculated with reference to the NAV of Portfolio Trust, is payable to BMO under the Forward Agreement.

Risk

Changes in the risk exposure of the Fund occurred in the following areas:

Use of leverage

The Fund is entitled to employ leverage of up to 25% of the total Portfolio held by Portfolio Trust. The Fund applied leverage in the range from 11.4% to 22.0% during the year ended December 31, 2013 (20.4% to 28.4% during the year ended December 31, 2012). The leverage factor as of December 31, 2013 was 14.7% (21.7% as of December 31, 2012).

For full disclosure of risks associated with an investment in the Fund’s units, please refer to the Prospectus dated May 27, 2009 and to the Fund’s most recent Annual Information Form. Both are available at www.astonhill.ca or www.sedar.com.

Recent Developments

Future accounting changes

Beginning January 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, including an opening balance sheet as at January 1, 2013 (the transition date). The Fund will also report its interim financial statements for the period ending June 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. The differences described in the sections that follow are based on Canadian GAAP as at December 31, 2013 and IFRS that are in effect as of January 1, 2014.

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.

Sale of Connor, Clark & Lunn Capital Markets Inc.

Connor, Clark & Lunn Financial Group and the principals of the Manager entered into a sale transaction to sell to Aston Hill Financial Inc. (“Aston Hill”) shares in the Manager, Connor, Clark & Lunn Capital Markets Inc. (the “Company”). The terms of the transaction involved Aston Hill purchasing 80% of the Company from Connor, Clark & Lunn Financial Group, Neil Murdoch (President and Chief Executive Officer) and Darren Cabral (Chief Financial Officer). Neil Murdoch and Darren Cabral hold the remaining 20% of the Company not owned by Aston Hill. Completion of the sale transaction occurred on August 15, 2013. The business acquired by Aston Hill included the management agreement related to this Fund.

Federal Budget Announcement

On March 21, 2013, the Minister of Finance announced proposals in a federal budget that would treat the gain realized by a mutual fund under such forward agreements as ordinary income rather than a capital gain, if the forward agreement was entered into or extended on or after March 21, 2013. On July 11, 2013, the Department of Finance announced proposed technical changes to the transitional rules related to character conversion transactions announced in the federal budget. One of the announced changes includes the extension of the transition period for short-term agreements. The extended grandfathered period allows investment funds, whose forward agreements were entered into prior to March 21, 2013 and the terms of which provide for settlement or are a part of series of agreements that provide for settlement prior to 2015, to extend their forward agreements until end of 2014. For longer-dated forward agreements, the grandfathering transitional period will not extend beyond March 21, 2018. Grandfathering is subject to certain growth rules with which the Fund intend to comply. The federal budget, part of Bill C-4, was enacted into law on December 12, 2013.

The Manager is currently assessing the impact and implications of these changes to the Fund.

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.

Investment Manager Commentary (as at February 2014)

2013 was marked by encouraging economic news and reduced overall uncertainty resulting in strong returns for riskier assets. Statements made by US Federal Reserve (“Fed”) Chairman Bernanke in the second quarter ignited concerns that the exceptional level of monetary stimulus might be tapered sooner than originally expected. This drove global interest rates sharply higher and caused a wave of selling pressure across fixed income and equity markets. By the time the Fed actually made its tapering announcement in mid-December, market response was somewhat muted on the expectation that the Fed’s monetary policy will remain extremely accommodative. On the domestic front, the Bank of Canada dropped its tightening bias during the fourth quarter in the wake of weaker Canadian growth projections. Europe emerged from its recession during the summer, although its recovery remained uneven. In early November, the European Central Bank unexpectedly reduced its key interest rate, citing deflationary concerns. Meanwhile, geo-political tensions in the Middle-East caused some volatility during the year until investor anxiety abated with a diplomatic resolution to the Syrian crisis and the signing of an interim nuclear deal with Iran.

While government bond yields remained low by historical standards, the change in longer-term yields was substantial with the Canadian 10-year rate jumping from its low point of 1.6% in late April to finish the year at 2.8%, a level not seen in more than two years. Better economic prospects drove investors to riskier assets such as corporate bonds, which resulted in tighter corporate spreads despite persistently high level of corporate issuance.

Canadian banks continued to defy waning expectations related to high consumer debt levels. TD Bank, the largest portfolio exposure, provided strong results for the year but disappointed somewhat in the last quarter due mostly to litigation costs in wholesale banking, which we view as a one-time event. As such, TD`s long-term success will continue to be driven by both its strong US and Canadian operating platforms and its solid wealth management business.

The life insurance industry benefited from the improved macro landscape which was enhanced considerably by the overall rise in interest rates. Manulife's solid performance resulting from strong investment gains and positive momentum in its wealth management business is a good example. These two factors combined with already-strong overall company fundamentals bode well for its continued success.

The portfolio posted a positive return for the year and performed very strongly on a relative basis, driven primarily by its exposure to Tier One capital securities, which performed well again this year.

Recent Developments

We expect that the global economy will continue to improve but remain slightly below its potential growth rate. While the headwinds that prevailed earlier this year have diminished somewhat, there are still risks associated with the overall rise in interest rates as well as many of the unresolved issues in Europe. We remain cautiously optimistic that monetary authorities within emerging countries will be able to contain rising inflation pressures which would otherwise be problematic for the broader global economy.

We also expect the monetary environment will remain highly accommodative in 2014, with the Fed continuing to expand its balance sheet despite tapering its asset purchases. Further tapering will be dependent on the strength of economic data and interest rates levels. The Fed will focus on "enhanced guidance" to ensure that the environment remains highly accommodative and to protect the economic progress achieved thus far. Beyond the US Federal Reserve, the Bank of Japan continues to increase its monetary base through asset purchases, while the next moves from the European Central Bank and the Bank of Canada are more likely to be further easing of monetary policy rather than tightening.

Our belief that we have seen the lows in interest rates remains intact. However, we also believe that the path to higher rates will be very protracted given the significant debt levels that still exist globally. As such, our forecasted range for the Canada 10-year rate remains between 2.25% to 3.00%. We continue to expect that the improvements in the economy bode well for credit in general, particularly financials, which should benefit from an orderly increase in interest rates.

Capital transactions

On June 9, 2009, the Fund completed an initial public offering pursuant to the Prospectus dated May 27, 2009. $90,000,000 was raised through the issue of 3,600,000 Class A Units and $6,289,000 was raised through the issue of 251,560 Class F Units. The Class A Units were issued at $25.00 per Unit and incurred Agents' fees and issue expenses of $5,553,139 or $1.53 per Unit, for an opening Transactional NAV of $23.47 per Unit. The Class F Units were issued at $25.00 per Unit and incurred Agents' fees and issue expenses of $199,486 or $0.76 per Unit, for an opening Transactional NAV of $24.24 per Unit.

On July 6, 2009, the Agents exercised an over-allotment option in respect of 108,000 Class A Units, raising a further $2,700,000. Agents' fees were $141,750 or $1.31 per Unit.

On October 27, 2009, the Fund raised an additional $663,999 through the issue of 25,149 Class F Units at $26.40 per Unit from a private placement, increasing the number of Class F Units issued to 276,709 Units.

During the year ended December 31, 2013, $16,634,939 was paid to redeem 605,966 Class A Units and no amount was paid to redeem Class F Units ($22,254,732 was paid to redeem 792,956 Class A Units and $2,573,831 was paid to redeem

87,000 Class F Units during the year ended December 31, 2012). There were also 19,986 Class F Units converted to 21,343 Class A Units for a total value of $594,069 during the year ended December 31, 2013 (12,620 Class F Units were converted to 13,365 Class A Units for a total value of $370,265 during the year ended December 31, 2012).

Market repurchases

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

The Fund did not purchase any Class A Units for cancellation during the years ended December 31, 2013 and 2012.

Net Assets

The net assets per unit is calculated as the value of the prepaid amount to the Counterparty under the Forward Agreement plus any other investments held by the Fund, plus the value of any gain or loss on the Forward Agreement, less any net liabilities of the Fund. The resulting amount is assigned to the Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses.

On December 31, 2013, the value of the prepaid amount to the Counterparty under the Forward Agreement was $41,212,592. Since the Fund can at any time terminate the Forward Agreement with the Counterparty in exchange for the value of Portfolio Trust, the value of the Forward Agreement to the Fund is equal to the transactional value of Portfolio Trust less the value of the prepaid amount to the Counterparty under the Forward Agreement. On December 31, 2013 the value of the unrealized gain on the Forward Agreement balance was $25,242,300. Other liabilities net of other assets in the Fund totalled $10,677,750, leaving net assets of $55,777,142. By assigning this amount to the Class A and Class F Unitholders, as mentioned in the previous paragraph, the GAAP net assets per unit were $27.11 per Class A Unit and $29.04 per Class F Unit. (On December 31, 2012, the value of the prepaid amount to the Counterparty under the Forward Agreement was $66,638,910 and the value of the unrealized gain on the Forward Agreement balance was $30,191,276. Other liabilities net of other assets in the Fund totalled $22,352,464, leaving net assets of $74,477,722. By assigning this amount to the Class A and Class F Unitholders, the GAAP net assets per unit were $27.97 per Class A Unit and $29.75 per Class F Unit).

Leverage

The Fund's exposure to the securities in Portfolio Trust, through the Forward Agreement, may be increased to 25% of the NAV (being the aggregate value of the assets of Portfolio Trust) (tested daily) for the purposes of adding leverage to the Fund and such other short-term funding purposes as may be determined by the Investment Manager from time to time and in accordance with the Investment Strategy. The use of leverage has the potential to enhance or reduce returns.

The Fund entered into a letter of agreement (the "Credit Agreement") dated June 9, 2009, between the Manager and the Bank of Montreal (the "Counterparty" or "BMO"), to borrow amounts up to 25% of the NAV of Portfolio Trust as being part of the Forward Agreement. If at any time the leverage ratio goes above the maximum allowable ratio, the leverage amount will be decreased. Under the provisions of the Credit Agreement, the Counterparty will also charge the Fund a fee of 0.25% of any unfunded leverage amount (the difference between the maximum allowable leveraged amount and the actual funded leverage amount). This agreement will be terminated on the earlier of (i) June, 23, 2014; and (ii) the date on which this Transaction is pre-settled in full pursuant to the terms of the Credit Agreement.

During the year ended December 31, 2013, the Fund had bank indebtedness balances between $9,773,000 and $21,060,000. As a percentage of the NAV of Portfolio Trust, the balance ranged from 11.4% to 22.0% ($21,060,000 and $28,420,000 and 20.4% to 28.4% of the NAV of Portfolio Trust during the year ended December 31, 2012). The related interest expense during the same period was $425,063 ($736,483 during the year ended December 31, 2012). At December 31, 2013, the borrowed balance was $9,773,000 or 14.7% of the NAV of Portfolio Trust ($21,060,000 at December 31, 2012 or 21.7% of the NAV of Portfolio Trust).

Distributions

The Fund pays quarterly distributions initially at $0.375 per Unit, representing a return of 6.0% per annum on the Unit issue price. The Fund paid an initial distribution of $0.4615 for Unitholders with record date September 30, 2009 and regular quarterly distributions of $0.375 per calendar quarter thereafter.

The Fund has made all its scheduled distributions during the year ended December 31, 2013, paying $1.50 per Class A Unit and $1.50 per Class F Unit respectively ($1.50 per Class A Unit and $1.50 per Class F Unit during the year ended December 31, 2012).

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 year ended December 31, 2013.

Related Party Transactions

Management Fees

The Manager receives a management fee from the Fund and Portfolio Trust equal in the aggregate to 0.50% per annum of the applicable Net Asset Value (0.25% from the Fund and 0.25% from Portfolio Trust), calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund and Portfolio Trust on a combined basis during the year ended December 31, 2013 were $372,614 plus applicable taxes ($477,072 plus applicable taxes during the year ended December 31, 2012).

The Manager is responsible for payment of the investment management fees out of these management fees.

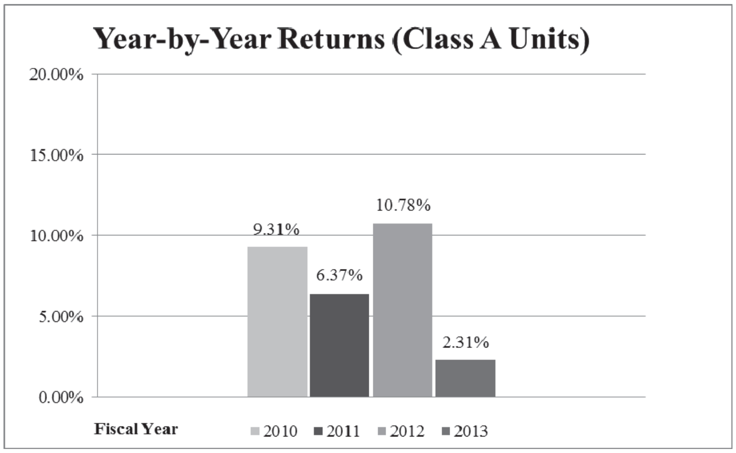
Service Fees

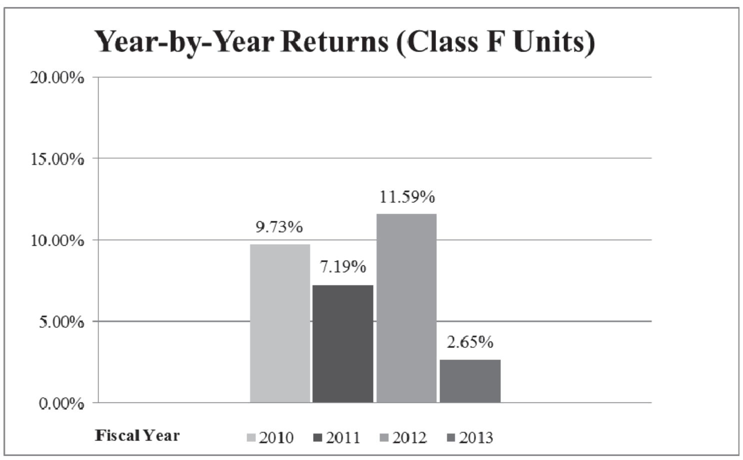
The Fund pays to the Manager a service fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter); solely with respect to the Class A Units, equal to 0.40% per annum of the Net Asset Value attributable to the Class A Units. The service fee is applied by the Manager to pay a service fee in an equivalent aggregate amount to brokers based on the number of Class A Units held by clients of such brokers at the end of the relevant quarter. No service fee is payable in respect of the Class F Units.

The service fees charged to the Fund during the year ended December 31, 2013 were $268,477 ($347,332 during the year ended December 31, 2012).

Past Performance

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





Annual Compound Returns

	Past Year	Past 3 Years	Since Inception [1]
Based on NAV (Class A Units)	2.31%	6.43%	9.06%
Based on share price (Class A Units)	2.04%	5.94%	7.02%
Based on NAV (Class F Units)	2.65%	9.66%	7.08%
DEX Universe Bond Index	-1.19%	3.92%	4.50%

(1) Annualized for the period from June 9, 2009 (commencement of operations) to December 31, 2013.

The DEX Universe Bond Index is the broadest and most widely used measure of performance of virtually all of the outstanding marketable bonds in the Canadian market.

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:	2013	2012	2011	2010	2009 [1]
Net Assets, beginning of period	**27.97**	**26.56**	**26.38**	**25.50**	**25.00**
Unit issue expense [2]	–	–	–	**(0.01)**	**(1.53)**
Increase (decrease) from operations:					
Total revenues	–	–	–	–	–
Total expenses	(0.52)	(0.56)	(0.53)	(0.48)	(0.25)
Realized gains (losses) for the period	3.06	2.61	0.63	0.60	0.04
Unrealized gains (losses) for the period	(1.90)	0.86	1.58	2.28	3.09
Total increase (decrease) from operations [3]	**0.64**	**2.91**	**1.68**	**2.40**	**2.88**
Distributions:					
From income (excluding dividends)	–	–	–	–	–
From dividends	–	–	–	–	–
From capital gains	–	–	–	–	–
Return of capital	(1.50)	(1.50)	(1.50)	(1.50)	(0.84)
Total Distributions [4]	**(1.50)**	**(1.50)**	**(1.50)**	**(1.50)**	**(0.84)**
Net Assets, end of period [5]	**27.11**	**27.97**	**26.56**	**26.38**	**25.50**

(1) Results for the period from June 9, 2009 (commencement of operations) to December 31, 2009.
(2) Issue expenses of $5,726,569 incurred in connection with the Class A Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes.
(3) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of 2,520,800 units outstanding as of December 31, 2013 (December 31, 2012 – 3,281,283 units).
(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on the Fund's tax return.
(5) This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class A Units):	2013	2012	2011	2010	2009 [1]
Net asset value (000's)	53,705	71,760	89,136	91,235	95,373
Number of units outstanding	1,981,033	2,565,656	3,345,247	3,444,903	3,721,115
Base management expense ratio [2] [3]	1.28%	1.28%	1.21%	1.25%	1.32%
Issue expense ratio [2] [3]	0.00%	0.00%	0.00%	0.03%	6.19%
Interest expense ratio [2] [3]	0.58%	0.77%	0.76%	0.59%	0.50%
Management expense ratio (annualized) [3]	1.86%	2.05%	1.97%	1.87%	8.01%
Management expense ratio before waivers or absorptions (annualized) [3]	1.86%	2.05%	1.97%	1.87%	8.01%
Portfolio turnover rate [4]	0.00%	0.00%	0.00%	106.93%	0.00%
Trading expense ratio [5]	0.00%	0.00%	0.00%	0.00%	0.00%
Net asset value per unit [6]	27.11	27.97	26.65	26.48	25.63
Closing market price (TSX)	26.30	27.25	26.05	26.15	25.20

(1) Results for the period from June 9, 2009 (commencement of operations) to December 31, 2009.
(2) A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses, and Interest expense ratio: representing cost of leverage.
(3) 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. Unit issue expenses, representing all agents' fees and other offering expenses, which are one-time expenses, are not annualized.
(4) The Fund's turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.
(5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net 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.

Class F Units:

The Fund's Net Assets per Class F Unit:	2013	2012	2011	2010	2009 (1)
Net Assets, beginning of period	**29.75**	**27.96**	**27.50**	**26.42**	**25.00**
Unit issue expense (2)	–	–	–	**(0.01)**	**(0.79)**
Increase (decrease) from operations:					
Total revenues	–	–	–	–	–
Total expenses	(0.43)	(0.48)	(0.45)	(0.50)	(0.26)
Realized gains (losses) for the period	3.28	2.75	0.66	0.62	0.04
Unrealized gains (losses) for the period	(2.01)	0.96	1.83	2.49	3.20
Total increase (decrease) from operations (3)	**0.84**	**3.23**	**2.04**	**2.61**	**2.98**
Distributions:					
From income (excluding dividends)	–	–	–	–	–
From dividends	–	–	–	–	–
From capital gains	–	–	–	–	–
Return of capital	(1.50)	(1.50)	(1.50)	(1.50)	(0.84)
Total Distributions (4)	**(1.50)**	**(1.50)**	**(1.50)**	**(1.50)**	**(0.84)**
Net Assets, end of period (5)	**29.04**	**29.75**	**27.96**	**27.50**	**26.42**

(1) Results for the period from June 9, 2009 (commencement of operations) to December 31, 2009.
(2) Issue expenses of $201,795 incurred in connection with the Class F Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes.
(3) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of 82,042 units outstanding as of December 31, 2013 (2012 – 174,226 units).
(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on the Fund's tax return.
(5) This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class F Units):	2013	2012	2011	2010	2009 (1)
Net asset value (000's)	2,072	2,718	5,358	6,722	6,989
Number of units outstanding	71,358	91,344	190,964	243,509	263,209
Base management expense ratio (2) (3)	0.85%	0.89%	0.84%	0.81%	0.87%
Issue expense ratio (2) (3)	0.00%	0.00%	0.00%	0.03%	3.06%
Interest expense ratio (2) (3)	0.59%	0.77%	0.76%	0.59%	0.50%
Management expense ratio (annualized) (3)	1.44%	1.66%	1.60%	1.43%	4.43%
Management expense ratio before waivers or absorptions (annualized) (3)	1.44%	1.66%	1.60%	1.43%	4.43%
Portfolio turnover rate (4)	0.00%	0.00%	0.00%	106.93%	0.00%
Trading expense ratio (5)	0.00%	0.00%	0.00%	0.00%	0.00%
Net asset value per unit (6)	29.04	29.75	28.06	27.60	26.55

(1) Results for the period from June 9, 2009 (commencement of operations) to December 31, 2009.
(2) A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses, and Interest expense ratio: representing cost of leverage.
(3) 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. Unit issue expenses, representing all agents' fees and other offering expenses, which are one-time expenses, are not annualized.
(4) The Fund's turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.
(5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net 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 December 31, 2013

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

Investment portfolio of Canadian Banc Capital Securities Trust

	Fair value $	% of NAV
Portfolio by Category		
Derivative contracts	66,454,892	119.0%
Information Technology	9,936	0.0%
Short-term Investments	99,731	0.2%
Cash	21,029	0.0%
Bank Indebtedness	(9,773,000)	-17.5%
Other Liabilities Net of Other Assets	(1,035,446)	-1.7%
Top 25 Holdings		
Prepaid forward agreement	66,454,892	119.0%
Cash and short-term investments	120,760	0.2%
Celestica Inc.	9,936	0.0%
Net asset value	**55,777,142**	

The Fund obtained exposure to the performance of the portfolio held by Portfolio Trust through the Forward Agreement (see Investment Objectives and Strategies). The following is the summary of investment portfolio for Portfolio Trust as of December 31, 2013:

Investment portfolio of Portfolio Trust

	Coupon Rate %	Maturity date	Fair value $	% of NAV of Portfolio Trust
Portfolio by Category				
Corporate Bonds			60,081,524	91.9%
Short-term Investments			5,341,509	8.1%
Cash			29,961	0.0%
Futures Contracts			14,312	0.0%
Other Liabilities Net of Other Assets			(12,414)	0.0%
Top 25 Holdings				
Toronto-Dominion Capital Trust (CATS III)	7.24%	12/31/2018	19,732,186	29.6%
National Bank of Canada Capital Trust	7.24%	06/30/2018	16,047,425	24.1%
Toronto-Dominion Bank (CGR III)	5.76%	12/18/2017	10,206,478	15.4%
Manulife Financial Capital (MACS II)	7.41%	12/31/2019	7,159,591	10.8%
Bank of Montreal Capital Trust (BOATS IV)	5.47%	12/31/2014	4,312,308	6.5%
Royal Bank of Canada Capital Trust (TRUCS V)	6.82%	06/30/2018	3,623,536	5.5%
Cash and short-term investments			5,371,470	8.1%
Futures contracts			14,312	0.0%
Net asset value			**66,454,892**	

Management's Responsibility for Financial Reporting

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

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

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

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

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

Toronto, Canada
March 28, 2014

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March 28, 2014

Independent Auditor's Report

To the Unitholders of
Canadian Banc Capital Securities Trust (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investments as at December 31, 2013, the statements of net assets as at December 31, 2013 and December 31, 2012 and the statements of operations, changes in net assets and retained earnings, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

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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 December 31, 2013 and 2012 and the results of its operations, the changes in its net assets and retained earnings and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Canadian Banc Capital Securities Trust

Statements of Net Assets

As at December 31, 2013 and 2012

	2013	2012
	$	$
Assets		
Cash	21,029	15,151
Short-term investments	99,731	99,777
Investments at fair value (cost - $10,035; December 31, 2012 - $10,035)	9,936	7,263
Prepaid forward agreement (note 8)	66,454,892	96,830,186
Interest receivable	250	61
Prepaid expenses	1,899	2,975
	66,587,737	96,955,413
Liabilities		
Bank indebtedness (note 5)	9,773,000	21,060,000
Interest payable	87,275	178,893
Distributions payable	769,647	996,525
Accounts payable and accrued liabilities	167,908	227,910
Management fees payable	12,765	14,363
	10,810,595	22,477,691
Net assets and unitholders' equity	55,777,142	74,477,722
Net Assets		
Class A	53,705,136	71,759,790
Class F	2,072,006	2,717,932
	55,777,142	74,477,722
Units issued and outstanding (note 6)		
Class A	1,981,033	2,565,656
Class F	71,358	91,344
Net assets per unit		
Class A	27.11	27.97
Class F	29.04	29.75
Unitholders' equity (note 6)		
Unit Capital	32,551,216	47,075,000
Retained Earnings	23,225,926	27,402,722
Total Unitholders' equity	55,777,142	74,477,722

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

W. Neil Murdoch

Director

Director

(See accompanying notes to financial statements)

Canadian Banc Capital Securities Trust

Statements of Operations

For the years ended December 31, 2013 and 2012

	2013	2012
	$	$
Income		
Interest income	1,358	1,077
Expenses		
Interest expense (note 5)	425,063	736,483
Forward fees (note 8)	309,351	433,999
Service fees (note 11)	268,477	347,332
Management fees (note 10)	186,307	238,536
Administration fees	31,071	26,967
Harmonized sales tax	22,608	53,266
Audit fees	22,419	20,571
Custodial and other unitholder fees	21,946	23,758
TSX listing fees	13,376	11,343
Filing fees	11,754	11,470
Printing and mailing fees	11,078	8,215
Transfer agent fees	10,558	13,858
IRC fees	4,037	3,820
Other fees	3,481	7,391
Legal fees	467	856
	1,341,993	1,937,865
Investment loss	(1,340,635)	(1,936,788)
Unrealized gain (loss) on investments		
Change in unrealized gain (loss) on investments	2,673	522
Change in unrealized gain on forward agreement (note 8)	(4,948,976)	2,991,685
	(4,946,303)	2,992,207
Realized gain on investments		
Net realized gain on forward agreement (note 8)	7,980,682	9,044,584
Net gain on investments	3,034,379	12,036,791
Increase in net assets from operations	1,693,744	10,100,003
Increase (decrease) in net assets from operations for		
Class A Units	1,625,221	9,537,634
Class F Units	68,523	562,369
Increase (decrease) in net assets from operations per unit *		
Class A Units	0.64	2.91
Class F Units	0.84	3.23

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

(See accompanying notes to financial statements)

Canadian Banc Capital Securities Trust

Statements of Changes in Net Assets and Retained Earnings

For the years ended December 31, 2013 and 2012

	Class A		Class F		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
	$	**$**	**$**	**$**	**$**	**$**
Increase in net assets from operations	1,625,221	9,537,634	68,523	562,369	1,693,744	10,100,003
Distributions to unitholders from: (note 9)						
Return of capital	(3,639,005)	(4,729,908)	(120,380)	(240,014)	(3,759,385)	(4,969,922)
Unitholders' transactions (note 6)						
Conversion to Class A from Class F	594,069	370,265	(594,069)	(370,265)	-	-
Payments on redemption/cancellation of units (notes 6 & 7)	(16,634,939)	(22,254,732)	-	(2,573,831)	(16,634,939)	(24,828,563)
	(16,040,870)	(21,884,467)	(594,069)	(2,944,096)	(16,634,939)	(24,828,563)
Change in net assets during the year	(18,054,654)	(17,076,741)	(645,926)	(2,621,741)	(18,700,580)	(19,698,482)
Net assets - beginning of year	71,759,790	88,836,531	2,717,932	5,339,673	74,477,722	94,176,204
Net assets - end of year	53,705,136	71,759,790	2,072,006	2,717,932	55,777,142	74,477,722
Retained Earnings, beginning of year	26,183,395	23,386,165	1,219,327	1,466,017	27,402,722	24,852,182
Increase in net assets from operations	1,625,221	9,537,634	68,523	562,369	1,693,744	10,100,003
Cost of shares redeemed/repurchased in excess of original issue price	(5,870,540)	(6,740,404)	-	(809,059)	(5,870,540)	(7,549,463)
Retained Earnings, end of year	21,938,076	26,183,395	1,287,850	1,219,327	23,225,926	27,402,722

(See accompanying notes to financial statements)

Canadian Banc Capital Securities Trust

Statements of Cash Flows

For the years ended December 31, 2013 and 2012

	2013	2012
	$	$
Operating Activities		
Increase in net assets from operations	1,693,744	10,100,003
Items not affecting cash:		
Change in unrealized (gain) loss on investments	(2,673)	(522)
Change in unrealized gain on forward agreement (note 8)	4,948,976	(2,991,685)
Net realized gain on forward agreement	(7,980,682)	(9,044,584)
Changes in non-cash working capital:		
(Increase) decrease in prepaid expenses	1,076	(2,975)
(Increase) decrease in interest and dividends receivable	(189)	(61)
Increase (decrease) in interest payable	(91,618)	(14,494)
Decrease in accounts payable and accrued liabilities	(60,002)	(2,313)
Decrease in management fees payable	(1,598)	(6,528)
Pre-settlements received by the Fund from the Counterparty under the forward agreement	33,407,000	39,515,000
Net cash flow provided by operating activities	31,914,034	37,551,841
Financing Activities		
Payments on redemption/cancellation of units (notes 6 & 7)	(16,634,939)	(24,828,563)
Distributions paid to unitholders	(3,986,263)	(5,299,375)
Bank indebtedness	(11,287,000)	(7,360,000)
Net cash flow used in financing activities	(31,908,202)	(37,487,938)
Net increase (decrease) in cash and short-term investments	5,832	63,903
Cash - beginning of year	15,151	51,025
Short-term investments - beginning of year	99,777	-
Total cash and short-term investments - beginning of year	114,928	51,025
Cash - end of year	21,029	15,151
Short-term investments - end of year	99,731	99,777
Total cash and short-term investments - end of year	120,760	114,928
Supplementary Information		
Interest paid	516,681	750,977

(See accompanying notes to financial statements)

Canadian Banc Capital Securities Trust

Statement of Investments

As at December 31, 2013

	% Coupon Rate	Maturity date	Number of shares	Average cost $	Fair value $	% of NAV
Short-term investments						
Banker's Acceptance						
Bank of Nova Scotia	1.70%	06/01/2014	100,000	99,731	99,731	0.2%
Investments						
Canadian common stocks						
Information Technology						
Celestica Inc.			900	10,035	9,936	0.0%
Total Canadian common stocks				10,035	9,936	0.0%
Forward agreement:						
Investments held in Portfolio Trust under the Forward Agreement (note 8) *						
Short-term investments						
Bearer Deposit Notes						
Bank of Montreal	0.99%	03/19/2014	250,000	249,298	249,298	0.4%
Canadian Imperial Bank of Commerce	1.12%	02/24/2014	1,550,000	1,547,411	1,547,411	2.8%
Canadian Imperial Bank of Commerce	1.45%	02/03/2014	3,250,000	3,245,520	3,245,520	5.8%
Treasury Bills						
Government of Canada Treasury Bill (Futures margin) **	0.88%	01/30/2014	300,000	299,280	299,280	0.5%
				5,341,509	5,341,509	9.5%
Investments						
Corporate Bonds						
Royal Bank of Canada Capital Trust (TRUCS V)	6.82%	06/30/2018	3,120,000	3,518,972	3,623,536	6.5%
Bank of Montreal Capital Trust (BOATS IV)	5.47%	12/31/2014	4,160,000	4,397,952	4,312,308	7.7%
Manulife Financial Capital Trust (MACS II)	7.41%	12/31/2019	6,000,000	6,000,000	7,159,591	12.8%
Toronto-Dominion Bank (CGR III)	5.76%	12/18/2017	9,184,000	10,073,866	10,206,478	18.3%
National Bank of Canada Capital Trust	7.24%	06/30/2018	13,700,000	15,741,671	16,047,425	28.8%
Toronto-Dominion Capital Trust (CATS III)	7.24%	12/31/2018	16,581,000	19,431,346	19,732,186	35.4%
				59,163,807	61,081,524	109.5%
Total investments held in Portfolio Trust under the Forward Agreement				64,505,316	66,423,033	119.0%

	Maturity date	Number of contracts	Average cost CAD $	Fair value CAD $	Unrealized gain (loss) CAD $	% of NAV
Short Futures contract						
Canadian 5 Year Bond Futures (S&P credit rating: A+)	03/31/2014	(230)	(27,510,300)	(27,314,800)	195,500	0.3%
Cash overdraft held as margin					(181,188)	-0.3%
Total futures contract					14,312	0.0%
Other assets net of other liabilities of Portfolio Trust					17,547	0.0%
Transactional net asset value of Portfolio Trust					66,454,892	119.0%
Prepaid forward agreement					66,454,892	119.0%
Bank Indebtedness					(9,773,000)	-17.5%
Other liabilities net of other assets of the Fund					(1,014,417)	-1.7%
Net asset value of the Fund					55,777,142	100.0%

* Canadian Banc Capital Securities Trust (the "Fund") obtained exposure to the performance of the portfolio held by Portfolio Trust (the "Trust") through the Forward Agreement (see note 8); thus, the portfolio of the Trust is presented as part of this statement.

** This security is pledged as collateral for the futures contracts.

(See accompanying notes to financial statements)

1 Corporate activities

Canadian Banc Capital Securities Trust (the “Fund”) is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement between Aston Hill Capital Markets Inc. (the “Manager”) the Manager of the Fund and RBC Investor & Treasury Services (the “Trustee”) dated May 22, 2009. 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 December 31. The Fund is divided into units of two classes, Class A Units and Class F Units. The Class A Units are listed on the Toronto Stock Exchange (the “TSX”) under the symbol CSB.UN. The Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis.

In August 2013, Connor, Clark & Lunn Financial Group and the principals of the Manager entered into a sale transaction to sell to Aston Hill Financial Inc. (“Aston Hill”) shares in the Manager, Connor, Clark & Lunn Capital Markets Inc. (the “Company”). The terms of the transaction involved Aston Hill purchasing 80% of the Company from Connor, Clark & Lunn Financial Group, Neil Murdoch (President and Chief Executive Officer) and Darren Cabral (Chief Financial Officer). Neil Murdoch and Darren Cabral hold the remaining 20% of the Company not owned by Aston Hill. Completion of the sale transaction occurred on August 15, 2013. The business acquired by Aston Hill included the management agreement related to this Fund.

2 Investment objectives

The Fund’s investment objectives are to:

(i) provide Unitholders with attractive tax-advantaged quarterly cash distributions; and

(ii) return to Unitholders the original issue price of the Units upon termination of the Fund on June 30, 2014.

Distributions are targeted to be $1.50 per annum per Unit consisting primarily of returns of capital, representing a yield of 6.0% per annum.

In order to achieve the Fund’s investment objectives, the Fund obtained exposure, in a tax-efficient manner, to the performance of a portfolio (the “Portfolio”) held by Portfolio Trust (the “Portfolio Trust” or the “Trust”). Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”), the Trust’s Investment Manager, actively manages the Portfolio. The Portfolio consists primarily of Innovative Tier 1 Capital Securities of the six largest Canadian banks and large Canadian life insurance companies. The Portfolio includes a minimum of 80% Canadian Bank Capital Securities. The Investment Manager may also invest up to 20% of the Portfolio (measured at the time of investment) in Bank Shares and Life Insurance Company Securities. The Fund may also invest in other securities issued by Canadian financial institutions, including subordinated debt, preferred shares and common shares.

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 differences between the Transactional NAV and the GAAP Net Assets as at December 31, 2013 and 2012. On December 31, 2013, the GAAP Net Assets per Unit were $27.11 per Class A Units (2012 – $27.97) and $29.04 per Class F Units (2012 – $29.75).

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.

Futures contracts

The Fund is exposed to the futures contracts held in Portfolio Trust. The futures contracts are exchange-traded futures contracts and are valued at their close price at the close of business on each Valuation Date. Any differences between the settlement value at the close of business on the current Valuation Date and that of the previous Valuation Date is reflected in the Fund through its exposure to the Forward Agreement and is recorded in the Statements of Operations as “Change in unrealized gain on forward agreement”.

Increase (decrease) in net assets from operations per unit

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

Valuation of a class

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.

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, 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 amortized cost. Amounts payable for securities purchased and capital shares redeemed, distribution payable, other liabilities and accrued expenses 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.

Future accounting changes

Beginning January 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, including an opening balance sheet as at January 1, 2013 (the transition date). The Fund will also report its interim financial statements for the period ending June 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. The differences described in the sections that follow are based on Canadian GAAP as at December 31, 2013 and IFRS that are in effect as of January 1, 2014.

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 (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 Standard's & Poor's ("S&P") as of December 31, 2013 and 2012.

5 Bank indebtedness

The Fund's exposure to the securities in Portfolio Trust, through the Forward Agreement, may be increased to 25% of the NAV (being the aggregate value of the assets of Portfolio Trust) for the purposes of adding leverage to the Fund and such other short-term funding purposes as may be determined by the Investment Manager from time to time and in accordance with the Investment Strategy. The use of leverage has the potential to enhance or reduce returns.

The Fund entered into a letter of agreement (the "Credit Agreement") dated June 9, 2009, between the Manager and the Bank of Montreal (the "Counterparty" or "BMO"), whose S&P credit rating was A+ as at December 31, 2013 and 2012, to borrow amounts up to 25% of the NAV of Portfolio Trust as being part of the Forward Agreement (see note 8). If at any time the leverage ratio goes above the maximum allowable ratio, the leverage amount will be decreased. Under the provisions of the Credit Agreement, the Counterparty will also charge the Fund a fee of 0.25% of any unfunded leverage amount (the difference between the maximum allowable leverage amount and the actual funded leverage amount). This agreement will be terminated on the earlier of (i) June, 23, 2014 and (ii) the date on which this Transaction is pre-settled in full pursuant to the terms of the Credit Agreement.

During the year ended December 31, 2013, the Fund had bank indebtedness balances between $9,773,000 and $21,060,000. As a percentage of the NAV of Portfolio Trust, the balance ranged from 11.4% to 22.0% ($21,060,000 and $28,420,000 and 20.4% to 28.4% of the NAV of Portfolio Trust during the year ended December 31, 2012). The related interest expense during the same period was $425,063 ($736,483 during the year ended December 31, 2012). At December 31, 2013, the borrowed balance was $9,773,000 or 14.7% of the NAV of Portfolio Trust ($21,060,000 at December 31, 2012 or 21.7% of the NAV of Portfolio Trust).

6 Unitholders' equity

On June 9, 2009, the Fund completed an initial public offering pursuant to the Prospectus dated May 27, 2009 and raised $90,000,000 through the issue of 3,600,000 Class A Units and $6,289,000 through the issue of 251,560 Class F Units. The Class A Units were issued at $25.00 per Unit and incurred Agents' fees and issue expenses of $5,553,139 or $1.53 per Unit, for an opening Transactional NAV of $23.47 per Unit. The Class F Units were issued at $25.00 per Unit and incurred Agents' fees and issue expenses of $199,486 or $0.76 per Unit, for an opening Transactional NAV of $24.24 per Unit.

On July 6, 2009, the Agents exercised an over-allotment option in respect of 108,000 Class A Units, raising a further $2,700,000. Agents' fees were $141,750 or $1.31 per Unit.

On October 27, 2009, the Fund raised an additional $663,999 through the issue of 25,149 Class F Units at $26.40 per Unit from a private placement, increasing the number of Class F Units issued to 276,709 Units.

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

In addition to the annual redemption right, the Class A Units and Class F Units may also be redeemed on a Monthly Redemption Date, which is the second last Business Day of each month other than the month of November, subject to certain conditions and in order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the date which is the last Business Day of the month preceding the Monthly Redemption Date. Payment of the redemption price will be made on or before the Redemption Payment Date, which is the 10^{th} Business Day of the month immediately following a Monthly Redemption Date, subject to the Manager's right to suspend redemptions in certain circumstances. Concurrently with the payment of the proceeds of redemption, the Fund may pay to the redeeming Unitholder a cash distribution in the amount of the net realized capital gains of the Fund incurred by it to fund the payment of the redemption price. Unitholders surrendering a Class A Unit for redemption will receive a redemption price equal to the lesser of (i) 95% of the Market Price of a Class A Unit, which is the weighted average trading price on the TSX for 10 trading days immediately preceding such Monthly Redemption Date and (ii) 100% of the Closing Market Price of a Class A Unit on the applicable Monthly Redemption Date, which is the closing price on the TSX on such Monthly Redemption Date or, if there was no trade on the relevant Monthly Redemption Date, the average of the last bid and the last asking prices of the security on the TSX on such Monthly Redemption Date less, in each case, any costs associated with the redemption, including brokerage costs, being the Monthly Redemption Amount. Unitholders surrendering a Class F Unit for redemption will receive an amount equal to the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated Net Asset Value per Class F Unit and the denominator of which is the most recently calculated Net Asset Value per Class A Unit.

During the year ended December 31, 2013, $16,634,939 was paid to redeem 605,966 Class A Units ($22,254,732 was paid to redeem 792,956 Class A Units and $2,573,831 was paid to redeem 87,000 Class F Units during the year ended December 31, 2012). There were also 19,986 Class F Units converted to 21,343 Class A Units for a total value of $594,069 during the same period (12,620 Class F Units were converted to 13,365 Class A Units for a total value of $370,265 during the year ended December 31, 2012).

Changes in outstanding units during the years ended December 31, 2013 and 2012 are summarized as follows:

	Class A Units		Class F Units	
	December 31, 2013	**December 31, 2012**	**December 31, 2013**	**December 31, 2012**
Balance – beginning of year	2,565,656	3,345,247	91,344	190,964
Class F Units converted to Class A Units	21,343	13,365	(19,986)	(12,620)
Units redeemed	(605,966)	(792,956)	-	(87,000)
Balance – end of year	1,981,033	2,565,656	71,358	91,344

The Unit Capital dollar amount represents the face value of the Fund's units minus any return on capital distributions and issue costs paid since June 9, 2009 (commencement of operations) to December 31, 2013. 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.

7 Market Purchase Program

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

The Fund did not purchase any Class A Units for cancellation during the years ended December 31, 2013 and 2012.

8 Forward Agreement

The Fund does not invest directly in portfolio of Portfolio Trust. The Fund used the net proceeds of the public offering of its Class A and Class F Units and bank borrowing to pre-pay its purchase obligations under a forward purchase and sale agreement (the "Forward Agreement") with the Bank of Montreal (the "Counterparty" or "BMO"). Under the Forward Agreement, the Fund will receive, on or before June 23, 2014, a specified portfolio consisting of securities of Canadian public issuers that are "Canadian securities" for the purposes of the Tax Act ("Canadian Securities") in an amount equal to the value of Portfolio Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by Portfolio Trust. A fee of 0.35% per annum, calculated with reference to the net asset value of Portfolio Trust, is payable to BMO under the Forward Agreement.

On December 31, 2013, the prepaid amount to the Counterparty under the Forward Agreement was $41,212,592 (2012 – $66,638,910). The value of the unrealized gain on the Forward Agreement balance was $25,242,300 (2012 – $30,191,276). Other liabilities net of other assets in the Fund totalled $10,677,750 (2012 – $22,352,464), leaving net assets of $55,777,142 (2012 – $74,477,722). This amount is assigned to the Class A and Class F unitholders using an allocation percentage that takes into consideration any class level specific expenses.

On March 21, 2013, the Minister of Finance announced proposals in a federal budget that would treat the gain realized by a mutual fund under such forward agreements as ordinary income rather than a capital gain, if the forward agreement was entered into or extended on or after March 21, 2013. On July 11, 2013, the Department of Finance announced proposed technical changes to the transitional rules related to character conversion transactions announced in the federal budget. One of the announced changes includes the extension of the transition period for short-term agreements. The extended grandfathered period allows investment funds, whose forward agreements were entered into prior to March 21, 2013 and the terms of which provide for settlement or are a part of series of agreements that provide for settlement prior to 2015, to extend their forward agreements until end of 2014. For longer-dated forward agreements, the grandfathering transitional period will not extend beyond March 21, 2018. Grandfathering is subject to certain growth rules with which the Fund intend to comply. The federal budget, part of Bill C-4, was enacted into law on December 12, 2013.

The Manager is currently assessing the impact and implications of these changes to the Fund.

9 Distributions

The Fund pays quarterly distributions initially at $0.375 per Unit, representing a return of 6.0% per annum on the Unit issue price. The Fund paid an initial distribution of $0.4615 for unitholders with record date September 30, 2009 and regular quarterly distributions of $0.375 per calendar quarter thereafter.

The Fund has made all its scheduled distributions during the year ended December 31, 2013, paying $1.50 per Class A Unit and $1.50 per Class F Unit ($1.50 per Class A Unit and $1.50 per Class F Unit during the year ended December 31, 2012).

10 Management Fees

The Manager receives a management fee from the Fund and Portfolio Trust equal in the aggregate to 0.50% per annum of the applicable NAV (0.25% from the Fund and 0.25% from Portfolio Trust), calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund and the Trust on a combined basis during the year ended December 31, 2013 were $372,614 plus applicable taxes ($477,072 plus applicable taxes during the year ended December 31, 2012).

The Manager is responsible for payment of the investment management fees out of these management fees.

11 Service Fee

The Fund pays to the Manager a service fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter); solely with respect to the Class A Units, equal to 0.40% per annum of the NAV attributable to the Class A Units. The service fee is applied by the Manager to pay a service fee in an equivalent aggregate amount to brokers based on the number of Class A Units held by clients of such brokers at the end of the relevant quarter. No service fee is payable in respect of the Class F Units.

The service fee charged to the Fund during the year ended December 31, 2013 were $268,477 ($347,332 during the year ended December 31, 2012).

12 Income taxes

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and accordingly, is subject to tax on its investment income, including net realized capital gains, for any calendar year in which its net investment income or sufficient net realized capital gains are not paid or payable to its unitholders as at the end of the calendar year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains will be distributed to unitholders on a calendar year basis such that Canadian income taxes payable by the Fund 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 taxable capital losses carry forward balances as at December 31, 2013 and 2012. The Fund had non-capital losses of $3,497,468 as at December 31, 2013 (the Fund had non-capital losses between $3,497,468 as at December 31, 2012), which will expire between the years of 2029 and 2031.

13 Broker commission charges and soft dollar services

There were $nil of broker commissions paid during the years ended December 31, 2013 and 2012 in connection with portfolio transactions. No contractual arrangements for soft dollar services exist in the broker commission charges.

14 Financial instruments

For the purposes of categorization in accordance with CPA Canada Section 3862, Financial Instruments – Disclosures, cash, other assets, interest and dividends receivable are deemed to be loans and receivables and are recorded at cost or amortized cost. Similarly, bank indebtedness, 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 Fund obtained exposure to the performance of the portfolio held by the Trust through the Forward Agreement (see note 8) and therefore, the following tables illustrate the classification of the Fund's and Portfolio Trust's financial instruments within the fair value hierarchy as at December 31, 2013 and 2012. The Fund is exposed to the investments held by Portfolio Trust via a prepaid forward agreement. This is classified as a Level 2 investment given it is not actively traded.

Assets at fair value as at December 31, 2013	Level 1	Level 2	Level 3	Total
Equities	9,936	–	–	9,936
Bonds	–	61,081,524	–	61,081,524
Short-term investments	–	5,441,240	–	5,441,240
Futures contracts	195,500	–	–	195,500
Total	**205,436**	**66,522,764**	–	**66,728,200**

Assets at fair value as at December 31, 2012	Level 1	Level 2	Level 3	Total
Equities	7,263	–	–	7,263
Bonds	–	93,471,319	–	93,471,319
Short-term investments	–	3,291,785	–	3,291,785
Futures contracts	159,175	–	–	159,175
Total	**166,438**	**96,763,104**	–	**96,929,542**

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.

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.

Futures contracts: The Trust holds futures contracts which relate to the Government of Canada Bonds. These contracts are exchange-traded and therefore, are classified as Level 1 as the fair value is based on a quote in an active market.

There were no transfers among the three levels during the years ended December 31, 2013 and 2012.

15 Financial instrument risk

The Fund obtained exposure to the performance of the portfolio held by Portfolio Trust through the Forward Agreement (see note 8) and therefore, the risks associated with an investment in the Fund's units are best defined in conjunction with the financial risks associated with an investment in the Trust's portfolio.

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. This exposure includes a bond future held in Portfolio Trust. The tables below summarize the Fund's combined exposure to interest rate risks from the financial instruments held by the Fund and Portfolio Trust.

December 31, 2013:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Total
Investments	195,500	4,312,308	49,609,625	7,159,591	**61,277,024**
Short-term investments	5,441,240	–	–	–	**5,441,240**
Total	**5,636,740**	**4,312,308**	**49,609,625**	**7,159,591**	**66,718,264**

December 31, 2012:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Total
Investments	159,175	–	10,979,345	82,491,974	**93,630,494**
Short-term investments	3,291,785	–	–	–	**3,291,785**
Total	**3,450,960**	**–**	**10,979,345**	**82,491,974**	**96,922,279**

As at December 31, 2012, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant and assuming a parallel shift in the yield curve, net assets would have decreased or increased, respectively, by approximately \$1,107,000 or \$1,219,000 from bonds, short-term notes and bond futures (2012 – \$2,495,154 or \$2,774,154). 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. As at December 31, 2013 and 2012, currency risk was negligible as the Trust and the Fund had no exposure to foreign currencies.

Credit risk

The Fund and Portfolio Trust are exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The Fund is exposed to the credit risk associated with the Counterparty. The possibility exists that the Counterparty will default on its obligations under the Forward Agreement. The Counterparty is rated AA- by S&P as of December 31, 2013 and 2012.

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 December 31, 2013 and 2012.

The tables below summarize the Fund's exposure to credit risk through exposure to Portfolio Trust as of December 31, 2013 and 2012. Amounts shown are based on the carrying value of debt investments and the unrealized gain on the futures contracts.

Rating	December 31, 2013 (% of Net Assets)
AAA	0.5%
A	12.8%
A-	60.2%
A-1	9.2%
BBB	36.5%
Total	119.2%

Rating	December 31, 2012 (% of Net Assets)
AAA	0.8%
A	17.8%
A-	65.4%
A-1	3.6%
BBB	42.3%
Total	129.9%

As at December 31, 2013 and 2012, no debt securities of the Trust 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 daily cash redemptions from its market purchase program which is limited to certain conditions (see note 7). The Fund is also exposed to unlimited annual anniversary redemptions on November 30 of every year (see note 6); therefore, the Fund invests the majority of its assets in investments that can be readily disposed. The Fund also achieves liquidity through its ability to pre-settle the Forward Agreement. In addition, the Fund retains sufficient cash and cash equivalent positions to meet its daily cash requirements.

All liabilities (other than bank indebtedness) are due within three months.

Market price risk

Market 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 Investment 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.

If equity prices had increased or decreased by 10% on December 31, 2013, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately $1,000 (2012 – $700). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

16 Subsequent events

The Forward Agreement will terminate on June 23, 2014 and the Fund's original planned termination date will occur on or about June 30, 2014. Following the termination of the Forward agreement, the Manager will decide on the appropriate course of action.