CONNOR, CLARK & LUNN

CAPITAL MARKETS

HBanc Capital Securities Trust

Annual Report

August 31, 2012

HBanc Capital Securities Trust Message to Unitholders

November 29, 2012

Dear Investor,

We are pleased to provide you with the annual report for the HBanc Capital Securities Trust (the “Fund”) for the year ended August 31, 2012.

The Fund was established to provide investors with a high level of stable, tax-advantaged distributions through exposure to securities issued by HSBC Holdings plc (“HSBC”), a conservatively positioned and strongly capitalized global bank. Specifically, the Fund has exposure to two securities issued by HSBC: (i) 8.125% Perpetual Subordinated Capital Securities, Series 1 (“8.125% HSBC Series 1”); and (ii) the 8.00% Perpetual Subordinated Capital Securities, Series 2 (“8.0% HSBC Series 2”).

The Fund’s investment objectives are to (i) provide Unitholders with monthly, tax-advantaged distributions consisting primarily of returns of capital, initially representing a yield on the Unit issue price of 7.0% per annum, and (ii) provide exposure to the Capital Securities. The Fund will not have a fixed distribution, but intends to make monthly distributions based on the actual and expected distributions on the Capital Securities less the Fund’s estimated expenses.

The Fund’s performance during the reporting period was strong. The Class A/ Series 1 units had a total return of 12.24%. Since inception, the compound annual growth rate is 7.67% from the Fund’s opening net asset value, including $3.29 of distributions. The value of the underlying securities has gone up as the market’s perception of the credit risk of HSBC in particular and the financial system in general has gone down.

HSBC is one of the largest banking and financial services organizations in the world, with a market capitalization of U.S. $185 billion at October 31, 2012. HSBC’s long-term senior debt is rated Aa3 by Moody’s, A+ by Standard and Poor’s and AA by Fitch. HSBC had an underlying profit before tax of $10.6 billion, a drop of 3% from the previous year but a reasonably good result given deteriorating global economic conditions.

Please check our website for quarterly investment updates and other timely information.

Yours truly,

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

Management Report of Fund Performance

This annual management report of fund performance for **HBanc 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 Connor, Clark & Lunn Capital Markets Inc. (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.

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

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

Investment Objectives and Strategies

The Fund is a non-redeemable investment fund established under the laws of the Province of Ontario and governed by the 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 Fund is offered in two classes of Units, each of which was offered in two series: Class A Units, Series 1 and 2 at a price of $25.00 per Class A Unit and Class U Units, Series 1 and 2 at a price of U.S. $25.00 per Class U Unit. The only difference between the two series of each class of Units is the fees paid with respect to such series. The Class U Units are designed for investors wishing to make their investment in U.S. dollars.

The Fund’s investment objectives are to: (i) provide Unitholders with monthly, tax-advantaged distributions consisting primarily of returns of capital, initially representing a yield on the Unit issue price of 7.0% per annum and (ii) provide exposure to the capital securities.

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 CS Trust (the “CS Trust”). The Fund provides investors with a high level of stable, tax-advantaged distributions through exposure to CS Trust’s Portfolio of securities issued by HSBC Holdings plc, a conservatively positioned and strongly capitalized global bank. Specifically, the Trust has exposure to (i) the 8.125% Perpetual Subordinated Capital Securities, Series 1 issued by HSBC and (ii) the 8.00% Perpetual Subordinated Capital Securities, Series 2, also issued by HSBC.

The Fund does not invest directly in CS Trust; the Fund used the net proceeds of the initial public offering 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 December 21, 2015, 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 net asset value of CS Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by CS Trust. A fee of 0.35% per annum, calculated with reference to the net asset value of CS Trust, is payable to BMO under the Forward Agreement.

The Fund does not have a fixed distribution but intends to make monthly distributions based on the actual and expected distributions on the capital securities less the Fund’s estimated expenses.

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 15.0% of the levered notional amount (being the Net Asset Value of CS Trust). During the year ended August 31, 2012, the Fund applied leverage in the range from 13.46% to 15.78% or U.S. $22,283,000 to U.S. $23,399,000 for Class A (the Canadian equivalent was $22,012,249 to $24,242,644) and 11.72% to 15.49% or U.S. $3,121,000 to U.S. $3,965,000 for Class U (the Canadian equivalent was $3,079,337 to $4,078,589.) (During the period from October 13, 2010 (commencement of operations) to August 31, 2011, the Fund applied leverage in the range from nil% to 16.14% or $nil to U.S. $24,459,000 for Class A (the Canadian equivalent was $nil to $24,223,067) and nil% to 16.26% or $nil to U.S. $4,190,000 for Class U (the Canadian equivalent was $nil to $4,149,583)). The leverage factor as of August 31, 2012 was 13.65% for Class A and the borrowed balance was U.S. $21,383,000 (the Canadian equivalent was $21,101,714). The leverage factor as of August 31, 2012 was 14.63% for Class U and the borrowed balance was U.S. $3,791,000 (the Canadian equivalent was $3,741,131). (The leverage factor as of August 31, 2011 was 14.47% for Class A and the borrowed balance was U.S. $23,399,000 (the Canadian equivalent was $22,880,751). The leverage factor as of August 31, 2011 was 14.38% for Class U and the borrowed balance was U.S. $3,965,000 (the Canadian equivalent was $3,877,182)).

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.cclcapitalmarkets.com and 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 or 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 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.

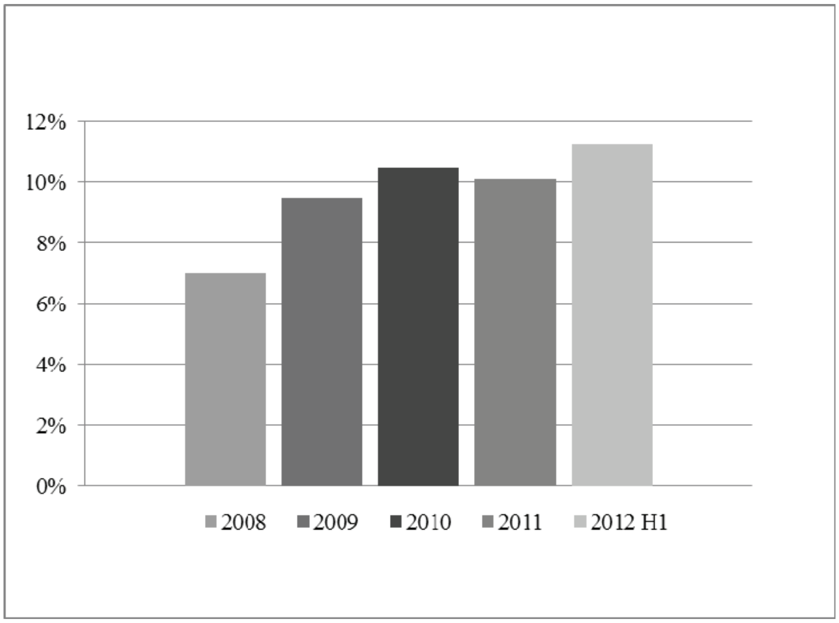
Key Metrics, First Half 2012

	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

On October 13, 2010, the Fund completed an initial public offering pursuant to the prospectus dated September 28, 2010. The following table shows the details of the offering:

	Class A (CAD)			Class U (USD)		
	Series 1	**Series 2**	**Total**	**Series 1**	**Series 2**	**Total**
Units issued	5,797,393	105,500	5,902,893	1,042,724	10,565	1,053,289
Offering price per unit	25.00	25.00		25.00	25.00	
Gross Proceeds	144,934,825	2,637,500	147,572,325	26,068,100	264,125	26,332,225
Agents and issue expenses	(8,192,469)	(69,960)	(8,262,429)	(1,473,200)	(6,951)	(1,480,151)
Net Proceeds	136,742,356	2,567,540	139,309,896	24,594,900	257,174	24,852,074
Opening NAV per unit	23.59	24.34		23.59	24.34	

On April 27, 2012, the Fund completed a private placement and issued an additional 220,200 Class U/ Series 1 Units for gross proceeds of $5,136,723. The issuance expense associated with the private placement was $141,829.

The following tables show the details of the capital transactions for the Fund. The first table shows the capital transactions for the year ended August 31, 2012 and the second table details the capital transactions for the period from October 13, 2010 (commencement of operations) to August 31, 2011.

	Class A		Class U	
	Series 1	Series 2	Series 1	Series 2
Units issued	–	–	220,200	–
Total value	–	–	5,136,723	–
Units converted to Class A Series 1	314,562	(32,900)	(277,955)	(3,000)
Total value	7,078,701	(781,796)	(6,226,130)	(70,775)
Units redeemed/ repurchased	(529,697)	(1,000)	(23,050)	(2,164)
Total value	(12,116,290)	(23,551)	(530,785)	(50,927)

	Class A		Class U	
	Series 1	Series 2	Series 1	Series 2
Units issued	5,797,393	105,500	1,042,724	10,565
Total value	136,742,356	2,567,540	24,649,128	257,741
Units converted to Class A Series 1	34,341	(1,200)	(33,300)	–
Total value	779,483	(27,100)	(752,383)	–
Units redeemed/ repurchased	–	–	–	–
Total value	–	–	–	–

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, divided by the number of units outstanding.

Since the Fund can at any time terminate the Forward Agreement with the Counterparty in exchange for the value of CS Trust, the value of the Forward Agreement to the Fund is equal to the transactional value of the CS Trust less the value of the prepaid amount to the Counterparty under the Forward Agreement. On August 31, 2012, the value of the prepaid amount to the Counterparty under the Forward Agreement balance was $158,534,810. The unrealized gain on the Forward Agreement balance was $21,581,388. Liabilities net of other assets in the Fund totalled $24,673,240, leaving net assets of $155,442,958. This amount is assigned to Class A, Series 1 and 2 and Class U, Series 1 and 2 Unitholders using an allocation percentage that takes into consideration any class level specific expenses and foreign exchange hedging unrealized gains and losses. On August 31, 2012, the GAAP Net assets per unit were $23.51 for Class A/ Series 1, $24.19 for Class A/ Series 2, $23.22 or $ U.S. 23.53 for Class U/ Series 1 and $23.95 or $ U.S. 24.27 for Class U/ Series 2. On August 31, 2011, the value of the prepaid amount to the Counterparty under the Forward Agreement was $181,153,775. The unrealized gain on the Forward Agreement balance was $3,579,133. Liabilities net of other assets in the Fund totalled $27,883,645, leaving net assets of $156,849,263. This amount is assigned to Class A, Series 1 and 2 and Class U, Series 1 and 2 Unitholders using an allocation percentage that takes into consideration any class level specific expenses and foreign exchange hedging unrealized gains and losses. On August 31, 2011, the GAAP Net assets per unit were $22.56 for Class A/ Series 1, $23.24 for Class A/ Series 2, $22.41 or U.S. $22.92 for Class U/ Series 1 and $23.09 or U.S. $23.61 for Class U/ Series 2.

Distributions

The Fund does not have a fixed distribution. The Fund paid an initial distribution of $0.23014 per Class A, Series 1 and 2 Unit and U.S. $0.23014 per Class U, Series 1 and 2 Unit covering the period from October 13, 2010 (commencement of operations) to November 30, 2010. The Fund made regular monthly distributions of $0.1458 per Class A, Series 1 and 2 Unit and U.S. $0.1458 per Class U, Series 1 and 2 Unit thereafter, representing a return of 7.0% per annum on the Class A, Series 1 and 2 and Class U, Series 1 and 2 Unit issue prices.

The Fund has made all its scheduled distributions during the year ended August 31, 2012 paying $1.7496 per Class A, Series 1 and 2 Unit and U.S. $1.7496 per Class U, Series 1 and 2 Unit ($1.5423 per Class A, Series 1 and 2 Unit and U.S. $1.5423 per Class U, Series 1 and 2 Unit during the period from October 13, 2010 (commencement of operations) to August 31, 2011).

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 and CS Trust equal in the aggregate to 0.40% per annum of the applicable Net Asset Value, (0.15% from the Fund and 0.25% from CS Trust) calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund and CS Trust on a combined basis during the year ended August 31, 2012 were $693,783 ($617,567 during the period from October 13, 2010 (commencement of operations) to August 31, 2011).

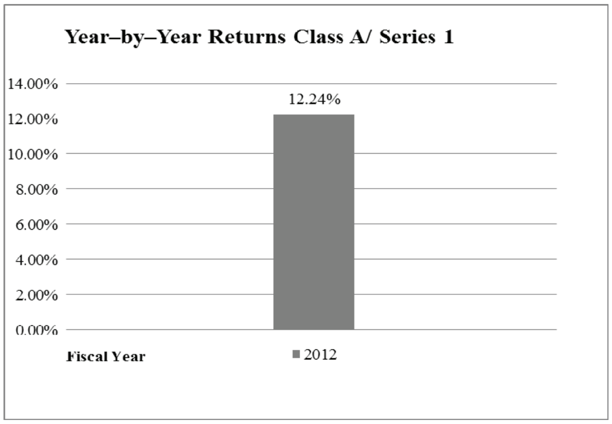
Service Fees

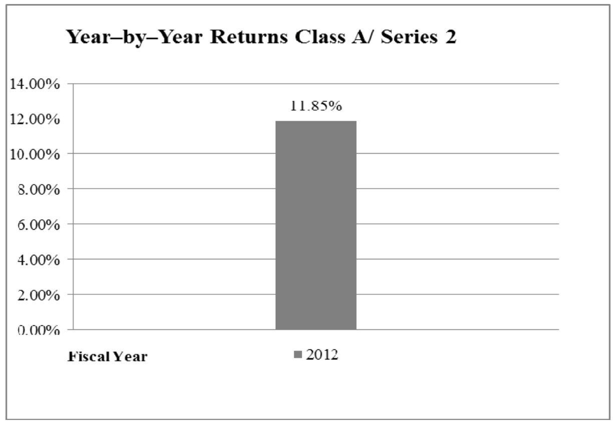
The Fund pays to the Manager a service fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter); solely with respect to the Series 2 of the Class A and Class U Units, equal to 0.30% per annum of the Net Asset Value attributable to the Series 2 of the Class A and Class U 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 Series 2 of the Class A and Class U Units held by clients of such brokers at the end of the relevant quarter. No service fee is payable in respect of the Series 1 of the Class A and Class U Units.

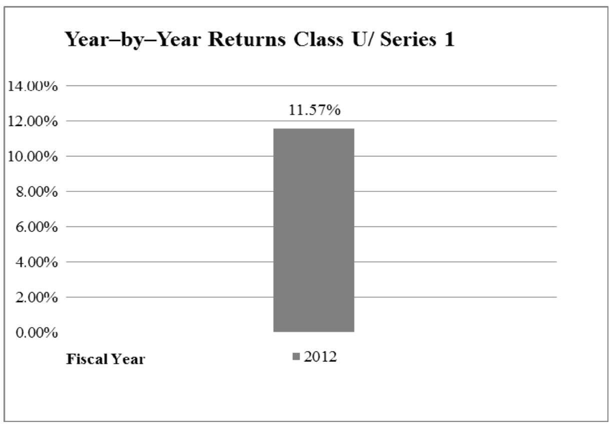
The service fees charged to the Fund during the year ended August 31, 2012 were $8,750 ($9,926 during the period from October 13, 2010 (commencement of operations) to August 31, 2011).

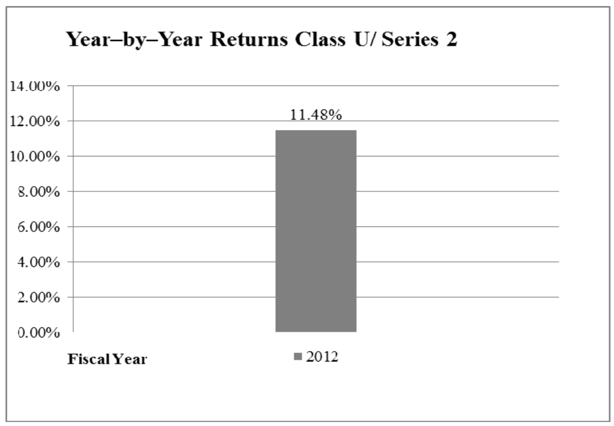
Past Performance

The following bar charts show the Fund's annual performance of the Class A/ Series 1, Class A/ Series 2, Class U/ Series 1 and Class U/ Series 2 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, distributions or other optional charges that would have reduced returns or performance. The bar charts show, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period. Past performance is not necessarily indicative of future performance.









Annual Compound Returns

	Past Year	Since Inception [1]
Based on NAV (Class A/ Series 1 Units)	12.24%	7.67%
Based on share price (Class A /Series 1 Units)	6.69%	2.87%
Based on NAV (Class A/ Series 2 Units)	11.85%	7.28%
Based on NAV (Class U/ Series 1 Units)	11.57%	6.89%
Based on NAV (Class U/ Series 2 Units)	11.48%	6.63%
HSBC Holdings PLC, Series 2, 8.0%, December 15, 2015	11.84%	7.87%

(1) Annualized for the period from October 13, 2010 (commencement of operations) 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 CS Trust, 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:

The Fund's Net Assets per Class A Unit:

	August 31, 2012 Series 1 CAD	August 31, 2012 Series 2 CAD	August 31, 2011 (1) Series 1 CAD	August 31, 2011 (1) Series 2 CAD
Net Assets, beginning of period	**22.56**	**23.24**	**25.00**	**25.00**
Unit issue expense (2)	–	–	**(1.41)**	**(0.66)**
Increase (decrease) from operations:				
Total revenues	–	–	–	–
Total expenses	(0.20)	(0.29)	(0.18)	(0.18)
Realized gains (losses) for the period	0.32	0.33	0.02	0.02
Unrealized gains (losses) for the period	2.58	2.66	0.68	0.60
Total increase (decrease) from operations (3)	**2.70**	**2.70**	**0.52**	**0.44**
Distributions:				
From income (excluding dividends)	–	–	–	–
From dividends	–	–	–	–
From capital gains	–	–	–	–
Return of capital	(1.75)	(1.75)	(1.54)	(1.54)
Total Distributions (4)	**(1.75)**	**(1.75)**	**(1.54)**	**(1.54)**
Net Assets, end of period (5)	**23.51**	**24.19**	**22.56**	**23.24**

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

(2) Issue expenses of $8,192,469 and $69,960 incurred in connection with the Class A/ Series 1 and Class A/ Series 2 units issuance respectively. 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 5,848,174 Class A/ Series 1 and 87,784 Class A/ Series 2 units outstanding as at August 31, 2012 (5,817,281 Class A/ Series 1 and 105,478 Class A/ Series 2 units outstanding as at August 31, 2011).

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

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

Ratios and Supplemental Data (Class A Units):

	August 31, 2012 Series 1 CAD	August 31, 2012 Series 2 CAD	August 31, 2011 (1) Series 1 CAD	August 31, 2011 (1) Series 2 CAD
Net asset value (000's)	132,049	1,703	131,879	2,430
Number of units outstanding	5,616,599	70,400	5,831,734	104,300
Base Management expense ratio (2) (3)	0.68%	1.06%	0.71%	1.11%
Issue expenses ratio (2) (3)	0.00%	0.00%	6.10%	2.78%
Interest expense ratio (2) (3)	0.20%	0.20%	0.15%	0.15%
Management expense ratio (annualized) (3)	0.88%	1.26%	6.96%	4.04%
Management expense ratio before waivers or absorptions (annualized) (3)	0.88%	1.26%	6.96%	4.04%
Portfolio turnover rate (4)	0.00%	0.00%	0.00%	0.00%
Trading expense ratio (5)	0.00%	0.00%	0.00%	0.00%
Net asset value per unit (6)	23.51	24.19	22.61	23.30
Closing market price (TSX)	22.80	N/A	23.10	N/A

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

(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, have not been annualized.

(4) 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.

(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 U:

The Fund's Net Assets per Class U Unit:

	August 31, 2012 Series 1 USD	August 31, 2012 Series 2 USD	August 31, 2011 [1] Series 1 USD	August 31, 2011 [1] Series 2 USD
Net Assets, beginning of period	**22.92**	**23.61**	**25.00**	**25.00**
Unit issue expense [2]	**(0.16)**	–	**(1.44)**	**(0.66)**
Increase (decrease) from operations:				
Total revenues	–	–	0.01	0.02
Total expenses	(0.22)	(0.34)	(0.18)	(0.18)
Realized gains (losses) for the period	0.19	0.20	(0.05)	(0.06)
Unrealized gains (losses) for the period	2.56	2.62	0.49	0.43
Total increase (decrease) from operations [3]	**2.53**	**2.48**	**0.27**	**0.21**
Distributions:				
From income (excluding dividends)	–	–	–	–
From dividends	–	–	–	–
From capital gains	–	–	–	–
Return of capital	(1.75)	(1.75)	(1.54)	(1.54)
Total Distributions [4]	**(1.75)**	**(1.75)**	**(1.54)**	**(1.54)**
Net Assets, end of period [5]	**23.53**	**24.27**	**22.92**	**23.61**

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

(2) Issue expenses of $1,473,200 and $6,951 incurred in connection with the Class U/ Series 1 and Class U/ Series 2 unit issuance respectively. Additional issue expenses of $141,829 incurred in connection with the Class U/ Series 1 private placement issuance and are only borne by the private placement subscribers. 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 weighted average number of 900,551 Class U/ Series 1 and 9,453 Class U/ Series 2 units outstanding as at August 31, 2012 (1,022,784 Class U/ Series 1 and 10,565 Class U/ Series 2 units outstanding as at August 31, 2011).

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

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

Ratios and Supplemental Data (Class U Units):

	August 31, 2012 Series 1 USD	August 31, 2012 Series 2 USD	August 31, 2011 [1] Series 1 USD	August 31, 2011 [1] Series 2 USD
Net asset value (000's)	21,848	131	23,192	250
Number of units outstanding	928,619	5,401	1,009,424	10,565
Base Management expense ratio [2] [3]	0.76%	1.28%	0.69%	1.10%
Issue expenses ratio [2] [3]	0.69%	0.00%	6.31%	2.79%
Interest expense ratio [2] [3]	0.21%	0.21%	0.17%	0.17%
Management expense ratio (annualized) [3]	1.66%	1.49%	7.17%	4.06%
Management expense ratio before waivers or absorptions (annualized) [3]	1.66%	1.49%	7.17%	4.06%
Portfolio turnover rate [4]	0.00%	0.00%	0.00%	0.00%
Trading expense ratio [5]	0.00%	0.00%	0.00%	0.00%
Net asset value per unit [6]	23.53	24.27	22.98	23.67

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

(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, have not been annualized.

(4) 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.

(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 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.

Investment portfolio of the Fund

	Fair value CAD $	% of NAV
Portfolio by Category		
Equity Derivatives	180,116,198	115.9%
Cash	58,193	0.0%
Top 25 Holdings		
Prepaid forward agreement	180,116,198	115.9%
Cash	58,193	0.0%
Net asset value	**155,442,958**	

The Fund obtained exposure to the performance of the portfolio held by CS Trust through the Forward Agreement (see Investment Objectives and Strategies). The following is the summary of investment portfolio for CS Trust as of August 31, 2012:

Investment portfolio of CS Trust

	Fair value CAD $	% of NAV of CS Trust
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 **HBanc Capital Securities 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 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 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

November 29, 2012

Independent Auditor's Report

To the Unitholders of
HBanc Capital Securities 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 statements of net assets as at August 31, 2012 and 2011, and the statements of operations, changes in net assets and surplus, and cash flow 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
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

pwc

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, changes in its net assets, and cash flow 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

HBanc Capital Securities Trust

Statements of Net Assets

As at August 31, 2012 and 2011

	2012	2011
	$	$
Assets		
Cash	58,193	28,121
Prepaid forward agreement (note 8)	180,116,198	184,732,908
Settlement of forward agreement receivable	1,137,241	-
Prepaid expenses and other assets	17,161	-
	181,328,793	184,761,029
Liabilities		
Bank indebtedness (note 5)	24,842,845	26,757,933
Interest payable	24,338	23,319
Distributions payable	963,553	1,010,890
Accounts payable and accrued liabilities	-	51,242
Forward fees payable	53,096	54,208
Management fees payable	2,003	14,174
	25,885,835	27,911,766
Net assets and unitholders' equity	155,442,958	156,849,263
Net Assets		
Class A / Series 1	132,049,305	131,559,399
Class A / Series 2	1,703,234	2,424,337
Class U / Series 1	21,561,074	22,621,597
Class U / Series 2	129,345	243,930
Class U / Series 1 (USD)	USD 21,848,483	USD 23,133,977
Class U / Series 2 (USD)	USD 131,069	USD 249,455
Units issued and outstanding (note 6)		
Class A / Series 1	5,616,599	5,831,734
Class A / Series 2	70,400	104,300
Class U / Series 1	928,619	1,009,424
Class U / Series 2	5,401	10,565
Net assets per unit		
Class A / Series 1	23.51	22.56
Class A / Series 2	24.19	23.24
Class U / Series 1	23.22	22.41
Class U / Series 2	23.95	23.09
Class U / Series 1 (USD)	USD 23.53	USD 22.92
Class U / Series 2 (USD)	USD 24.27	USD 23.61
Unitholders' equity (note 6)		
Unit Capital	134,237,036	153,518,597
Surplus	21,205,922	3,330,666
Unitholders' equity - end of period	155,442,958	156,849,263

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

W. Neil Murdoch

Director

Director

(See accompanying notes to financial statements)

HBanc Capital Securities 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				
Interest income		170		16,741
Expenses				
Forward fees (note 8)		641,682		569,780
Interest expense (note 5)		309,810		218,086
Management fees (note 10)		252,183		220,368
Custodial and other unitholder fees		50,012		59,060
Administration fees		22,830		19,737
Audit fees		18,409		19,935
Legal fees		15,731		4,579
Transfer agent fees		13,784		39,932
TSX fees		11,487		18,810
Printing and mailing fees		10,643		10,380
Registration fees		10,472		-
Filing fees		10,243		12,252
Service fees (note 11)		8,750		9,926
IRC fees		5,167		2,837
Other fees		6,978		26,916
		1,388,181		1,232,598
Investment income (loss)		(1,388,011)		(1,215,857)
Unrealized gain (loss) on investments				
Change in unrealized gain (loss) on foreign exchange		(367,180)		930,565
Change in unrealized gain (loss) on forward agreement (note 8)		18,002,256		3,579,133
		17,635,076		4,509,698
Realized gain (loss) on investments				
Net realized gain (loss) on investments		-		97,868
Net realized gain (loss) on forward agreement (note 8)		2,296,297		(3,666)
Net realized gain (loss) on foreign exchange		(212,107)		(57,377)
		2,084,190		36,825
Net gain (loss) on investments		19,719,266		4,546,523
Increase (decrease) in net assets from operations		18,331,255		3,330,666
Increase (decrease) in net assets from operations for				
Class A / Series 1		15,772,561		3,013,103
Class A / Series 2		237,188		46,614
Class U / Series 1		2,297,893		268,783
Class U / Series 2		23,613		2,166
Class U / Series 1 (USD) *	USD	2,276,844	USD	273,188
Class U / Series 2 (USD) *	USD	23,397	USD	2,202
Increase (decrease) in net assets from operations per unit **				
Class A / Series 1		2.70		0.52
Class A / Series 2		2.70		0.44
Class U / Series 1		2.55		0.26
Class U / Series 2		2.50		0.21
Class U / Series 1 (USD) *	USD	2.53	USD	0.27
Class U / Series 2 (USD) *	USD	2.48	USD	0.21

* (based on average exchange rate for the period)

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

(See accompanying notes to financial statements)

HBanc Capital Securities Trust

Statements of Changes in Net Assets and 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					
	Series 1 2012 $	**Series 2 2012 $**	**Total 2012 $**	**Series 1 2011 $**	**Series 2 2011 $**	**Total 2011 $**
Increase (decrease) in net assets from operations	15,772,561	237,188	16,009,749	3,013,103	46,614	3,059,717
Distributions to unitholders from: (note 9)						
Return of capital	(10,256,409)	(153,119)	(10,409,528)	(8,975,543)	(162,717)	(9,138,260)
Unitholders' transactions (note 6)						
Proceeds from issue of units	-	-	-	144,934,825	2,637,500	147,572,325
Agents' fees and issue expenses	11,343	175	11,518	(8,192,469)	(69,960)	(8,262,429)
Transfers from Class A/ Series 2, Class U/ Series 1 and Class U/ Series 2 to Class A/ Series 1	7,078,701	(781,796)	6,296,905	779,483	(27,100)	752,383
Payments on redemption of units	(12,116,290)	(23,551)	(12,139,841)	-	-	-
	(5,026,246)	(805,172)	(5,831,418)	137,521,839	2,540,440	140,062,279
Change in net assets during the period	489,906	(721,103)	(231,197)	131,559,399	2,424,337	133,983,736
Net assets - beginning of period	131,559,399	2,424,337	133,983,736	-	-	-
Net assets - end of period	132,049,305	1,703,234	133,752,539	131,559,399	2,424,337	133,983,736
Surplus, beginning of period	3,013,103	46,614	3,059,717	-	-	-
Increase (decrease) in net assets from operations	15,772,561	237,188	16,009,749	3,013,103	46,614	3,059,717
Cost of shares redeemed in excess of original issue price	(440,417)	(754)	(441,171)	-	-	-
Surplus, end of period	18,345,247	283,048	18,628,295	3,013,103	46,614	3,059,717

	Class U					
	Series 1 2012 $	**Series 2 2012 $**	**Total 2012 $**	**Series 1 2011 $**	**Series 2 2011 $**	**Total 2011 $**
Increase (decrease) in net assets from operations	2,297,893	23,613	2,321,506	268,783	2,166	270,949
Distributions to unitholders from: (note 9)						
Return of capital	(1,599,368)	(16,528)	(1,615,896)	(1,543,931)	(15,977)	(1,559,908)
Unitholders' transactions (note 6)						
Proceeds from issue of units	5,136,723	-	5,136,723	26,122,328	264,692	26,387,020
Agents' fees and issue expenses	(138,856)	32	(138,824)	(1,473,200)	(6,951)	(1,480,151)
Transfers from Class A/ Series 2, Class U/ Series 1 and Class U/ Series 2 to Class A/ Series 1	(6,226,130)	(70,775)	(6,296,905)	(752,383)	-	(752,383)
Payments on redemption of units	(530,785)	(50,927)	(581,712)	-	-	-
	(1,759,048)	(121,670)	(1,880,718)	23,896,745	257,741	24,154,486
Change in net assets during the period	(1,060,523)	(114,585)	(1,175,108)	22,621,597	243,930	22,865,527
Net assets - beginning of period	22,621,597	243,930	22,865,527	-	-	-
Net assets - end of period	21,561,074	129,345	21,690,419	22,621,597	243,930	22,865,527
Surplus, beginning of period	268,783	2,166	270,949	-	-	-
Increase (decrease) in net assets from operations	2,297,893	23,613	2,321,506	268,783	2,166	270,949
Cost of shares redeemed in excess of original issue price	(14,029)	(799)	(14,828)	-	-	-
Surplus, end of period	2,552,647	24,980	2,577,627	268,783	2,166	270,949

(See accompanying notes to financial statements)

HBanc Capital Securities Trust

Statements of Changes in Net Assets and Surplus… Continued

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

	Total	
	2012	**2011**
	$	**$**
Increase (decrease) in net assets from operations	18,331,255	3,330,666
Distributions to unitholders from: (note 9)		
Return of capital	(12,025,424)	(10,698,168)
Unitholders' transactions (note 6)		
Proceeds from issue of units	5,136,723	173,959,345
Agents' fees and issue expenses	(127,306)	(9,742,580)
Transfers from Class A/ Series 2, Class U/ Series 1 and Class U/ Series 2 to Class A/ Series 1	-	-
Payments on redemption of units	(12,721,553)	-
	(7,712,136)	164,216,765
Change in net assets during the period	(1,406,305)	156,849,263
Net assets - beginning of period	156,849,263	-
Net assets - end of period	155,442,958	156,849,263
Surplus, beginning of period	3,330,666	-
Increase (decrease) in net assets from operations	18,331,255	3,330,666
Cost of shares redeemed in excess of original issue price	(455,999)	-
Surplus, end of period	21,205,922	3,330,666

(See accompanying notes to financial statements)

HBanc Capital Securities Trust

Statements of Cash Flow

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	18,331,255	3,330,666
Items not affecting cash:		
Change in unrealized (gain) loss on forward agreement (note 8)	(18,002,256)	(3,579,133)
Net realized (gain) loss on investments	-	(97,868)
Net realized (gain) loss on forward agreement (note 8)	(2,296,297)	3,666
Changes in non-cash working capital:		
(Increase) decrease in prepaid expenses and other assets	(17,161)	-
Increase (decrease) in interest payable	1,019	23,319
Increase (decrease) in accounts payable and accrued liabilities	(51,242)	51,242
Increase (decrease) in forward fees payable	(1,112)	54,208
Increase (decrease) in management fees payable	(12,171)	14,174
Settlement (investment) in forward agreement	(12,448,841)	(193,150,703)
Pre-settlements received by the Fund from the Counterparty under the forward agreement	36,226,862	11,993,262
Purchase of investment	-	(4,339,547)
Proceeds on disposition of investment	-	4,437,415
Net cash flow provided by (used in) operating activities	21,730,056	(181,259,299)
Financing Activities		
Proceeds from issuance of units	5,136,723	173,959,345
Unit issue costs	(127,306)	(9,742,580)
Payments on redemption of units (note 6)	(12,721,553)	-
Distributions paid to unitholders	(12,072,761)	(9,687,278)
Bank indebtedness	(1,915,087)	26,757,933
Net cash flow provided by (used in) financing activities	(21,699,984)	181,287,420
Net increase (decrease) in cash	30,072	28,121
Cash - beginning of period	28,121	-
Cash - end of period	58,193	28,121
Supplementary Information		
Interest paid	308,791	194,767

(See accompanying notes to financial statements)

HBanc Capital Securities Trust

Statement of Investment Portfolio

As at August 31, 2012

	Maturity date	Number of shares / par value $	Average cost $	Fair value $	% of NAV
Forward agreement:					
Investments held in CS Trust under the prepaid forward agreement *					
Short-term investments					
Bearer deposit notes					
Royal Bank of Canada	09/13/2012	800,000	818,512	789,239	0.5%
Preferred Stock (USD)					
Financials					
HSBC Holdings PLC, Series 1, 8.125%, April 15, 2013		303,518	8,486,918	7,844,568	5.0%
HSBC Holdings PLC, Series 2, 8.000%, December 15, 2015		6,108,637	171,058,202	166,742,226	107.3%
			179,545,120	174,586,794	112.3%
Total investments			180,363,632	175,376,033	112.8%

	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	1.7%
Other assets net of other liabilities of CS Trust			2,067,934	1.4%
Transactional net asset value of CS Trust			180,116,198	115.9%
Prepaid forward agreement			180,116,198	115.9%
Other liabilities net of other assets of the Fund			(24,673,240)	-15.9%
Net asset value of the Fund			155,442,958	100.0%

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

(See accompanying notes to financial statements)

1 Fund activities

HBanc 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 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") dated September 28, 2010. The Fund's principal office is located at 181 University Avenue, Suite 300, Toronto, Ontario, M5H 3M7. The fiscal year-end of the Fund is August 31.

The Fund is offered in two classes of Units, each of which is offered in two series: Class A Units, Series 1 and 2 at a price of $25.00 per Class A Unit and Class U Units, Series 1 and 2 at a price of U.S. $25.00 per Class U Unit. The only difference between the two series of each class of Units is the fees paid with respect to such series. The Class U Units are designed for investors wishing to make their investments in U.S. dollars. The Class A/ Series 1 Units are listed on the Toronto Stock Exchange (the "TSX") under the symbol HSC.UN.

2 Investment objectives

The Fund's investment objectives are to: (i) provide Unitholders with monthly, tax-advantaged distributions consisting primarily of returns of capital, initially representing a yield on the Unit issue price of 7.0% per annum and (ii) provide exposure to the Capital Securities.

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 CS Trust (the "CS Trust"). The Fund provides investors with high levels of stable, tax-advantaged distributions through exposure to CS Trust's Portfolio of securities issued by HSBC Holdings plc, a conservatively positioned and strongly capitalized global bank. Specifically, the Trust has exposure to (i) the 8.125% Perpetual Subordinated Capital Securities, Series 1 issued by HSBC and (ii) the 8.00% Perpetual Subordinated Capital Securities, Series 2 issued also by HSBC.

3 Summary of significant accounting policies

Basis of presentation

These financial statements, prepared in accordance with the 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 Fund processes unitholder transactions using Transactional NAV.

The difference between the net asset value per unit and the net assets per unit as shown on the Statement of Net Assets is due to the different pricing methodology discussed above.

As of August 31, 2012, there were no differences between the Transactional NAV and the GAAP Net Assets.

As of August 31, 2011, the reconciliation between the Transactional NAV and the GAAP Net Assets is as follows:

	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets
Class A/ Series 1	22.61	(0.05)	22.56
Class A/ Series 2	23.30	(0.06)	23.24
Class U/ Series 1	22.47	(0.06)	22.41
Class U/ Series 2	23.15	(0.06)	23.09
Class U/ Series 1 (USD)	22.98	(0.06)	22.92
Class U/ Series 2 (USD)	23.67	(0.06)	23.61

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.

Expense recognition

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

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.

Foreign currency translation

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

Realized foreign currency gains and losses on monetary assets and liabilities other than 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

CS Trust holds 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.

Initial fees and expenses

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

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/ series divided by the weighted average number of units of that class/ series outstanding during the period. The increase (decrease) in net assets from operations per unit for the Class U Units is converted to U.S. dollars using the average exchange rate for the period.

Valuation of a class/ series

A separate net assets per unit is calculated for each class/ series. The net assets of a class/ series is computed by calculating the class/ series proportionate share of the assets and liabilities to all classes/ series and adjusted for assets and liabilities attributable only to that class/ series. Expenses directly attributable to a class/ series are charged to that class/ series. Other expenses, income, realized and unrealized gains and losses are allocated proportionately to each class/ series based upon the relative net assets of each class/ series. On any valuation date, the net assets per unit for the Class U, Series 1 and 2 units are converted to 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 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

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 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 S&P on August 31, 2012 and 2011.

5 Bank indebtedness

The Fund's exposure to the securities in the Portfolio through the Forward Agreement may be increased to 15.0% of the levered notional amount (being the Net Asset Value of the CS Trust) (computed daily) for the purposes of adding leverage to the Portfolio 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 leverage conditions are part of the Forward Agreement dated October 13, 2010 between the Manager and the Bank of Montreal (the "Counterparty" or "BMO"). In addition to the normal interest charges calculated on the amount of actual borrowing, the Fund is also charged a small fee of 0.25% on the difference between the maximum allowable borrowing amount and the amount of actual borrowing. If the borrowed amount exceeds 15.0% of the levered notional amount, the leverage amount will be reduced to ensure the leverage ratio is not greater than 15.0%.

During the year ended August 31, 2012, the Fund applied leverage in the range from 13.46% to 15.78% or U.S. $22,283,000 to U.S. $23,399,000 for Class A (the Canadian equivalent was $22,012,249 to $24,242,644) and 11.72% to 15.49% or U.S. $3,121,000 to U.S. $3,965,000 for Class U (the Canadian equivalent was $3,079,337 to $4,078,589). (During the period from October 13, 2010 (commencement of operations) to August 31, 2011, the Fund applied leverage in the range from nil% to 16.14% or $nil to U.S. $24,459,000 for Class A (the Canadian equivalent was $nil to $24,223,067) and nil% to 16.26% or $nil to U.S. $4,190,000 for Class U (the Canadian equivalent was $nil to $4,149,583). The leverage factor as of August 31, 2012 was 13.65% for Class A and the borrowed amount was U.S. $21,383,000 (the Canadian equivalent was $21,101,714). The leverage factor as of August 31, 2012 was 14.63% for Class U and the borrowed amount was U.S. $3,791,000 (the Canadian equivalent was $3,741,131). (The leverage factor as of August 31, 2011 was 14.47% for Class A and the borrowed amount was U.S. $23,399,000 (the Canadian equivalent was $22,880,751). The leverage factor as of August 31, 2011 was 14.38% for Class U and the borrowed amount was U.S. $3,965,000 (the Canadian equivalent was $3,877,182)).

6 Unitholders' 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. The Class A Units and Class U Units were each issued in two series designated as Series 1 and Series 2. The only difference between the two series of each class of Units is the fees paid with respect to such series. The Agents' fees payable with respect to the original issuance of units were lower for the Class A/ Series 2 and Class U/ Series 2 Units than the Class A/ Series 1 and Class U/ Series 1 Units. The service fees is only payable by the Class A/ Series 2 and Class U/ Series 2 Units. The Fund is authorized to issue an unlimited number of Units of each class. The Class A/ Series 2, Class U/ Series 1 and Class U/ Series 2 Units may be converted into Class A/ Series 1 Units on a weekly basis. Each Unit entitles the holder to the same rights and obligations as a Unitholder and no Unitholder is entitled to any privilege, priority or preference in relation to any other holder of Units, subject to Unitholders of each class/ series being entitled to distributions or redemptions based on the Net Asset Value of the Units of a particular class/ series.

On October 13, 2010, the Fund completed its initial public offering pursuant to the prospectus dated September 28, 2010. The details of the initial public offering are summarized as follows:

	Class A (CAD)		Class U (USD)	
	Series 1	**Series 2**	**Series 1**	**Series 2**
Units issued	5,797,393	105,500	1,042,724	10,565
Offering price per unit	25.00	25.00	25.00	25.00
Gross Proceeds	144,934,825	2,637,500	26,068,100	264,125
Agents and issue expenses	(8,192,469)	(69,960)	(1,473,200)	(6,951)
Net Proceeds	136,742,356	2,567,540	24,594,900	257,174
Opening net asset value per unit	23.59	24.34	23.59	24.34

The Class A Units and Class U Units may be redeemed on an Annual Redemption Date, which is the second last business day of April 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 March in the year of redemption. Unitholders whose Units are redeemed on an Annual Redemption Date will receive a redemption price in an amount equal to 100% of the annual redemption price 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 U Units may also be redeemed on a Monthly Redemption Date, which is the second last business day of each month other than April, 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, subject to the Manager's right to suspend redemptions in certain circumstances. Concurrently with the payment of the redemption price, 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/ Series 1 Unit for redemption will receive an amount equal to the lesser of (i) 95% of the Market Price of a Class A/ Series 1 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/ Series 1 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 on the TSX on such Monthly Redemption Date less, in each case, any costs associated with the redemption and less any net realized capital gains of the Fund that are distributed to a Unitholder concurrently with the proceeds of disposition on redemption, being the Monthly Redemption Amount. Unitholders surrendering a Class A/ Series 2 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 A/ Series 2 Unit and the denominator of which is the most recently calculated net asset value per Class A/ Series 1 Unit. Unitholders surrendering a Class U/ Series 1 Unit for redemption will receive, in U.S. dollars, an amount equal to the U.S. dollar equivalent of the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated redemption net assets per unit of a Class U/ Series 1 Unit and the denominator of which is the most recently calculated redemption net assets per unit of a Class A/ Series 1 Unit. Unitholders surrendering a Class U/ Series 2 Unit for redemption will receive in U.S. dollars, an amount equal to the U.S. dollar equivalent of the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated redemption net assets per unit of a Class U/ Series 2 Unit and the denominator of which is the most recently calculated redemption net assets per unit of a Class A/ Series 1 Unit.

On April 27, 2012, the Fund completed a private placement issuance for the Class U/ Series 1 Units. The Fund issued 220,200 Class U/ Series 1 Units for gross proceeds of $5,136,723 and incurred an issuance fee of $141,829. The amount of the issuance fee was only borne by the private placement subscribers.

During the year ended August 31, 2012, there were 32,900 Class A/ Series 2 Units, 277,955 Class U/ Series 1 Units and 3,000 Class U/ Series 2 Units converted into 314,562 Class A/ Series 1 Units for a total value of $7,078,701 (1,200 Class A/ Series 2 Units and 33,300 Class U/ Series 1 Units were converted to 34,341 Class A/ Series 1 Units for a total value of $779,483 during the period from October 13, 2010 (commencement of operations) to August 31, 2011). During the same period, the Fund also had redemptions of 529,697 Class A/ Series 1 Units for $12,116,290 and redemptions of 1,000 Class A/ Series 2 Units for $23,551. There were also 23,050 Class U/ Series 1 Units redeemed for $530,785 and 2,164 Class U/ Series 2 Units redeemed for $50,927.

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/ Series 1 Units		**Class A/ Series 2 Units**	
	August 31, 2012	**August 31, 2011**	**August 31, 2012**	**August 31, 2011**
Balance – beginning of year	5,831,734	–	104,300	–
Units issued	–	5,797,393	–	105,500
Units converted to Class A/ Series 1	314,562	34,341	(32,900)	(1,200)
Units redeemed	(529,697)	–	(1,000)	–
Units cancelled (note 7)	–	–	–	–
Balance – end of year	5,616,599	5,831,734	70,400	104,300

	Class U/ Series 1 Units		**Class U/ Series 2 Units**	
	August 31, 2012	**August 31, 2011**	**August 31, 2012**	**August 31, 2011**
Balance – beginning of year	1,009,424	–	10,565	–
Units issued	220,200	1,042,724	–	10,565
Units converted to Class A/ Series 1	(277,955)	(33,300)	(3,000)	–
Units redeemed	(23,050)	–	(2,164)	–
Units cancelled (note 7)	–	–	–	–
Balance – end of year	928,619	1,009,424	5,401	10,565

The Unit Capital dollar amount represents the face value of the Fund's units minus any return of capital distributions and issue costs paid since October 13, 2010 (commencement of operations) to August 31, 2012. 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.

7 Purchase for Cancellation

The Fund 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/ Series 1 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/ Series 1 Unit not exceeding the most recently calculated net asset value per Class A/ Series 1 Unit immediately prior to the date of any such purchase of Units. These purchases are made as normal course issuer bids through the facilities and under the rules of the TSX or such other exchange or market on which the Class A / Series 1 Units are listed.

The Fund did not purchase any Class A/ Series 1 Units for cancellation during the year ended August 31, 2012 or during the period from October 13, 2010 (commencement of operations) to August 31, 2011.

8 Forward Agreement

The Fund does not invest directly in CS Trust; the Fund used the net proceeds of the initial public offering 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") whose S&P credit rating was A+ as of August 31, 2012 and 2011. Under the Forward Agreement, the Fund will receive, on or before December 21, 2015, 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 CS Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by CS Trust. A fee of 0.35% per annum, calculated with reference to the net asset value of CS Trust, is payable to BMO under the Forward Agreement. The Forward Agreement may be terminated by either party with 90 days notice.

Since the Fund can at any time terminate the Forward Agreement with the Counterparty in exchange for the value of CS Trust, the value of the Forward Agreement to the Fund is equal to the transactional net asset value of CS Trust. On August 31, 2012, the value of the prepaid amount to the Counterparty under the Forward Agreement was $158,534,810 and the value of the unrealized gain on the Forward Agreement was $21,581,388. Liabilities net of other assets in the Fund totalled $24,673,240, leaving net assets of $155,442,958. (On August 31, 2011, the value of the prepaid amount to the Counterparty under the Forward Agreement was $181,153,775 and the value of the unrealized gain on the Forward Agreement was $3,579,133. Liabilities net of other assets totalled $27,883,645, leaving net assets of $156,849,263.)

9 Distributions

The Fund does not have a fixed distribution. The Fund paid an initial distribution of $0.23014 per Class A, Series 1 and 2 Unit and U.S. $0.23014 per Class U, Series 1 and 2 Unit covering the period from October 13, 2010 (commencement of operations) to November 30, 2010. The Fund paid regular monthly distributions of $0.1458 per Class A, Series 1 and 2 Unit and U.S. $0.1458 per Class U, Series 1 and 2 Unit thereafter, representing a return of 7.0% per annum on the Class A, Series 1 and 2 and Class U, Series 1 and 2 unit issue prices.

The Fund has made all its scheduled distributions during the year ended August 31, 2012, paying $1.7496 per Class A, Series 1 and 2 Unit and U.S. $1.7496 per Class U, Series 1 and 2 Unit ($1.5423 per Class A, Series 1 and 2 Unit and U.S. $1.5423 per Class U, Series 1 and 2 Unit during the period from October 13, 2010 (commencement of operations) to August 31, 2011).

10 Management Fees

The Manager receives a management fee from the Fund and CS Trust equal in the aggregate to 0.40% per annum of the applicable net asset value, (0.15% from the Fund and 0.25% from CS Trust) calculated daily and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund on a combined basis during the year ended August 31, 2012 were $693,783 ($617,567 during the period from October 13, 2010 (commencement of operations) to August 31, 2011).

11 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 Series 2 of the Class A and Class U Units, equal to 0.30% per annum of the net asset value attributable to the Series 2 of the Class A and Class U 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 Series 2 of the Class A and Class U Units held by clients of such brokers at the end of the relevant quarter. No service fee is payable in respect of the Series 1 of the Class A and Class U Units.

The service fees charged to the Fund during the year ended August 31, 2012 were $8,750 ($9,926 during the period from October 13, 2010 (commencement of operations) to August 31, 2011).

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, net of capital gains refund available to mutual fund trusts, 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 capital losses as at tax year ends December 31, 2011 and 2010. The Fund had non-capital losses of $3,976,223 as of December 31, 2011 (December 31, 2010 - $572,335), which will expire within the next twenty years as shown in the following table:

Year of the realized non–capital tax loss	Amount of tax loss	Expiry date
2010	572,335	2030
2011	3,403,888	2031
Total	**3,976,223**	

13 Broker commission charges and soft dollar services

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

14 Financial instruments

	August 31, 2012	**August 31, 2011**
Assets	**$**	**$**
Cash	58,193	28,121
Held for trading	180,116,198	184,732,908
Loan and receivables	1,154,402	–
Total assets	**181,328,793**	**184,761,029**
Liabilities		
Financial liabilities at amortized cost	25,885,835	27,911,766
Total liabilities	**25,885,835**	**27,911,766**

For the purposes of categorization in accordance with CICA Section 3862, Financial Instruments - Disclosures, cash is reported at fair value while receivable from investment sales and prepaid expenses and other assets 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 CS Trust through the Forward Agreement (see note 8) and therefore, the following tables illustrate the classification of the Fund's and CS Trust'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	174,586,794	–	–	**174,586,794**
Short-term investments	–	789,239	–	**789,239**
Foreign currency forward contracts	–	2,672,231	–	**2,672,231**
Total	**174,586,794**	**3,461,470**	**–**	**178,048,264**

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 or during the period from October 13, 2010 (commencement of operations) to August 31, 2011.

15 Financial instrument risk

The Fund obtained exposure to the performance of the portfolio held by CS 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 financial risks associated with an investment in CS 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. 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 CS Trust are included in the analysis of interest rate risk. The tables below summarize the combined exposure of the Fund and CS Trust to interest rate risk and include the assets and liabilities of the Fund and CS Trust at fair value. The tables below assume the preferred shares held by CS Trust 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	–	166,742,226	–	2,672,231	**177,259,025**
Cash and short-term investments	789,239	–	–	–	208,138	**997,377**
Other assets	–	–	–	–	4,168,747	**4,168,747**
Liabilities	(24,842,845)	–	–	–	(2,139,346)	**(26,982,191)**
Net assets	**(16,209,038)**	–	**166,742,226**	–	**4,909,770**	**155,442,958**

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	–	–	–	–	91,236	**91,236**
Other assets	–	–	–	–	3,117,105	**3,117,105**
Liabilities	(26,757,933)	–	–	–	(1,205,985)	**(27,963,918)**
Net assets	**(26,757,933)**	**11,991,190**	**165,642,963**	–	**5,973,043**	**156,849,263**

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 $4,825,000 and $4,940,821 (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 combined exposure to foreign currencies held by the Fund and CS Trust. 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 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 functional currency 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	(20,340,921)	150,225,056	(130,208,761)	(324,626)	(0.2%)	(16,000)

August 31, 2011:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
U.S. dollar	(23,879,113)	151,738,599	(129,022,094)	(1,162,608)	(0.9%)	(58,000)

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 through its investment in CS Trust 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 CS Trust and the unrealized gain on derivative instruments outstanding with counterparties.

Rating	August 31, 2012 (% of Net Assets)
AA-	1.7%
A-	112.3%
A-1+	0.5%
Total	**114.5%**

Rating	August 31, 2011 (% of Net Assets)
AA-	2.5%
A-	113.3%
Total	**115.8%**

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 daily cash redemptions from its purchase for cancellation program (see note 7), which is limited to certain conditions. The Fund is also exposed to unlimited annual anniversary redemptions during the month of April of every year; therefore, the Fund invests the majority of its assets in investments that can be readily disposed. 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.