HBanc Capital Securities Trust

Annual Report

August 31, 2014

HBanc Capital Securities Trust Message to Unitholders

November 28, 2014

Dear Investor,

We are pleased to provide you with the annual report for HBanc Capital Securities Trust (the “Fund”) for the year ended August 31, 2014.

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 initially had 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 given the nature of the underlying investments. The Class A/ Series 1 units had a total return of 7.03%. Since inception, the compound annual growth rate is 6.81% from the Fund’s opening net asset value, including $6.79 of distributions. The value of the underlying securities has remained strong as the market’s perception of the credit risk of HSBC in particular and the financial system in general has gone down. As noted in the past, the security held by the Fund trades at a premium to the amount they can be called at. It is expected that these premiums will amortize as the call date approaches. The smaller of the two opening series, the 8.125% HSBC Series 1 was sold out on April 24, 2014 as it continued to trade at a significant premium despite reach its first call date.

HSBC is one of the largest banking and financial services organizations in the world, with a market capitalization of U.S. $190 billion at November 28, 2014. HSBC’s long-term senior debt is rated Aa3 by Moody’s, A+ by Standard and Poor’s and AA- by Fitch for the nine months to September 30th. HSBC had an underlying profit of $15.8 billion, an increase of 5% from the previous year.

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

Yours truly,

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

Management Report of Fund Performance

This annual management report of fund performance for **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 Aston Hill Capital Markets Inc. (the "Manager") to the following address: Aston Hill Capital Markets Inc., 77 King Street West, Suite 2110, PO Box 92, Toronto, Ontario, M5K 1G8 or calling 1-800-513-3868 or visiting the Manager's website at www.astonhill.ca or by visiting www.sedar.com.

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 (the "Trust Agreement") dated September 28, 2010 between the Manager and RBC 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" or the "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 initially had 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 30, 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'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 CS Trust) 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. 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%. The use of leverage has the potential to enhance or reduce returns.

During the year ended August 31, 2014, the Fund applied leverage in the range from 14.17% to 15.79% or U.S. $13,078,000 to U.S. $17,153,000 for Class A (the Canadian equivalent was $13,903,891 to $19,083,485) and 14.60% to 15.27% or U.S. $1,858,000 to U.S. $3,428,000 for Class U (the Canadian equivalent was $1,975,335 to $3,724,801). (During the year ended August 31, 2013, the Fund applied leverage in the range from 13.07% to 15.68% or U.S. $17,153,000 to U.S. $21,678,000 for Class A (the Canadian equivalent was $17,600,763 to $22,288,252) and 14.31% to 15.41% or U.S. $3,428,000 to U.S. $3,791,000 for Class U (the Canadian equivalent was $3,517,485 to $3,907,965)). The leverage factor as of August 31, 2014 was 14.48% for Class A and the borrowed balance was U.S. $13,078,000 (the Canadian equivalent was $14,186,382). The leverage factor as of August 31, 2014 was 14.80% for Class U and the borrowed balance was U.S. $ 1,858,000 (the Canadian equivalent was $2,015,469). (The leverage factor as of August 31, 2013 was 14.67% for Class A and the borrowed balance was U.S. $17,153,000 (the Canadian equivalent was $18,094,645). The leverage factor as of August 31, 2013 was 15.02% for Class U and the borrowed balance was U.S. $3,428,000 (the Canadian equivalent was $3,616,186)).

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

Recent Developments

International Financial Reporting Standards (IFRS)

Beginning September 1, 2014, the Fund will prepare its semi-annual and 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 September 1, 2014 (the transition date). The Fund will also report its interim financial statements for the period ending February 28, 2015, 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 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. See Note 3 of the Financial Statements.

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 which is December 30, 2015, 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.

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 forward agreements such as the one entered into by the Fund 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 intends to comply. The federal budget, part of Bill C-4, was enacted into law on December 12, 2013.

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 2014)

Fund Performance

The fund's Class A, Series 1 units returned 7.0% for the fiscal year, bringing annualized returns since inception to 6.8%. US Treasury yields climbed late in 2013, depressing bond prices. The yield increase was driven by generally positive economic news and the long-awaited announcement, which arrived on December 18th,, that the Fed would cautiously begin to trim QE3 asset purchases. The benchmark US 10-year yield peaked on December 31st, however, then proceeded to rally almost 70 basis points through the end of August as economic growth came in below market expectations both globally and at home, and investors dropped the assumption that the end of QE3 would mean rising rates. The final purchases under QE3 were made in October.

Low volatility and stable economic conditions combined with falling government yields and corporate earnings growth to provide a boost to equities and corporate bonds through the spring and summer before a short-lived correction took hold in September. Global banks' credit spreads fell consistently from month to month, shifting from 140 basis points to 96 basis points over year to August, according to the Barclays Global Aggregate Banking Index, while the five-year CDS spread on HSBC's senior declined by about 40 basis points to end the year at 53.6 basis points, among the tightest of the global banks. HSBC's Series 2 capital securities' market price fell from $27.12 to $26.83, partly reflecting the anticipated amortization of premium as the issue moves towards it's first call date at the end of 2015. The fund paid distributions per unit totalling $1.75 for the year and has paid $6.79 per unit since inception.

HSBC Update

HSBC announced its first half results to June 30th in August. Low interest rates and trading volumes characterized the first six months of the year, along with low market volatility and strong investor risk appetite. Underlying profit before tax was US$12.6bn, US$0.5bn lower than in 2013's first half. Excluding significant one-time items, however, first half 2014's underlying profit was US$0.4bn higher.

Lower loan impairment charges and continued efforts to manage operating costs paid dividends for the Group. Global Banking and Markets was hurt by low client activity, and Retail Banking and Wealth Management saw revenues fall as the Group continued to run off its US Consumer lending portfolio. Overall, revenues held constant across the Group's major businesses.

For the third quarter, reported on November 3rd, underlying profit before tax increased compared to the same period in 2013 in all HSBC's global businesses and revenue was up 5% over the third quarter of 2013, to US$15.8 billion. Expenses also climbed, however, principally as the result of a further US$1.5 billion of significant one-time charges taken in the quarter including: US$701 million for customer redress in the UK; US$550 million in the US relating to a settlement with the Federal Housing Finance Agency; and $378 million in respect of the ongoing foreign exchange investigation by the UK FCA. As a result, underlying profit before tax was down 12% compared with Q3 2013, to $4,409 million.

From 2011 to 2013, HSBC executed the first phase of the strategic plan initiated by the then-incoming management team under CEO Stuart Gulliver. Over the period, profit before tax climbed by 19%, the Group's core tier 1 capital ratio grew from 10.5% to 13.6% of risk-adjusted assets, and total common share dividends went from US$6.3 billion to US$9.2

billion. The plan's core areas of achievement were to:

- Re-focus the business: including disposing of or exiting 74 non-core businesses, running down non-strategic legacy portfolios (such as the US mortgage portfolio), and introducing global standards to reduce legal and regulatory risk.
- Simplify and globalize the organization: aligning the business under four global businesses and 11 global functions, to create a leaner organization managed as a global entity. This effort produced US$4.9 billion in annual sustainable cost savings.
- Grow global business revenue: included a 7% annual growth rate in Commercial banking, 2% in global banking and markets and 3% in retail banking and wealth management; double-digit loan growth in 13 of 21 priority markets and improved market position in strategic products.

With the first phase of its 2011 strategy implemented, HSBC turned to phase two this year, focusing on an evolving set of three equal priorities: growing the business and dividends; implementing a global standards program to control risk; and streamlining processes and procedures with the goal of achieving US$2 to US$3 billion in annual cost savings and maintaining an expense ratio in the mid 50's. According to Group CEO Stuart Gulliver: "The course that we first charted for the Group in 2011 to capitalize on growth of global trade and capital flows and economic development in developing markets remains firmly in place. These trends play naturally to the strengths of HSBC's global network and to the benefits of our universal banking model."

The Group has responded to past missteps and the promise of ever increasing regulatory oversight by diverting very significant resources, both in terms of human capital and systems capacity, to compliance and reform. Since 2010, major regulatory changes include: Basel III; Dodd Frank; the Volcker Rule; additional obligations for global systemically important banks; FATCA's increased obligation for institutions to police US clients; and the FSB's requirement to ring-fence UK banks, along with similar initiatives gaining headway elsewhere. Operational costs precipitated by the new environment include those of multiple, complex stress tests mandated by various national regulators, wholesale market practice and competition reviews, and the evolution of cross-border resolution protocols.

The threat of large and unpredictable penalties that can reach multi-billions of dollars, principally paid to US regulators, has pushed the industry further onto the defensive. Two HSBC board members have resigned in recent weeks as regulators have ratcheted up the degree of personal liability for bank directors. Most recently, on November 12th, US and UK authorities assessed at total of $4.5 billion in penalties to five global banks related to a probe into currency market manipulation. HSBC got off relatively lightly compared to the rest of the group, with a fine of US$618 million. Chairman Douglas Flint used his semi-annual message to point to a growing culture of risk aversion within HSBC, including the fear of many employees that the current environment offers zero tolerance for error, and asked for greater clarity from regulators.

Credit Strength

The following table shows Moody's and S&P long term debt rating on a number of the top global banks and is ranked by the September 30th price of their 5-year credit default swap (CDS) spreads. The CDS spread gives an indication of how the market perceives the riskiness of each bank's debt, with a lower number showing less risk. HSBC holds the highest Moody's rating (Aa3) in this group, shares the top S&P rating (A+), and its CDS spread was the second-lowest of the group.

Bank	5-year CDS Spread	Moody's	S&P
UBS AG	47.29	A2	A
HSBC Bank PLC	53.60	Aa3	A+
Credit Suisse Group AG	57.12	A1	A
BNP Paribas SA	63.10	A1	A+
Barclays Bank PLC	63.48	A2	A
Lloyds Bank PLC	64.67	A1	A
Credit Agricole SA	65.08	A2	A
JPMorgan Chase & Co	66.99	A3	A
Deutsche Bank AG	71.58	A3	A
Banco Santander SA	75.71	Baa1	BBB
Citigroup Inc	77.17	Baa2	A-
Societe Generale SA	77.71	A2	A
Bank of America Corp	80.82	Baa2	A-
Morgan Stanley	90.17	Baa2	A-
Goldman Sachs Group	91.34	Baa1	A-

HSBC’s capital securities are rated BBB- by S&P following a 2-notch downgrade from BBB+ on September 29th. S&P published new criteria for rating bank hybrid capital in September, reflecting the “bail-in” requirements of Basel III and the Bank Recovery and Resolution Directive adopted by the European Parliament in April. Due to an increased likelihood that regulators will demand investors take an earlier role and a greater share of the cost if governments bail out banks, S&P downgraded 94% of legacy tier 1 capital instruments (those dating from before Basel III) issued by European banks, as well as 64% of Basel III compliant instruments. On the same day, S&P downgraded 68 hybrid capital securities issued by Canadian banks.

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’ fee 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, 2014 and the second table details the capital transactions for year ended August 31, 2013.

August 31, 2014:

	Class A		Class U	
	Series 1	Series 2	Series 1	Series 2
Units issued	–	–	–	–
Total value	–	–	–	–
Units converted to Class A Series 1	234,699	(5,200)	(218,094)	–
Total value	5,540,977	(122,985)	(5,417,992)	–
Units redeemed/ repurchased	(1,131,829)	–	(153,723)	–
Total value	(25,290,891)	–	(3,756,495)	–

August 31, 2013:

	Class A		Class U	
	Series 1	Series 2	Series 1	Series 2
Units issued	–	–	–	–
Total value	–	–	–	–
Units converted to Class A Series 1	51,728	(7,000)	(40,020)	(4,001)
Total value	1,228,645	(170,934)	(962,390)	(95,321)
Units redeemed/ repurchased	(1,143,906)	(23,000)	(50,443)	–
Total value	(27,902,670)	(576,466)	(1,214,422)	–

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 CS Trust less the value of the prepaid amount to the Counterparty under the Forward Agreement. On August 31, 2014, the value of the prepaid amount to the Counterparty under the Forward Agreement balance was $84,064,075 and the unrealized gain on the Forward Agreement balance was $27,447,039. Liabilities net of other assets in the Fund totalled $16,846,681, leaving net assets of $94,664,433. This amount is assigned to the 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, 2014, the GAAP Net assets per unit were $22.70 for Class A/ Series 1, $23.26 for Class A/ Series 2, $24.61 or U.S. $22.69 for Class U/ Series 1 and $25.60 or U.S. $23.60 for Class U/ Series 2. (On August 31, 2013, the value of the prepaid amount to the Counterparty under the Forward Agreement was $120,602,328 and the unrealized gain on the Forward Agreement balance was $26,810,932. Liabilities net of other assets in the Fund totalled $22,555,081, leaving net assets of $124,858,179. This amount is assigned to the 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, 2013, the GAAP Net assets per unit were $22.91 for Class A/ Series 1, $23.58 for Class A/ Series 2, $24.13 or U.S. $22.87 for Class U/ Series 1 and $24.90 or U.S. $23.60 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, 2014 paying $1.7496 per Class A, Series 1 and 2 Unit and U.S. $1.7496 per Class U, Series 1 and 2 Unit ($1.7496 per Class A, Series 1 and 2 Unit and U.S. $1.7496 per Class U, Series 1 and 2 Unit during the year ended August 31, 2013).

Recommendations or Reports by the Independent Review Committee

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

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 the 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, 2014 were $454,882 plus applicable taxes ($583,665 plus applicable taxes during the year ended August 31, 2013).

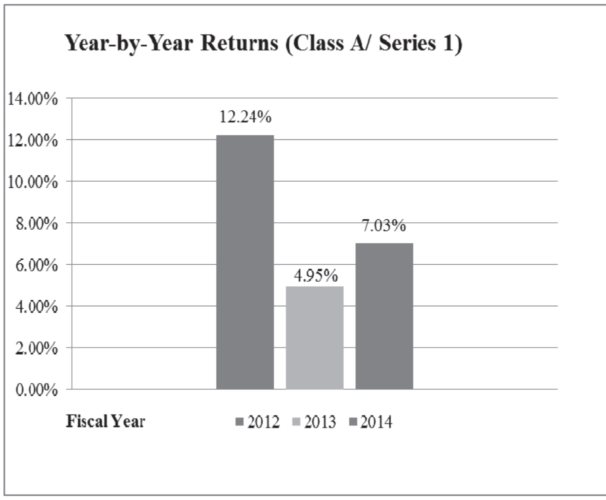
Service Fees

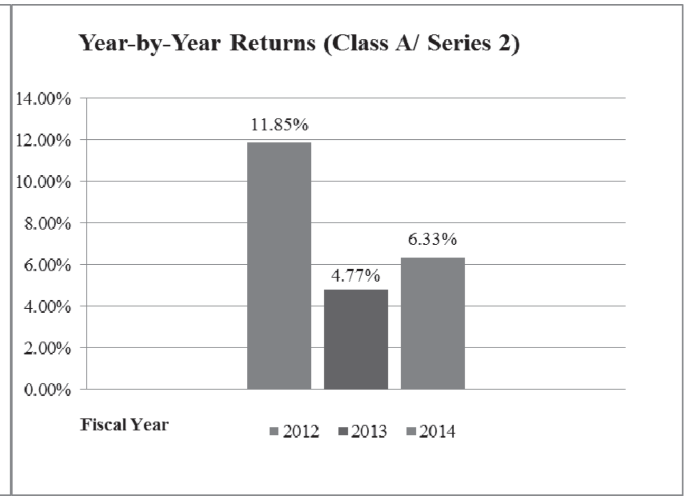
The Fund pays to the Manager a service fee, calculated quarterly and paid as soon as practicable after the end of each calendar quarter, solely with respect to the Series 2 of the Class A and Class U Units, equal to 0.30% per annum of the Net Asset Value attributable to the Series 2 of the Class A and 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.

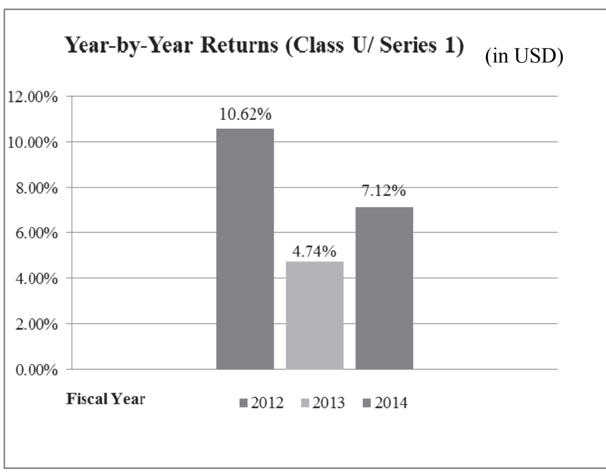
The service fees charged to the Fund during the year ended August 31, 2014 were $3,408 ($5,814 during the year ended August 31, 2013).

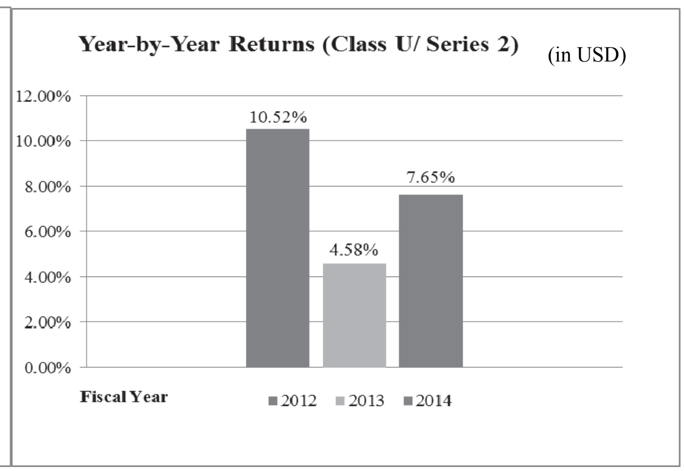
Past Performance

The following bar charts and table shows the Fund's annual performance of the Class A, Series 1 and 2 and Class U, Series 1 and 2 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, 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	Past 3 Years	Since Inception [(1)]
Based on NAV (Class A/ Series 1 Units)	7.03%	8.02%	6.81%
Based on share price (Class A /Series 1 Units)	8.33%	6.48%	4.66%
Based on NAV (Class A/ Series 2 Units)	6.33%	7.60%	6.39%
Based on NAV (Class U/ Series 1 Units)	7.12%	7.46%	6.80%
Based on NAV (Class U/ Series 2 Units)	7.65%	7.55%	6.77%
HSBC Holdings PLC, Series 2, 8.0%, December 15, 2015	6.50%	7.88%	6.89%

(1) Annualized for the period from October 13, 2010 (commencement of operations) to August 31, 2014.

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 102.4% of its net asset value as at August 31, 2014. 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/ Series 1:

The Fund's Net Assets per Class A/ Series 1 Unit:

	August 31, 2014 CAD	August 31, 2013 CAD	August 31, 2012 CAD	August 31, 2011 [1] CAD
Net Assets, beginning of period	**22.91**	**23.51**	**22.56**	**25.00**
Unit issue expense [2]	–	–	–	**(1.41)**
Increase (decrease) from operations:				
Total revenues	–	–	–	–
Total expenses	(0.20)	(0.21)	(0.20)	(0.18)
Realized gains (losses) for the period	1.43	1.34	0.32	0.02
Unrealized gains (losses) for the period	0.16	0.29	2.58	0.68
Total increase (decrease) from operations [3]	**1.39**	**1.42**	**2.70**	**0.52**
Distributions:				
From income (excluding dividends)	–	–	–	–
From dividends	–	–	–	–
From capital gains	–	–	–	–
Return of capital	(1.75)	(1.75)	(1.75)	(1.54)
Total Distributions [4]	**(1.75)**	**(1.75)**	**(1.75)**	**(1.54)**
Net Assets, end of period [5]	**22.70**	**22.91**	**23.51**	**22.56**

(1) Results for the period from October 13, 2010 (commencement of operations) to August 31, 2011.
(2) Issue expenses of $8,192,469 incurred in connection with the Class A/ Series 1 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 4,318,466 Class A/Series 1 units outstanding as of August 31, 2014 (August 31, 2013 – 5,254,807 units).
(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.
(5) This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class A/ Series 1 Units):

	August 31, 2014 CAD	August 31, 2013 CAD	August 31, 2012 CAD	August 31, 2011 [1] CAD
Net asset value (000's)	82,333	103,646	132,049	131,879
Number of units outstanding	3,627,291	4,524,421	5,616,599	5,831,734
Base Management expense ratio [2] [3]	0.72%	0.72%	0.68%	0.71%
Issue expenses ratio [2] [3]	0.00%	0.00%	0.00%	6.10%
Interest expense ratio [2] [3]	0.16%	0.17%	0.20%	0.15%
Management expense ratio (annualized) [3]	0.88%	0.89%	0.88%	6.96%
Management expense ratio before waivers or absorptions (annualized) [3]	0.88%	0.89%	0.88%	6.96%
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]	22.70	22.91	23.51	22.61
Closing market price (TSX)	22.10	22.08	22.80	23.10

(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 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 A/ Series 2:

The Fund's Net Assets per Class A/ Series 2 Unit:

	August 31, 2014 CAD	August 31, 2013 CAD	August 31, 2012 CAD	August 31, 2011 (1) CAD
Net Assets, beginning of period	**23.58**	**24.19**	**23.24**	**25.00**
Unit issue expense (2)	–	–	–	**(0.66)**
Increase (decrease) from operations:				
Total revenues	–	–	–	–
Total expenses	(0.31)	(0.31)	(0.29)	(0.18)
Realized gains (losses) for the period	1.49	1.37	0.33	0.02
Unrealized gains (losses) for the period	0.26	0.63	2.66	0.60
Total increase (decrease) from operations (3)	**1.44**	**1.69**	**2.70**	**0.44**
Distributions:				
From income (excluding dividends)	–	–	–	–
From dividends	–	–	–	–
From capital gains	–	–	–	–
Return of capital	(1.75)	(1.75)	(1.75)	(1.54)
Total Distributions (4)	**(1.75)**	**(1.75)**	**(1.75)**	**(1.54)**
Net Assets, end of period (5)	**23.26**	**23.58**	**24.19**	**23.24**

(1) Results for the period from October 13, 2010 (commencement of operations) to August 31, 2011.
(2) Issue expenses of $69,960 incurred in connection with the Class A/Series 2 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 36,506 Class A/ Series 2 units outstanding as of August 31, 2014 (August 31, 2013 – 57,094 units).
(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.
(5) This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class A/ Series 2 Units):

	August 31, 2014 CAD	August 31, 2013 CAD	August 31, 2012 CAD	August 31, 2011 (1) CAD
Net asset value (000's)	819	953	1,703	2,430
Number of units outstanding	35,200	40,400	70,400	104,300
Base Management expense ratio (2) (3)	1.15%	1.11%	1.06%	1.11%
Issue expenses ratio (2) (3)	0.00%	0.00%	0.00%	2.78%
Interest expense ratio (2) (3)	0.16%	0.16%	0.20%	0.15%
Management expense ratio (annualized) (3)	1.31%	1.27%	1.26%	4.04%
Management expense ratio before waivers or absorptions (annualized) (3)	1.31%	1.27%	1.26%	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)	23.26	23.58	24.19	23.30

(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 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 U/ Series 1:

The Fund's Net Assets per Class U/ Series 1 Unit:

	August 31, 2014 USD	August 31, 2013 USD	August 31, 2012 USD	August 31, 2011 [1] USD
Net Assets, beginning of period	**22.87**	**23.53**	**22.92**	**25.00**
Unit issue expense [2]	–	–	**(0.16)**	**(1.44)**
Increase (decrease) from operations:				
Total revenues	–	–	–	0.01
Total expenses	(0.26)	(0.26)	(0.22)	(0.18)
Realized gains (losses) for the period	3.70	0.60	0.19	(0.05)
Unrealized gains (losses) for the period	(1.07)	2.34	2.56	0.49
Total increase (decrease) from operations [3]	**2.37**	**2.68**	**2.53**	**0.27**
Distributions:				
From income (excluding dividends)	–	–	–	–
From dividends	–	–	–	–
From capital gains	–	–	–	–
Return of capital	(1.75)	(1.75)	(1.75)	(1.54)
Total Distributions [4]	**(1.75)**	**(1.75)**	**(1.75)**	**(1.54)**
Net Assets, end of period [5]	**22.69**	**22.87**	**23.53**	**22.92**

(1) Results for the period from October 13, 2010 (commencement of operations) to August 31, 2011.
(2) Issue expenses of $1,473,200 incurred in connection with the Class U/ Series 1 units issuance. Additional issue expenses of $141,829 incurred in connection with the Class U/ Series 1 private placement 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 618,333 Class U/Series 1 units outstanding as of August 31, 2014 (August 31, 2013 – 889,076 units).
(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.
(5) This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class U/ Series 1 Units):

	August 31, 2014 USD	August 31, 2013 USD	August 31, 2012 USD	August 31, 2011 [1] USD
Net asset value (000's)	10,580	19,172	21,848	23,192
Number of units outstanding	466,339	838,156	928,619	1,009,424
Base Management expense ratio [2] [3]	0.97%	0.94%	0.76%	0.69%
Issue expenses ratio [2] [3]	0.00%	0.00%	0.69%	6.31%
Interest expense ratio [2] [3]	0.19%	0.18%	0.21%	0.17%
Management expense ratio (annualized) [3]	1.16%	1.12%	1.66%	7.17%
Management expense ratio before waivers or absorptions (annualized) [3]	1.16%	1.12%	1.66%	7.17%
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]	22.69	22.87	23.53	22.98

(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 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 U/ Series 2:

The Fund's Net Assets per Class U/ Series 2 Unit:

	August 31, 2014 USD	August 31, 2013 USD	August 31, 2012 USD	August 31, 2011 [1] USD
Net Assets, beginning of period	**23.60**	**24.27**	**23.61**	**25.00**
Unit issue expense [2]	–	–	–	**(0.66)**
Increase (decrease) from operations:				
Total revenues	–	–	–	0.02
Total expenses	(0.37)	(0.47)	(0.34)	(0.18)
Realized gains (losses) for the period	4.03	0.62	0.20	(0.06)
Unrealized gains (losses) for the period	(1.26)	1.68	2.62	0.43
Total increase (decrease) from operations [3]	**2.40**	**1.83**	**2.48**	**0.21**
Distributions:				
From income (excluding dividends)	–	–	–	–
From dividends	–	–	–	–
From capital gains	–	–	–	–
Return of capital	(1.75)	(1.75)	(1.75)	(1.54)
Total Distributions [4]	**(1.75)**	**(1.75)**	**(1.75)**	**(1.54)**
Net Assets, end of period [5]	**23.60**	**23.60**	**24.27**	**23.61**

(1) Results for the period from October 13, 2010 (commencement of operations) to August 31, 2011.
(2) Issue expenses of $6,951 incurred in connection with the Class U/ Series 2 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 1,400 Class U/ Series 2 units outstanding as of August 31, 2014 (August 31, 2013 – 4,951 units).
(4) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on estimates.
(5) This is not a reconciliation between the opening and the closing net assets per unit.

Ratios and Supplemental Data (Class U/ Series 2 Units):

	August 31, 2014 USD	August 31, 2013 USD	August 31, 2012 USD	August 31, 2011 [1] USD
Net asset value (000's)	33	33	131	250
Number of units outstanding	1,400	1,400	5,401	10,565
Base Management expense ratio [2] [3]	1.37%	1.76%	1.28%	1.10%
Issue expenses ratio [2] [3]	0.00%	0.00%	0.00%	2.79%
Interest expense ratio [2] [3]	0.20%	0.18%	0.21%	0.17%
Management expense ratio (annualized) [3]	1.57%	1.94%	1.49%	4.06%
Management expense ratio before waivers or absorptions (annualized) [3]	1.57%	1.94%	1.49%	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]	23.60	23.60	24.27	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 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 August 31, 2014

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

Investment portfolio of the Fund

	Fair value CAD $	% of NAV
Portfolio by Category		
Prepaid Forward Agreement	111,511,114	117.8%
Bank Indebtedness	(16,201,851)	(17.1%)
Other liabilities net of other assets	(644,830)	(0.7%)
Top 25 Holdings		
Prepaid forward agreement	111,511,114	117.8%
Cash	58,148	0.1%
Net asset value	**94,664,433**	

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, 2014:

Investment portfolio of CS Trust

	Fair value CAD $	% of NAV of CS Trust
Portfolio by Category		
Financials	114,147,453	102.4%
Foreign currency forward contracts	(4,872,014)	(4.4%)
Other assets net of other liabilities	2,235,675	2.0%
Top 25 Holdings		
HSBC Holdings PLC, Series 2, 8.000%, December 15, 2015 (1)	114,147,453	102.4%
Cash	146,879	0.1%
Bought CAD 91,930,860 sold USD 88,200,000, December 15, 2015	(4,872,014)	(4.4%)
Net asset value	**111,511,114**	

(1) First call date.

Management's Responsibility for Financial Reporting

The accompanying financial statements of **HBanc Capital Securities Trust** (the "Fund") and all the information therein have been prepared by Aston Hill Capital Markets Inc. in its capacity as Manager of the Fund. 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 processes 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
Aston Hill Capital Markets Inc.

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

Toronto, Canada
November 28, 2014

pwc

November 28, 2014

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, 2014, the statements of net assets as at August 31, 2014 and August 31, 2013, 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

pwc

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at August 31, 2014 and August 31, 2013 and the results of its operations, the changes in its net assets 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

HBanc Capital Securities Trust

Statements of Net Assets

As at August 31, 2014 and 2013

	2014	2013
	$	**$**
Assets		
Cash	58,148	73,596
Prepaid forward agreement (notes 5 and 8)	111,511,114	147,413,260
Prepaid expenses and other assets	26,307	8,378
	111,595,569	147,495,234
Liabilities		
Forward agreement leverage (notes 5 and 8)	16,201,851	21,710,831
Interest payable	12,936	17,849
Distributions payable	607,982	794,678
Accounts payable and accrued liabilities	74,124	57,341
Forward fees payable	32,893	43,884
Management fees payable	1,350	12,472
	16,931,136	22,637,055
Net assets and unitholders' equity	94,664,433	124,858,179
Net Assets		
Class A / Series 1	82,333,281	103,646,272
Class A / Series 2	818,781	952,763
Class U / Series 1	11,476,533	20,224,284
Class U / Series 2	35,838	34,860
Class U / Series 1 (USD)	USD 10,579,871	USD 19,171,812
Class U / Series 2 (USD)	USD 33,038	USD 33,046
Units issued and outstanding (note 6)		
Class A / Series 1	3,627,291	4,524,421
Class A / Series 2	35,200	40,400
Class U / Series 1	466,339	838,156
Class U / Series 2	1,400	1,400
Net assets per unit		
Class A / Series 1	22.70	22.91
Class A / Series 2	23.26	23.58
Class U / Series 1	24.61	24.13
Class U / Series 2	25.60	24.90
Class U / Series 1 (USD)	USD 22.69	USD 22.87
Class U / Series 2 (USD)	USD 23.60	USD 23.60
Unitholders' equity (note 6)		
Unit Capital	68,516,099	98,695,108
Retained Earnings	26,148,334	26,163,071
Total Unitholders' equity	94,664,433	124,858,179

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

Director **Director**

(See accompanying notes to financial statements)

HBanc Capital Securities Trust

Statements of Operations

For the years ended August 31, 2014 and 2013

	2014	2013
	$	**$**
Income		
Interest income	-	3,238
Expenses		
Forward fees (note 8)	470,838	598,980
Interest expense (note 5)	186,702	246,289
Management fees (note 10)	170,292	218,973
Custodial and other unitholder fees	59,708	59,342
Administration fees	31,351	29,127
Harmonized sales tax	27,980	100,699
Audit fees	20,630	23,591
Transfer agent fees	19,139	16,399
TSX fees	16,534	22,089
Filing fees	13,035	11,164
Other fees	11,573	7,303
Printing and mailing fees	7,791	5,085
Service fees (note 11)	3,408	5,814
IRC fees	3,203	6,275
Registration fees	-	3,509
Legal fees	286	2,000
	1,042,470	1,356,639
Investment (loss)	(1,042,470)	(1,353,401)
Unrealized gain (loss) on investments		
Change in unrealized gain (loss) on foreign exchange	(657,163)	(1,565,870)
Change in unrealized gain (loss) on forward agreement (note 8)	636,104	5,229,544
	(21,059)	3,663,674
Realized gain (loss) on investments		
Net realized gain (loss) on forward agreement (note 8)	8,750,146	7,852,661
Net realized gain (loss) on foreign exchange	(32,916)	(166,319)
	8,717,230	7,686,342
Net gain (loss) on investments	8,696,171	11,350,016
Increase (decrease) in net assets from operations	7,653,701	9,996,615
Increase (decrease) in net assets from operations for		
Class A / Series 1	6,020,775	7,481,232
Class A / Series 2	52,513	96,744
Class U / Series 1	1,576,792	2,409,465
Class U / Series 2	3,621	9,174
Class U / Series 1 (USD) (1)	USD 1,464,508	USD 2,383,852
Class U / Series 2 (USD) (1)	USD 3,363	USD 9,076
Increase (decrease) in net assets from operations per unit (2)		
Class A / Series 1	1.39	1.42
Class A / Series 2	1.44	1.69
Class U / Series 1	2.55	2.71
Class U / Series 2	2.59	1.85
Class U / Series 1 (USD) (1)	USD 2.37	USD 2.68
Class U / Series 2 (USD) (1)	USD 2.40	USD 1.83

(1) (based on average exchange rate for the year)
(2) (based on weighted average number of units outstanding during the year)
(See accompanying notes to financial statements)

HBanc Capital Securities Trust

Statements of Changes in Net Assets and Retained Earnings

For the years ended August 31, 2014 and 2013

	Class A					
	Series 1 2014 $	Series 2 2014 $	Total 2014 $	Series 1 2013 $	Series 2 2013 $	Total 2013 $
Increase (decrease) in net assets from operations	6,020,775	52,513	6,073,288	7,481,232	96,744	7,577,976
Distributions to unitholders from: (note 9)						
Return of capital	(7,583,852)	(63,510)	(7,647,362)	(9,210,240)	(99,815)	(9,310,055)
Unitholders' transactions (note 6)						
Transfers from Class A/ Series 2, Class U/ Series 1 and Class U/ Series 2 to Class A/ Series 1	5,540,977	(122,985)	5,417,992	1,228,645	(170,934)	1,057,711
Payments on redemption/cancellation of units (note 6 & 7)	(25,290,891)	-	(25,290,891)	(27,902,670)	(576,466)	(28,479,136)
	(19,749,914)	(122,985)	(19,872,899)	(26,674,025)	(747,400)	(27,421,425)
Change in net assets during the year	(21,312,991)	(133,982)	(21,446,973)	(28,403,033)	(750,471)	(29,153,504)
Net assets - Beginning of year	103,646,272	952,763	104,599,035	132,049,305	1,703,234	133,752,539
Net assets - End of year	82,333,281	818,781	83,152,062	103,646,272	952,763	104,599,035
Retained Earnings (Deficit), beginning of year	21,081,374	267,307	21,348,681	18,345,247	283,048	18,628,295
Increase (decrease) in net assets from operations	6,020,775	52,513	6,073,288	7,481,232	96,744	7,577,976
Cost of shares redeemed in excess of original issue price	(6,533,635)	-	(6,533,635)	(4,745,105)	(112,485)	(4,857,590)
Retained Earnings (Deficit), end of year	20,568,514	319,820	20,888,334	21,081,374	267,307	21,348,681

	Class U					
	Series 1 2014 $	Series 2 2014 $	Total 2014 $	Series 1 2013 $	Series 2 2013 $	Total 2013 $
Increase (decrease) in net assets from operations	1,576,792	3,621	1,580,413	2,409,465	9,174	2,418,639
Distributions to unitholders from: (note 9)						
Return of capital	(1,150,056)	(2,643)	(1,152,699)	(1,569,443)	(8,338)	(1,577,781)
Unitholders' transactions (note 6)						
Transfers from Class A/ Series 2, Class U/ Series 1 and Class U/ Series 2 to Class A/ Series 1	(5,417,992)	-	(5,417,992)	(962,390)	(95,321)	(1,057,711)
Payments on redemption/cancellation of units (note 6 & 7)	(3,756,495)	-	(3,756,495)	(1,214,422)	-	(1,214,422)
	(9,174,487)	-	(9,174,487)	(2,176,812)	(95,321)	(2,272,133)
Change in net assets during the year	(8,747,751)	978	(8,746,773)	(1,336,790)	(94,485)	(1,431,275)
Net assets - Beginning of year	20,224,284	34,860	20,259,144	21,561,074	129,345	21,690,419
Net assets - End of year	11,476,533	35,838	11,512,371	20,224,284	34,860	20,259,144
Retained Earnings (Deficit), beginning of year	4,780,236	34,154	4,814,390	2,552,647	24,980	2,577,627
Increase (decrease) in net assets from operations	1,576,792	3,621	1,580,413	2,409,465	9,174	2,418,639
Cost of shares redeemed in excess of original issue price	(1,134,803)	-	(1,134,803)	(181,876)	-	(181,876)
Retained Earnings (Deficit), end of year	5,222,225	37,775	5,260,000	4,780,236	34,154	4,814,390

(See accompanying notes to financial statements)

HBanc Capital Securities Trust

Statements of Changes in Net Assets and Retained Earnings… Continued

For the years ended August 31, 2014 and 2013

	Total	
	2014	**2013**
	$	**$**
Increase (decrease) in net assets from operations	7,653,701	9,996,615
Distributions to unitholders from: (note 9)		
Return of capital	(8,800,061)	(10,887,836)
Unitholders' transactions (note 6)		
Transfers from Class A/ Series 2, Class U/ Series 1 and Class U/ Series 2 to Class A/ Series 1	-	-
Payments on redemption/cancellation of units (note 6 & 7)	(29,047,386)	(29,693,558)
	(29,047,386)	(29,693,558)
Change in net assets during the year	(30,193,746)	(30,584,779)
Net assets - Beginning of year	124,858,179	155,442,958
Net assets - End of year	94,664,433	124,858,179
Retained Earnings (Deficit), beginning of year	26,163,071	21,205,922
Increase (decrease) in net assets from operations	7,653,701	9,996,615
Cost of shares redeemed in excess of original issue price	(7,668,438)	(5,039,466)
Retained Earnings (Deficit), end of year	26,148,334	26,163,071

(See accompanying notes to financial statements)

HBanc Capital Securities Trust

Statements of Cash Flows

For the years ended August 31, 2014 and 2013

	2014	2013
	$	$
Operating Activities		
Increase (decrease) in net assets from operations	7,653,701	9,996,615
Items not affecting cash:		
Change in unrealized (gain) loss on forward agreement	(636,104)	(5,229,544)
Net realized (gain) loss on forward agreement	(8,750,146)	(7,852,661)
Changes in non-cash working capital:		
(Increase) decrease in prepaid expenses and other assets	(17,929)	8,783
Increase (decrease) in interest payable	(4,913)	(6,489)
Increase (decrease) in accounts payable and accrued liabilities	16,783	57,341
Increase (decrease) in forward fees payable	(10,991)	(9,212)
Increase (decrease) in management fees payable	(11,122)	10,469
Investment in forward agreement	-	(1,439,812)
Pre-settlements received by the Fund from the Counterparty under the forward agreement, net of leverage	39,779,416	45,230,182
Net cash flow provided by operating activities	38,018,695	40,765,672
Financing Activities		
Payments on redemption of units	(29,047,386)	(29,693,558)
Distributions paid to unitholders	(8,986,757)	(11,056,711)
Net cash flow (used in) financing activities	(38,034,143)	(40,750,269)
Net increase in cash	(15,448)	15,403
Cash - beginning of year	73,596	58,193
Cash - end of year	58,148	73,596
Supplementary Information		
Interest paid	191,615	252,778

(See accompanying notes to financial statements)

HBanc Capital Securities Trust

Statement of Investment Portfolio

As at August 31, 2014

	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 [(1)]					
Preferred Stock (USD)					
Financials					
HSBC Holdings PLC, Series 2, 8.000% [(2)]	15/12/2015	3,922,069	109,869,663	114,147,453	120.5%
Total investments			109,869,663	114,147,453	120.5%

	Maturity date	Contract price / rate $	Unrealized gain (loss) $	% of NAV
Foreign currency forward contracts				
Bought CAD 91,930,860 sold USD 88,200,000	15/12/2015	0.95942	(4,872,014)	-5.1%
Other assets net of other liabilities of CS Trust			2,235,675	2.4%
Transactional net asset value of CS Trust			111,511,114	117.8%
Prepaid forward agreement, before leverage			111,511,114	117.8%
Leverage			(16,201,851)	-17.1%
Prepaid forward agreement, after leverage			95,309,263	100.7%
Other liabilities net of other assets of the Fund			(644,830)	-0.7%
Net asset of the Fund			94,664,433	100.0%

(1) 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.

(2) First call date is presented for this security.

(3) The unrealized forward currency contract gain and losses are attributed to and allocated to the Series U.

(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 (the "Trust Agreement") between Aston Hill Capital Markets Inc. (the "Manager") the Manager of the Fund and RBC Investor Services Trust (the "Trustee") dated September 28, 2010. The Fund's principal office is located at 77 King Street West, Suite 2110, Toronto, Ontario, M5K 1G8. The fiscal year-end of the Fund is 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. The Class A/ Series 2, Class U/ Series 1 and Class U/ Series 2 Units are not listed on the TSX but may be converted into Class A/ Series 1 Units on a weekly basis. The termination date of the fund is December 30, 2015. Class A of the Fund is exposed to the leveraged returns of the Transactional NAV of Class A of the Trust through its investment in the Prepaid Forward Agreement. The returns of Class A are subject to a currency hedge. Class U of the Fund is exposed to the leveraged returns of the Transactional NAV of Class U of the Trust through its investment in the Prepaid Forward Agreement. This class is not currency hedged.

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" or the "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 may have 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 Chartered Professional Accountant Canada (the "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.

The valuation of the Portfolio that the Fund has exposure to through the prepaid forward agreement is calculated in accordance with the above.

There were no differences between the Transactional NAV and GAAP Net Assets as at August 31, 2014 and 2013.

Cash and short-term investments

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

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

Foreign currency forward contracts

The Fund is exposed to the foreign currency contracts held in CS Trust. The carrying value of the foreign currency forward contracts is the gain or loss that would be realized if the positions were closed out on the valuation date and is recorded as an unrealized gain or loss in CS Trust. Upon closing of a contract, the gain or loss is recorded as net realized gain or loss on foreign currency forward contracts. This 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".

Initial fees and expenses

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

Increase in net assets from operations per unit

This calculation is based on the increase 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 in net assets from operations per unit for the Class U Units is converted into U.S. dollars using the average exchange rate for the period.

Valuation of a class/ 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 into U.S. dollars at the rate of exchange available from the Custodian on that same valuation date.

Designation of financial assets and liabilities

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

Related party transactions

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

International Financial Reporting Standards (IFRS)

Beginning September 1, 2014, the Fund will prepare its semi-annual and 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 September 1, 2014 (the transition date). The Fund will also report its interim financial statements for the period ending February 28, 2015, 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 maybe how the Fund measures 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. See Note 3 of the Financial Statements.

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 which is December 30, 2015, 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 Services Trust (the "Custodian") also acts as custodian of the assets of the Fund. The Custodian 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, 2014 and 2013.

5 Forward agreement leverage

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 CS Trust) 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") (see note 8). This agreement will be terminated on the earlier of (i) December 30, 2015 and (ii) the date on which this transaction is pre-settled in full pursuant to the terms of the Credit Agreement. 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, 2014, the Fund applied leverage in the range from 14.17% to 15.79% or U.S. $13,078,000 to U.S. $17,153,000 for Class A (the Canadian equivalent was $13,903,891 to $19,083,485) and 14.60% to 15.27% or U.S. $1,858,000 to U.S. $3,428,000 for Class U (the Canadian equivalent was $1,975,335 to $3,724,801.)) (During the year ended August 31, 2013, the Fund applied leverage in the range from 13.07% to 15.68% or U.S. $17,153,000 to U.S. $21,678,000 for Class A (the Canadian equivalent was $17,600,763 to $22,288,252) and 14.31% to 15.41% or U.S. $3,428,000 to U.S. $3,791,000 for Class U (the Canadian equivalent was $3,517,485 to $3,907,965)). The leverage factor as of August 31, 2014 was 14.48% for Class A and the borrowed balance was U.S. $13,078,000 (the Canadian equivalent was $14,186,382). The leverage factor as of August 31, 2014 was 14.80% for Class U and the borrowed balance was U.S. $ 1,858,000 (the Canadian equivalent was $2,015,469). (The leverage factor as of August 31, 2013 was 14.67% for Class A and the borrowed balance was U.S. $17,153,000 (the Canadian equivalent was $18,094,645). The leverage factor as of August 31, 2013 was 15.02% for Class U and the borrowed balance was U.S. $3,428,000 (the Canadian equivalent was $3,616,186)).

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 are 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**	**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' fee 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	

The Class A Units and Class U Units may be redeemed on an Annual Redemption Date, which is the second last Business Day (any day except Saturday, Sunday, a statutory holiday in Toronto or any other day on which the TSX is no open for trading) 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 (or such other stock exchange on which such security is listed) 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 (or such other stock exchange on which such security is listed) 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 (or such other stock exchange on which such security is listed) 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, 2014, there were 5,200 Class A/ Series 2 Units, 218,094 Class U/ Series 1 Units converted into 234,699 Class A/ Series 1 Units for a total value of $5,540,977 (7,000 Class A/ Series 2 Units, 40,020 Class U/ Series 1 Units and 4,001 Class U/ Series 2 Units converted into 51,728 Class A/ Series 1 Units for a total value of $1,228,645during the year ended August 31, 2013). During the same period, the Fund also had redemptions of 1,131,829 Class A/ Series 1 Units for $25,290,891 and redemptions of 153,723 Class U/ Series 1 Units for $3,756,495. (1,143,906 Class A/ Series 1 Units were redeemed for $27,902,670 and 23,000 Class A/ Series 2 Units were redeemed for $576,466 during the year ended August 31, 2013. There were also 50,443 Class U/ Series 1 Units redeemed for $1,214,422 during the year ended August 31, 2013.)

Changes in outstanding units during the years ended August 31, 2014 and 2013 are summarized as follows:

	Class A/ Series 1 Units		Class A/ Series 2 Units	
	August 31,2014	**August 31, 2013**	**August 31, 2014**	**August 31, 2013**
Balance – beginning of year	4,524,421	5,616,599	40,400	70,400
Units issued	–	–	–	–
Units converted to Class A/ Series 1	234,699	51,728	(5,200)	(7,000)
Units redeemed	(1,131,829)	(1,143,906)	–	(23,000)
Units cancelled (note 7)	–	–	–	–
Balance – end of year	3,627,291	4,524,421	35,200	40,400

	Class U/ Series 1 Units		Class U/ Series 2 Units	
	August 31,2014	**August 31, 2013**	**August 31, 2014**	**August 31, 2013**
Balance – beginning of year	838,156	928,619	1,400	5,401
Units issued	–	–	–	–
Units converted to Class A/ Series 1	(218,094)	(40,020)	–	(4,001)
Units redeemed	(153,723)	(50,443)	–	–
Units cancelled (note 7)	–	–	–	–
Balance – end of year	466,339	838,156	1,400	1,400

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, 2014. If the redemption price is lower than the average cost per unit, the difference is included in Contributed Surplus on the Statements of Net Assets. If the redemption price is greater than the average cost per unit, the difference is first charged to Contributed Surplus until the balance in Contributed Surplus is eliminated and the remaining amount is charged to Retained Earnings (Deficit).

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

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 years ended August 31, 2014 and 2013.

8 Forward Agreement

The Fund does not invest directly in CS Trust; the Fund used the net proceeds of its 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, 2013 and 2012. Under the Forward Agreement, the Fund will receive, on or before December 30, 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 NAV of CS Trust, is payable to BMO under the Forward Agreement. The Fund’s exposure to the securities in the Portfolio through the Forward Agreement may be increased 15% through the use of leverage (Note 5). 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 value of CS Trust less the value of the prepaid amount to the Counterparty under the Forward Agreement. On August 31, 2014, the value of the prepaid amount to the Counterparty under the Forward Agreement balance was $84,064,075 and the unrealized gain on the Forward Agreement balance was $27,447,039. Liabilities (including leverage) net of other assets in the Fund totalled $16,846,681, leaving net assets of $94,664,433. (On August 31, 2013, the value of the prepaid amount to the Counterparty under the Forward Agreement was $120,602,328 and the unrealized gain on the Forward Agreement balance was $26,810,932. Liabilities net of other assets in the Fund totalled $22,555,081, leaving net assets of $124,858,179.)

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, 2014, paying $1.7496 per Class A, Series 1 and 2 Unit and U.S. $1.7496 per Class U, Series 1 and 2 Unit ($1.7496 per Class A, Series 1 and 2 Unit and U.S. $1.7496 per Class U, Series 1 and 2 Unit during the year ended August 31, 2013).

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 NAV (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, 2014 were $454,882 plus applicable taxes ($583,665 plus applicable taxes during the year ended August 31, 2013).

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 NAV 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, 2014 were $3,408 ($5,814 during the year ended August 31, 2013).

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 net taxable capital losses carry forward balances as at tax year ends December 31, 2013 and 2012. The Fund had non-capital losses of $6,061,411 as of December 31, 2013 (December 31, 2012 – $6,008,049), 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
2012	2,085,188	2032
Total	**6,061,411**	

13 Broker commission charges and soft dollar services

There were $nil broker commissions paid during the years ended August 31, 2014 and 2013. 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 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. Bank indebtedness is recorded at cost which given its short term nature approximates its fair value. 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, 2014 and 2013:

August 31, 2014:

Assets at fair value	Level 1	Level 2	Level 3	Total
Equities	114,147,453	–	–	114,147,453
Total	**114,147,453**	–	–	**114,147,453**

Liabilities at fair value	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	4,872,014	–	4,872,014
Total	–	**4,872,014**	–	**4,872,014**

August 31, 2013:

Assets at fair value	Level 1	Level 2	Level 3	Total
Equities	148,266,437	–	–	**148,266,437**
Short-term investments	–	685,505	–	**685,505**
Total	**148,266,437**	**685,505**	–	**148,951,942**

Liabilities at fair value	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	4,150,921	–	**4,150,921**
Total	–	**4,150,921**	–	**4,150,921**

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 Trust'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 and prepaid forward agreement: Short-term investments are classified as Level 2 as they are valued using observable inputs, including interest rate curves, credit spreads and volatilities and are not actively traded. The prepaid forward agreement is a level 2 security as its value is based on observable input which is not actively traded.

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 years ended August 31, 2014 and 2013.

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 the 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 8.00% Perpetual Subordinated Capital Securities, Series 2 will be called on its first call date.

August 31, 2014:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	114,147,453	–	–	(4,872,014)	**109,275,439**
Other assets	–	–	–	–	2,153,544	**2,153,544**
Liabilities	(16,201,851)	–	–	–	(767,726)	**(16,969,577)**
Total	**(16,201,851)**	**114,147,453**	**–**	**–**	**(3,486,196)**	**94,459,406**

August 31, 2013:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	6,332,620	141,933,817	–	–	(4,150,921)	**144,115,516**
Short-term investments	685,505	–	–	–	115,100	**800,605**
Other assets	–	–	–	–	2,625,203	**2,625,203**
Liabilities	(21,710,831)	–	–	–	(972,314)	**(22,683,145)**
Total	**(14,692,706)**	**141,933,817**	**–**	**–**	**(2,382,932)**	**124,858,179**

As at August 31, 2014, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately $1,397,000 and $ 1,418,000 (August 31, 2013 – $2,947,600 and 3,020,000). 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, 2014:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
U.S. Dollar	(14,106,786)	102,726,960	(96,802,874)	(8,182,700)	(9.8%)	(409,000)

August 31, 2013:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
U.S. Dollar	(17,501,200)	124,209,134	(139,187,776)	(32,479,842)	(31.1%)	(1,624,000)

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 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 A+ by S&P as of August 31, 2014 and 2013.

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 (loss) on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at August 31, 2014 and 2013.

The tables below summarize the Fund's exposure to credit risk through its investment in CS Trust as of August 31, 2014 and 2013. 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 (loss) on derivative instruments outstanding with counterparties.

Rating	August 31, 2014 (% of Net Assets)
BBB+	120.5%
Total	**120.5%**

Rating	August 31, 2013 (% of Net Assets)
A+	118.8%
A-1+	0.5%
Total	**119.3%**

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

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 and from its bank indebtedness (see note 5). The Fund is also exposed to monthly redemptions and 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. 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.

16 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.

17 Comparative information

Certain comparative information has been reclassified to meet the current year’s presentation.