



CONNOR, CLARK & LUNN

CAPITAL MARKETS

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**Connor, Clark & Lunn
CANADIAN Banc Capital
Securities Trust**

Semi-Annual Report
June 30, 2009

Canadian Banc Capital Securities Trust Message to Unitholders

August 24, 2009

Dear Investor,

We are pleased to provide you with the first semi-annual report for Canadian Banc Capital Securities Trust (the “Fund”) for the period from inception on June 9, 2009 to June 30, 2009.

The Fund has been designed to provide investors with tax-efficient exposure to an actively managed portfolio consisting primarily of Innovative Tier 1 Capital Securities of the largest Canadian banks. Yields on corporate fixed income investments expanded dramatically with the onset of the financial crisis. While they have declined considerably since reaching a peak in March of 2009, Connor, Clark & Lunn Investment Management Ltd. (the “Investment Manager”) believes that yields continue to remain attractive, particularly within the Innovative Tier 1 Capital Securities segment.

The Fund raised gross proceeds of approximately \$96.3 million on June 9, 2009 and an additional \$2.7 million pursuant to the exercise of the over-allotment option by the Agents on July 6, 2009, resulting in total gross proceeds to \$99.0 million.

The Investment Manager did a good job of getting the Fund fully invested quickly and at good price levels. The Fund has, as expected, also utilized its capability to add leverage to the portfolio. We have seen some appreciation in the portfolio, with the Fund’s net asset value per Class A Share moving from \$23.49 at launch to \$25.12 as at August 14, 2009.

Please check our web site for quarterly investment updates and other timely information. We appreciate your investment in the Fund and look forward to good performance as the Fund matures

Yours truly,



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

Management Report of Fund Performance

This Semi-Annual management report of fund performance for Canadian Banc Capital Securities Trust (the “Fund”) contains financial highlights but does not contain the complete semi-annual financial statements of the Fund. **The semi-annual financial statements and accompanying notes are attached to this report.**

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

Investment Objectives and Strategy

The Fund is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement between Connor, Clark & Lunn Capital Markets Inc. (the “Manager”) the Manager of the Fund and RBC Dexia Investor Services Trust (the “Trustee”) dated May 22, 2009. The Fund’s principal office is at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The fiscal year-end of the Fund is December 31. Beneficial interest in the net assets and net income of the Fund is divided into units of two classes, Class A Units (“the Class A Units”) and Class F Units (the “Class F Units”). Class A Units are listed on the Toronto Stock Exchange under the symbol CSB.UN. Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis. The principal differences between the Class A Units and the Class F Units are that the agents’ fees payable with respect to the original issuance of the units were lower for the Class F Units, and that the service fee component of the manager’s fee and the TSX listing fees are not paid by Class F Units.

The Fund’s investment objectives are to:

- (i) provide Unitholders with attractive tax-advantaged quarterly cash distributions; and
- (ii) return to Unitholders the original issue price of the Units upon termination of the Fund on June 30, 2014.

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

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

The Fund doesn’t invest directly in the Portfolio Trust, the Fund used the net proceeds of the initial public offering of its Class A and Class F Units to pre-pay its purchase obligations under a forward purchase and sale agreement (the “Forward Agreement”) with The Bank of Montreal (the “Counterparty” or “BMO”). Under the Forward Agreement, the Fund will receive, on or before June 30, 2014, a specified portfolio consisting of securities of Canadian public issuers that are “Canadian securities” for the purposes of the Tax Act (“Canadian Securities”) in an amount equal to the value of the Portfolio Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by Portfolio Trust. A fee of 0.35% per annum, calculated with reference to the principal amount of the CLN, is payable to BMO under the Forward Agreement.

Risk

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

- **Use of leverage**

The Fund is entitled to employ leverage of up to 25% of the total Portfolio held by Portfolio Trust. The Fund applied leverage in the range from 0.0% to 24.9%. The leverage factor as of June 30, 2009 was 23.6%.

For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated May 27, 2009 and to the Fund's most recent Annual Information Form.

Recent Development

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

Results of Operations

Portfolio Manager Commentary

The rate of contraction within the global economy moderated and encouraging evidence from leading indicators, such as consumer confidence and manufacturing, signalled economic stabilization. However, the jobs situation continued to worsen with the unemployment rate climbing towards 10% in the US. The healing process for one of the worst recessions ever will require time to run its course. Liquidity conditions improved dramatically with many global central banks joining the US Fed and the Bank of England to provide additional monetary stimulus; however, credit expansion within the private sector has been muted as the focus remains on balance sheet repair. After decreasing its overnight rate by another 0.25% in April, the Bank of Canada opted to use rhetoric rather than quantitative easing to convince the market that it would remain supportive, stating that it would keep its overnight rate unchanged at 0.25% until the second quarter of 2010.

While it is premature to declare an end to the "Great Recession", we are seeing some encouraging signs pointing in that direction. The declines in output, sales, employment and income are not only decelerating, but appear likely to reverse direction over the next couple of quarters, bringing the current recession to a close. However, we remain mindful that that is not a typical recession and there are still plenty of secular headwinds that will impede a strong recovery (i.e., ongoing weakness in the housing market, consumer deleveraging and lower productivity).

We also believe that deflationary forces might actually intensify in the coming months and put downward pressure on global interest rates. The velocity (utilization) of money continues to be weak versus historical standards, and this leads us to believe that, despite an aggressive monetary policy environment, inflationary pressures should remain muted. However, as global monetary stimulus continues to favourably impact the economy, central banks have started to caution the market that they will reverse some of the emergency measures put in place last year if inflation pressures start to emerge.

While we believe the Canadian banks recent recapitalization provides enhancements to the financial soundness of these already solid financial institutions, the prospective economic landscape should be supportive to an improvement in the value of Innovative Tier 1 Capital instruments. In fact, despite their high yields relative to Government Bonds that narrowed to levels consistent with pre- Lehman levels last September, their valuations remain elevated from a historical standpoint. This provides the opportunity for capital gains going forward if spreads return to their long term average.

Capital transactions

On June 9, 2009, the Fund completed an initial public offering pursuant to the prospectus dated May 27, 2009. \$90,000,000 was raised through the issue of 3,600,000 Class A Units and \$6,289,000 was raised through the issue of 251,560 Class F Units. The Class A Units were issued at \$25 per unit and incurred agents fees and issue expenses of \$5,426,015 or \$1.51 per unit, for an opening Transactional NAV of \$23.49 per unit. The Class F Units were issued at \$25 per unit and incurred agents fees and issue expenses of \$190,488 or \$0.76 per unit, for an opening Transactional NAV of \$24.24 per unit.

Net Assets

The net assets per unit is calculated as the value of the prepaid amount to the counterparty under 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.

On June 30, 2009, the value of the prepaid amount to counterparty under forward agreement was \$118,262,498. The unrealized loss on forward agreement balance was \$1,384,911. Since the Fund can at any time terminate the Forward agreement with the Counterparty in exchange for the value of the Portfolio Trust, the value of the Forward Agreement to the Fund is equal to the value of the Portfolio Trust less the value of the prepaid amount to counterparty under forward agreement. On June 30, 2009 the value of the unrealized loss on forward agreement was \$1,384,911. Other liabilities net of other assets in the Fund totalled \$27,676,846 leaving net assets of \$89,200,741. This amount is assigned to Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses. On June 30, 2009 the GAAP Net assets per unit was \$23.11 per Class A Units and \$23.86 per Class F Units.

Investment Income and Capital Gains

The Fund had a net investment loss of \$87,025 during the period from June 9, 2009 (commencement of operation) to June 30, 2009. In addition, the portfolio had \$1,384,731 unrealized losses on investments as of June 30, 2009. The loss and unrealized losses combined for a total decrease in net assets from operations of \$1,471,756.

Leverage

The Fund's exposure to the securities in the Portfolio through the Forward Agreement may be increased to 25% of the Total Assets (being the aggregate value of the assets of the Fund or Portfolio Trust) (tested daily) for the purposes of adding leverage to the Portfolio and such other short term funding purposes as may be determined by the Investment Manager from time to time and in accordance with the Investment Strategy. The use of leverage has the potential to enhance or reduce returns. At June 30, 2009, the Fund had borrowed \$27,600,000 under its banking facility.

Liquidity and Capital Resources

As at June 30, 2009, both the Fund and the Portfolio Trust held cash and short-term investments of \$906,555 on a combined basis. The Fund had \$720,636 in current assets excluding investments, and had current liabilities totalled \$807,446.

Market repurchases

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

During the period from June 9, 2009 (commencement of operation) to June 30, 2009, the Fund did not purchase any units for cancellation.

Distributions

The Fund pays quarterly distributions initially at \$0.375 per Unit, representing a yield of 6.0% per annum on the Unit issue price.

The initial distribution is payable to Unitholders of record on September 30, 2009 and will be paid no later than October 15, 2009.

It is expected that distributions received by Unitholders will be primarily comprised of returns of capital (which are not immediately taxable but which reduce the adjusted cost base of a Unitholder's Units).

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Board of Advisors tabled no special reports and made no extraordinary material recommendations to management of the Fund during the period from June 9, 2009 (commencement of operation) to June 30, 2009.

Related Party Transactions

Management Fees

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

The management fees charged to the Fund and the Portfolio Trust on a combined basis during the period from June 9, 2009 (commencement of operation) to June 30, 2009 were \$30,418. The Manager is responsible for payment of the investment management fees out of these management fees.

Future accounting changes

The Canadian Accounting Standards Board ("AcSB") confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. IFRS will apply to fiscal years beginning on or after January 1, 2011. As of June 30, 2009 the Manager has not developed a changeover plan to IFRS nor has it assessed the impact of the move to IFRS on business arrangements, GAAP net assets per unit and accounting policies. The Manager will develop a plan prior to the January 1, 2011 deadline and will disclose this plan in the Fund's December 31, 2009 or 2010 annual reports.

In March 2009, the Canadian Accounting Standards Board announced it has agreed to adopt recent amendments to IFRS 7, "Financial Instruments: Disclosures", into Section 3862, "Financial Instruments – Disclosures". The final amended version to IFRS 7 will also be subsequently incorporated into Canadian GAAP. The amendments to Section 3862 will apply to annual financial statements for years ending after September 30, 2009. The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to aid in understanding the Fund's financial performance since inception. This information is derived from the Fund's audited annual financial statements:

Class A Units:

The Fund's Net Assets per Class A Unit:

	June 30, 2009⁽¹⁾
Net Assets, beginning of period	25.00
Increase (decrease) from operations:	
Total revenues	–
Total expenses	(0.02)
Unit issue expense ⁽²⁾	(1.51)
Realized gains (losses) for the period	–
Unrealized gains (losses) for the period	(0.36)
Total increase (decrease) from operations⁽³⁾	(1.89)
Distributions:	
From income (excluding dividends)	–
From dividends	–
From capital gains	–
Return of capital	–
Total Distributions⁽⁴⁾	–
Net Assets, end of period⁽⁵⁾	23.11

⁽¹⁾ Results for the period from June 09, 2009 (commencement of operations) to June 30, 2009.

⁽²⁾ Issue expense of \$5,426,015 incurred in connection with the Class A Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes.

⁽³⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of units outstanding over the financial period.

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

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

Ratios and Supplemental Data (Class A Units):

	June 30, 2009⁽¹⁾
Net asset value (000's)	83,267
Number of units outstanding	3,600,000
Base Management expense ratio ⁽²⁾⁽³⁾	1.22%
Issue expenses ratio ⁽²⁾⁽³⁾	6.43%
Interest expense ratio ⁽²⁾⁽³⁾	0.35%
Management expense ratio (annualized) ⁽³⁾	8.00%
Management expense ratio before waivers or absorptions (annualized) ⁽³⁾	8.00%
Portfolio turnover rate ⁽⁴⁾	0.00%
Trading expense ratio ⁽⁵⁾	0.00%
Net asset value per unit	23.11
Closing market price (TSX)	24.95

⁽¹⁾ Results for the period from June 09, 2009 (commencement of operations) to June 30, 2009.

⁽²⁾ A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses, and Interest expense ratio: representing cost of leverage.

⁽³⁾ Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, are not annualized.

⁽⁴⁾ The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

⁽⁵⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

Class F Units:

The Fund's Net Assets per Class F Unit:

	June 30, 2009 ⁽¹⁾
Net Assets, beginning of period	25.00
Increase (decrease) from operations:	
Total revenues	—
Total expenses	(0.02)
Unit issue expense ⁽²⁾	(0.76)
Realized gains (losses) for the period	—
Unrealized gains (losses) for the period	(0.37)
Total increase (decrease) from operations ⁽³⁾	(1.15)
Distributions:	
From income (excluding dividends)	—
From dividends	—
From capital gains	—
Return of capital	—
Total Distributions ⁽⁴⁾	—
Net Assets, end of period ⁽⁵⁾	23.86

(1) Results for the period from June 09, 2009 (commencement of operations) to June 30, 2009.

(2) Issue expense of \$190,488 incurred in connection with the Class F Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes.

(3) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of units outstanding over the financial period.

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

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

Ratios and Supplemental Data (Class F Units):

	June 30, 2009 ⁽¹⁾
Net asset value (000's)	6,006
Number of units outstanding	251,560
Base Management expense ratio ⁽²⁾⁽³⁾	0.87%
Issue expenses ratio ⁽²⁾⁽³⁾	3.13%
Interest expense ratio ⁽²⁾⁽³⁾	0.35%
Management expense ratio (annualized) ⁽³⁾	4.35%
Management expense ratio before waivers or absorptions (annualized) ⁽³⁾	4.35%
Portfolio turnover rate ⁽⁴⁾	0.00%
Trading expense ratio ⁽⁵⁾	0.00%
Net asset value per unit	23.86

(1) Results for the period from June 09, 2009 (commencement of operations) to June 30, 2009.

(2) A separate base management expense ratio has been presented to include the normal operating expenses and exclude the Issue expense ratio: representing all agents' fees and unit issue expenses, and Interest expense ratio: representing cost of leverage.

(3) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period. Unit issue expenses, representing all Agents' fees and other offering expenses, which are one-time expenses, are not annualized.

(4) The Fund's turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund's buying and selling all of the securities (including fixed income) in its portfolio once in the course of the year. There is not necessarily a relationship between turnover rate and the performance of the Fund.

(5) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

Summary of Investment Portfolio as of June 30, 2009

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

Investment portfolio of the Canadian Banc Capital Securities Trust

	Market value \$	% of NAV
Portfolio by Category		
Equity derivatives	116,949,407	131.0%
Cash and cash equivalents	720,636	1.0%
Materials	9,964	0.0%
Top 25 Holdings		
Equity derivatives	116,949,407	131.0%
Cash and cash equivalents	720,636	1.0%
Kinross Gold Corp.	9,964	0.0%
Net asset value	89,200,741	

Investment portfolio of the Portfolio Trust

	Coupon Rate %	Maturity date	Market value \$	% of NAV
Portfolio by Category				
Corporate bonds and guarantees			93,962,517	80.4%
Domestic sovereign bonds and guarantees			22,821,455	19.6%
Cash & cash equivalents			185,919	0.2%
Foreign currency forward contracts			(135,813)	-0.2%
Top 25 Holdings				
Canadian Imperial Bank of Commerce Capital Trust Tier 1 Note	10.0%	Jun-19	24,352,400	20.8%
Government of Canada	3.8%	Jun-19	22,821,455	19.6%
Bank of Nova Scotia Capital Trust (BaTS V)	7.8%	Jun-19	21,734,800	18.6%
Toronto Dominion Capital Trust (CaTS IV)	9.5%	Jun-19	19,728,379	16.9%
Bank of Montreal Capital Trust (BOaTS VI)	10.2%	Dec-18	14,743,136	12.6%
Great West Lifeco. Delaware	5.7%	Jun-17	5,568,450	4.8%
Great West Life Co. (US dollars)	7.2%	May-16	4,924,527	4.2%
Toronto Dominion Bank (CGR III)	5.8%	Dec-17	2,910,825	2.5%
Cash & cash equivalents			185,919	0.2%
Foreign currency forward contracts			(135,813)	-0.2%
Net asset value			116,949,407	

Canadian Banc Capital Securities Trust

Financial Statements (Unaudited)

June 30, 2009

Notice to Reader:

These interim financial statements and related notes for the six month period ended June 30, 2009 have been prepared by Management of Connor, Clark & Lunn Capital Markets Inc. The auditors of the Fund have not audited or reviewed these interim financial statements.

Canadian Banc Capital Securities Trust

Statements of Net Assets (Unaudited)

As at June 30, 2009

	2009
	\$
Assets	
Cash	70,950
Short-term investments	649,686
Investments at fair value (cost - \$9,784)	9,964
Prepaid amount to counterparty under forward agreement, at cost (note 8)	118,262,498
	<u>118,993,098</u>
Liabilities	
Bank indebtedness (note 5)	27,600,000
Interest payable	20,979
Unrealized loss on forward agreement (note 8)	1,384,911
Accounts payable and accrued liabilities	772,120
Management fees payable	14,347
	<u>29,792,357</u>
Net assets and unitholders' equity	<u>89,200,741</u>
Net Assets	
Class A Units	83,199,724
Class F	6,001,017
	<u>89,200,741</u>
Units issued and outstanding (note 6)	
Class A Units	3,600,000
Class F	251,560
Net assets per unit	
Class A Units	23.11
Class F	23.86
Unitholders' equity	
Unit Capital (note 6)	90,672,497
Surplus	(1,471,756)
	<u>89,200,741</u>
Unitholders' equity - end of period	<u>89,200,741</u>

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



Director



Director

Canadian Banc Capital Securities Trust

Statements of Operations (Unaudited)

For the period from June 9, 2009 (commencement of operations) to June 30, 2009

	2009
	\$
Income	
Interest income	<u>92</u>
Expenses	
Forward fees (note 8)	23,068
Service fees (note 11)	21,411
Interest expense	20,979
Management fees (note 10)	14,347
Audit fees	1,716
Administration fees	1,361
Custodial and other unitholder fees	1,169
Sustaining fees	949
Transfer agent fees	823
Filing fees	542
Legal fees	316
Printing and mailing fees	316
IRC fees	<u>120</u>
	<u>87,117</u>
Investment income (loss)	(87,025)
Unrealized gain (loss) on investments	
Change in unrealized gain (loss) on investments	180
Change in unrealized gain (loss) on forward agreement (note 8)	<u>(1,384,911)</u>
	<u>(1,384,731)</u>
Net gain (loss) on investments	<u>(1,384,731)</u>
Increase (decrease) in net assets from operations	<u>(1,471,756)</u>
Increase (decrease) in net assets from operations for	
Class A Units	(1,372,763)
Class F Units	(98,993)
Increase (decrease) in net assets from operations per unit	
Class A Units	(1.89)
Class F Unit	(1.15)
Distributions paid per	
Class A Units	-
Class F Unit	-

Canadian Banc Capital Securities Trust

Statements of Changes in Net Assets and Surplus (Deficit)

For the period from June 9, 2009 (commencement of operations) to June 30, 2009

	Class A 2009 \$	Class F 2009 \$	Total 2009 \$
Increase (decrease) in net assets from operations	<u>(1,372,763)</u>	<u>(98,993)</u>	<u>(1,471,756)</u>
Unitholders' transactions (note 6)			
Proceeds from issue of units	90,000,000	6,289,000	96,289,000
Agents' fees and issue expenses	<u>(5,426,015)</u>	<u>(190,488)</u>	<u>(5,616,503)</u>
	<u>84,573,985</u>	<u>6,098,512</u>	<u>90,672,497</u>
Change in net assets during the period	83,201,222	5,999,519	89,200,741
Net assets - Beginning of period	<u>-</u>	<u>-</u>	<u>-</u>
Net assets - End of period	<u>83,201,222</u>	<u>5,999,519</u>	<u>89,200,741</u>
Surplus (deficit), beginning of period	-	-	-
Increase (decrease) in net assets from operations	<u>(1,372,763)</u>	<u>(98,993)</u>	<u>(1,471,756)</u>
Surplus (deficit), end of period	<u>(1,372,763)</u>	<u>(98,993)</u>	<u>(1,471,756)</u>

Canadian Banc Capital Securities Trust

Statements of Cash Flow (Unaudited)

For the period from June 9, 2009 (commencement of operations) to June 30, 2009

	2009
	\$
Operating Activities	
Increase (decrease) in net assets from operations	(1,471,756)
Items not affecting cash:	
Change in unrealized (gain) loss on investments	(180)
Change in unrealized (gain) loss on forward agreement (note 8)	1,384,911
Changes in non-cash working capital:	
Increase (decrease) in accounts interest payable	20,979
Increase (decrease) in accounts payable and accrued liabilities	772,120
Increase (decrease) in management fees payable	14,347
Prepaid amount to Counterparty under Forward Agreement	(118,262,498)
Purchase of investment portfolio	<u>(9,784)</u>
Net cash flow provided by (used in) operating activities	<u>(117,551,861)</u>
Financing Activities	
Proceeds from issuance of units	96,289,000
Unit issue costs	(5,616,503)
Proceeds from bank indebtedness	30,000,000
Principal payments on bank indebtedness	<u>(2,400,000)</u>
Net cash flow provided by (used in) financing activities	<u>118,272,497</u>
Net increase (decrease) in cash	720,636
Cash and short-term notes - beginning of period	<u>-</u>
Cash and short-term notes - end of period	<u>720,636</u>
Supplementary Information	
Interest paid	-

Canadian Banc Capital Securities Trust

Statement of Investments (Unaudited)

As at June 30, 2009

	Maturity date	Number of shares / Par value	Average cost \$	Fair value \$	% of net assets
Short-term investments					
Government notes					
Ontario treasury note	9/9/2009	650,000	<u>649,686</u>	<u>649,686</u>	<u>0.7%</u>
Investments					
Materials					
Kinross Gold Corp.		470	<u>9,784</u>	<u>9,964</u>	<u>0.0%</u>
Total investments			<u>9,784</u>	<u>9,964</u>	<u>0.0%</u>
	Maturity date	Number of contracts	Fair Value \$	% of net assets	
Derivative contracts					
Prepaid Forward Agreement (note 8)	20-Jun-11	1	<u>116,877,587</u>	<u>131.0%</u>	
Other liabilities net of other assets			<u>(28,336,496)</u>	<u>-31.7%</u>	
Net assets			<u>89,200,741</u>	<u>100.0%</u>	

Canadian Banc Capital Securities Trust

Notes to Financial Statements (Unaudited)

June 30, 2009

1 Corporate activities

The Fund is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement between Connor, Clark & Lunn Capital Markets Inc. (the "Manager") the Manager of the Fund and RBC Dexia Investor Services Trust (the "Trustee") dated May 22, 2009. The Fund's principal office is at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The fiscal year-end of the Fund is December 31. The Fund is divided into units of two classes, Class A Units and Class F Units. Class A Units are listed on the Toronto Stock Exchange under the symbol CSB.UN. Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis.

2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated May 27, 2009 are to:

- (i) provide Unitholders with attractive tax-advantaged quarterly cash distributions; and
- (ii) return to Unitholders the original issue price of the Units upon termination of the Fund on June 30, 2014.

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

In order to achieve the Fund's investment objectives, the Fund obtained exposure, in a tax-efficient manner, to the performance of a portfolio (the "Portfolio") held by Portfolio Trust (the "Portfolio Trust" or the "Trust"). Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager"), the Trust's investment manager, actively manages the Portfolio. The Portfolio consists primarily of Innovative Tier 1 Capital Securities of the six largest Canadian banks and large Canadian life insurance companies. The Portfolio includes a minimum of 80% Canadian Bank Capital Securities, including such Innovative Tier 1 Capital Securities as Scotiabank Capital Trust Securities (Scotia BaTS II), TD Capital Trust IV Notes (TD CaTS IV), RBC Capital Trust Securities (RBC TruCS V) and BMO Capital Trust II Notes (BoATS VI). The Portfolio Manager may also invest up to 20% of the Portfolio (measured at the time of investment) in Bank Shares and Life Insurance Company Securities. The Fund may also invest in other securities issued by Canadian financial institutions, including subordinated debt, preferred shares and common shares.

3 Summary of significant accounting policies

Basis of presentation

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from these estimates. The following is a summary of the significant accounting policies of the Fund.

Future accounting changes

The Canadian Accounting Standards Board ("AcSB") confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. IFRS will apply to fiscal years beginning on or after January 1, 2011. As of June 30, 2009 the Manager has not developed a changeover plan to IFRS nor has it assessed the impact of the move to IFRS on business arrangements, GAAP net assets per unit and accounting policies. The Manager will develop a plan prior to the January 1, 2011 deadline and will disclose this plan in the Fund's December 31, 2009 or 2010 annual reports.

In March 2009, the Canadian Accounting Standards Board announced it has agreed to adopt recent amendments to IFRS 7, "Financial Instruments: Disclosures", into Section 3862, "Financial Instruments – Disclosures". The final amended version to IFRS 7 will also be subsequently incorporated into Canadian GAAP. The amendments to Section 3862 will apply to annual financial statements for years ending after September 30, 2009. The amendments require that an entity disclose the classification, for each class of financial instrument, of fair value measurements within a fair value hierarchy. The hierarchy includes three levels: Level 1 – quoted prices in active markets, Level 2 – measurements determined using valuation models that employ observable inputs and Level 3 – measurements determined using valuation models that employ unobservable inputs.

Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA Section 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. 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 Managers 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.

Section 3855 requires that the fair value of financial instruments which are actively traded be measured based on the bid price for the security. In addition, Section 3855 requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Fund be charged to net income in the period.

On September 8, 2008, the Canadian Securities Administration issued the amended National Instrument 81-106 ("NI 81-106"). Section 14.2 of this amended NI 81-106 requires an investment fund to calculate its daily Net Asset Value for the purchase and redemption of units ("Transactional NAV") based on the last traded price for the day.

The reconciliation between the Transactional NAV and the GAAP Net Assets as a result of applying Section 3855 requirements as of June 30, 2009 is as follows:

Canadian Banc Capital Securities Trust

Notes to Financial Statements (Unaudited)

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	<u>Transactional</u> NAV	<u>GAAP</u> Net Assets
Unit pricing		
Class A Unit	23.13	23.11
Class F Unit	23.87	23.86

Cash

Cash is deemed to be held for trading and therefore is carried at fair value.

Income recognition

Income from investments is recognized on an accrual basis. Dividend income is recognized at the time a security trades on an ex-dividend basis. Interest income is based on the number of days the investment is held during the period. All income, realized and unrealized net gains (losses) and transaction costs (apart from an insignificant amount of income arising from cash) are attributable to investments and derivatives which are deemed held for trading.

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.

4 Custodian

Pursuant to the Trust Agreement RBC Dexia Investor Services Trust (“the Custodian”) acts as custodian of the assets of the Fund. The Custodian is also responsible for certain aspects of the Fund’s day-to-day operations, including calculating the Net Asset Value (“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.

5 Bank indebtedness

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

The Fund entered into a Letter of Agreement (the “Credit Agreement”) dated June 9, 2009, between the Manager and the Bank of Montreal (the “Counterparty” or “BMO”), to borrow amounts up to 25% of the NAV of the Portfolio Trust as being part of the Forward Agreement (see note 8). The related interest rate will be based on funded leverage amount multiplied by (CAD-BA-CDOR with a Designated Maturity of 3 months plus 1.40%) divided by 365, in each case as calculated in respect of the applicable day. Under the provisions of the Credit Agreement the Counterparty will also charge the Fund a fee of 0.25% of any unfunded leverage amount (the difference between the maximum allowable leveraged amount and the actual funded leverage amount). This agreement will be terminated on the earlier of (i) June, 23, 2014, and (ii) the date on which this Transaction is pre-settled in full pursuant to the terms of the Credit Agreement.

During the period from June 9, 2009 (commencement of operation) to June 30, 2009, the Fund had bank indebtedness balances between \$0 and \$30,000,000 or 0.00% to 24.9% of its NAV. The related interest expense during the same period was \$20,979. At June 30, 2009, the borrowed balance is \$27,600,000.

6 Unitholders’ equity

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

On June 9, 2009, the Fund completed an initial public offering pursuant to the prospectus dated May 27, 2009. \$90,000,000 was raised through the issue of 3,600,000 Class A Units and \$6,289,000 was raised through the issue of 251,560 Class F Units. The Class A Units were issued at \$25 per unit and incurred agents fees and issue expenses of \$5,426,015 or \$1.51 per unit, for an opening Transactional NAV of \$23.49 per unit. The Class F Units were issued at \$25 per unit and incurred agents fees and issue expenses of \$190,488 or \$0.76 per unit, for an opening Transactional NAV of \$24.24 per unit.

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

In addition to the annual redemption right, Class A Units and Class F Units may also be redeemed on a Monthly Redemption Date, 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 proceeds of redemption, the Fund may pay to the redeeming Unitholder a cash distribution in the amount of the net realized capital gains of the Fund incurred by it to fund the payment of the redemption price. Unitholders surrendering a Class A Unit for redemption will receive a redemption price equal to the lesser of (i) 95% of the Market Price of a Class A Unit, and (ii) 100% of the Closing Market Price of a Class A Unit on the applicable Monthly Redemption Date less, in each case, any costs associated with the redemption, including brokerage costs, being the Monthly Redemption Amount. Unitholders surrendering a Class F Unit for redemption will receive an amount equal to the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated Net Asset Value per Class F Unit and the denominator of which is the most recently calculated Net Asset Value per Class A Unit.

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Changes in outstanding units during the period from June 9, 2009 (commencement of operation) to June 30, 2009 are summarized as follows:

	Number of units	
	Class A	Class F
Opening balance	–	–
Units issued	3,600,000	251,560
Units redeemed	–	–
Units cancelled (note 7)	–	–
Ending balance	<u>3,600,000</u>	<u>251,560</u>

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 Market Purchase Program

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

During the period from June 9, 2009 (commencement of operation) to June 30, 2009, the Fund did not purchase any units for cancellation.

8 Forward Agreement

The Fund does not invest directly in the Portfolio Trust, the Fund used the net proceeds of the initial public offering of its Class A and Class F Units to pre-pay its purchase obligations under a forward purchase and sale agreement (the "Forward Agreement") with The Bank of Montreal (the "Counterparty" or "BMO"). Under the Forward Agreement, the Fund will receive, on or before June 30, 2014, a specified portfolio consisting of securities of Canadian public issuers that are "Canadian securities" for the purposes of the Tax Act ("Canadian Securities") in an amount equal to the value of the Portfolio Trust. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by Portfolio Trust. A fee of 0.35% per annum, calculated with reference to the principal amount of the CLN, is payable to BMO under the Forward Agreement.

On June 30, 2009, the value of the prepaid amount to counterparty under forward agreement was \$118,262,498. The unrealized loss on forward agreement balance was \$1,384,911. Since the Fund can at any time terminate the Forward agreement with the Counterparty in exchange for the value of the Portfolio trust, the value of the Forward Agreement to the Fund is equal to the value of the Portfolio Trust less the value of the prepaid amount to counterparty under forward agreement. On June 30, 2009 the value of the unrealized loss on forward agreement was \$1,384,911. Other liabilities net of other assets in the Fund totalled \$27,676,846 leaving net assets of \$89,200,741. This amount is assigned to Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses. On June 30, 2009 the GAAP Net assets per unit was \$23.11 per Class A Units and 23.86 per Class F Units.

9 Distributions

The Fund pays quarterly distributions initially at \$0.375 per Unit, representing a yield of 6.0% per annum on the Unit issue price. The initial distribution is payable to Unitholders of record on September 30, 2009 and will be paid no later than October 15, 2009. It is expected that the Fund will be able to maintain a stable Net Asset Value and pay such distributions.

10 Management Fees

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

The management fees charged to the Fund during the period from June 9, 2009 (commencement of operation) to June 30, 2009 were \$14,347. The Manager is responsible for payment of the investment management fees out of these management fees.

11 Service Fee

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

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The service fees charged to the Fund the period from June 9, 2009 (commencement of operation) to June 30, 2009 were \$21,411.

12 Income taxes

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada) and, accordingly, is subject to tax on its investment income, including net realized capital gains, for any calendar year in which its net investment income or sufficient net realized capital gains are not paid or payable to its unitholders as at the end of the calendar year. It is the intention of the Manager that all annual net investment income and sufficient net taxable capital gains will be distributed to unitholders on a calendar year basis such that Canadian income taxes payable by the Fund under present legislation will be minimized. As a result thereof, and of the deduction of expenses in computing its taxable income, no provisions for income taxes are made in the financial statements.

13 Broker commission charges and soft dollar services

There were \$nil of broker commissions paid during the period from June 9, 2009 (commencement of operation) to June 30, 2009 in connection with portfolio transactions. No contractual arrangements for soft dollar services exist in the broker commission charges.

14 Financial instruments

<u>Assets</u>	\$
Held for trading	118,993,098
Loans and receivables	–
Total assets	118,993,098
<u>Liabilities</u>	
Held for trading	1,384,911
Financial liabilities at amortized cost	28,407,446
Total liabilities	29,792,357

For the purposes of categorization in accordance with CICA Section 3862, Financial Instruments - Disclosures, bank indebtedness, interest payable, management fees payable and accounts payable and accrued liabilities are deemed to be financial liabilities and reported at amortized cost.

15 Financial instrument risk

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

Interest rate risk

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

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Non-interest bearing	Total
Investments	–	–	–	116,712,152	9,964	116,722,116
Cash and cash equivalents	649,686	–	–	–	256,869	906,555
Other assets	–	–	–	–	135,792	135,792
Liabilities	–	–	–	–	(28,563,722)	(28,563,722)
Net assets						89,200,741

As at June 30, 2009, 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 \$7,796,000. In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Currency risk

Currency risk arises from financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's functional currency. The Fund is exposed to the risk that the value of securities denominated in other currencies will fluctuate due to changes in exchange rates. The Statement of Investments identifies all securities denominated in foreign currencies.

The table below summarizes the Fund's exposure to foreign currencies as at June 30, 2009. Amounts shown are based on the carrying values of monetary and non-monetary assets as well as the underlying principal amounts of foreign currency derivatives such as forward contracts. Other financial assets and liabilities such as denominated in foreign currencies do not expose the Fund to significant currency risk. The table below summarizes the Fund's significant exposure to foreign currencies and the approximate impact

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on net assets had the Canadian Dollar ("CAD") weakened by 5% in relation to these currencies. If the Canadian dollar were to strengthen relative to these currencies, the opposite would occur. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

	Monetary instruments \$	Non-monetary instruments \$	Derivative instruments \$	Total \$	% of Net Assets	Sensitivity (based on devaluation of CAD) \$
US Dollar	4,918,299	–	(4,981,012)	(62,713)	(0.1%)	(3,000)

Credit risk

The Fund is exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments and unrealized gain on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at June 30, 2009.

The table below summarizes the Fund's exposure to credit risk as of June 30, 2009. Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties.

Rating ⁽¹⁾	June 30, 2008 (% of NAV)
AAA	26.0%
A	49.0%
A-	56.0%
A-1+	0.7%
Total	131.7%

As at June 30, 2009, no debt securities were contractually past due and no longer meeting interest payment obligations.

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

Liquidity risk

Liquidity risk is the risk of not being able to meet the Fund's cash requirements in a timely manner and includes the risk of not being able to liquidate assets at reasonable prices. This risk arises mainly from the Fund's exposure to daily cash redemptions from to its market purchase program which is limited to certain conditions (see note 7). The Fund is also exposed to unlimited annual anniversary redemptions on October 31 of every year (see note 6). Therefore, the Fund invests the majority of its assets in investments that are traded in an active market and can be readily disposed. In addition, the Fund retains sufficient cash and cash equivalent positions to meet its daily cash requirements.