# Canadian Scholarship Trust
# **Plan II**

## Audited Financial Statements and Management Report of Fund Performance

October 31, 2010 and 2009

Canadian Scholarship Trust Plan™

Distributed by
C.S.T. Consultants Inc.

## Contents



CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain portions of the Management Report of Fund Performance, including but not limited to, "Results of Operations" and "Recent Developments", may contain forward-looking statements about the Plan, including its strategy, risks, expected performance and condition. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" and similar forward-looking expressions or negative versions thereof.

In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Plan action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Plan and economic factors. Accordingly, assumptions concerning future economic and other factors may prove to be incorrect at a future date.

Forward-looking statements are not guarantees of future performance, and actual events could differ materially from those expressed or implied in any forward-looking statements made by the Plan. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

It should be stressed that the above-mentioned list of important factors is not exhaustive. You are encouraged to consider these and other factors carefully before making any investment decisions and you are urged to avoid placing undue reliance on forward-looking statements whether as a result of new information, future events or otherwise, prior to the release of the next Management Report of Fund Performance.

# Management Report of Fund Performance

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Canadian Scholarship Trust – Plan II ("Plan"). A copy of the annual financial statements can be obtained on request, and at no cost, by visiting our website at www.cst.org or SEDAR at www.sedar.com, or by calling our customer service area at 1-877-333-7377, or by writing to us at 2225 Sheppard Avenue East, Suite 600, Toronto, Ontario M2J 5C2.

The Canadian Scholarship Trust Foundation, as the Plan sponsor, and C.S.T. Consultants Inc., as the Investment Fund Manager, view corporate governance and compliance as important contributors to overall corporate performance and long-term investment returns, and as such we support the proxy voting guidelines established by our investment managers. Investment restrictions contained in Canadian Securities Administration policy, as well as the Foundation's investment policy, result in the Plan primarily investing in federal and provincial government fixed income securities. As a result, proxy voting is not applicable at this time.

### Investment Objective and Strategy

The Plan invests in a prudent manner, with the objective to protect your principal and deliver a positive return on your investment. The Plan invests primarily in fixed income securities issued by the Canadian federal or provincial governments, as well as money market securities issued by Canadian chartered banks and federally or provincially licensed trust and loan companies.

McLean Budden Limited manages the Plan's assets and focuses on strategies where value can be added on a sustainable basis while meeting the short to medium-term cash flow requirements of the Plan.

### Risk

The overall risk of the Plan remains as described in the prospectus. There were no material changes to the Plan over the financial year that affected the level of risk.

### Results of Operations

For 2010, the Plan's rate of return, net of fees, was 0.1% compared to the investment policy benchmark ("benchmark") return of 1.1% and the broad-based DEX 91-Day Treasury Bill Index return of 0.4%. The DEX 91-Day Treasury Bill Index is based upon the average daily yield of 91-Day Treasury Bills. The Plan's return is after the deduction of fees and expenses of 1.1%, while the benchmark and broad-based index returns do not include any costs of investing such as fees, expenses and commissions.

Given the Plan's liabilities and expected maturity payout profile, the composition of Plan's assets are managed to meet the cash flow requirements of plan holders over a longer time horizon than the duration of the broad-based index. As a result, the benchmark used for this Plan is a blended benchmark comprising 80% of the DEX 91-Day Treasury Bill Index and 20% of the DEX Short-Term All Government Bond Index. The DEX Short-Term All Government Bond Index measures Canadian investment grade fixed income securities with maturities from 1 to 5 years issued by the Government of Canada, including Crown Corporations and provincial governments.

Both federal and provincial government bonds posted strong gains throughout the year. Provincials and Crown Corporations have continued to outperform federal government bond issues as spreads steadily narrowed. Our investment managers took advantage of these market opportunities and maintained overweight positions in these securities.

The Plan's overall asset mix did not change significantly from the previous period, as this is a fully mature plan where assets are managed to meet short term cash outflow requirements. At October 31, 2010, 79.2% of the Plan assets were invested in Cash and Money Market Securities and 20.8% in Short and Mid-Term Bonds.

In the early part of 2010, market optimism was very much on the rise. The U.S. reported a very strong 5% GDP number for the fourth quarter of 2009, while Canada posted a 6% GDP rate for the first quarter of 2010 and Chinese growth surged to 12%. However, the powerful rally in the stock and corporate credit markets lost momentum as investor confidence was dealt a serious blow in April 2010, when the sovereign debt crisis in Europe erupted. Fortunately, a financial crisis was defused when the European Economic and Monetary Union and the International Monetary Fund established a rescue package for troubled Eurozone members. This helped to ease some financial market concerns about a double dip recession.

After navigating through the global recession in relatively good shape, Canada enjoyed a strong bounce back in the early stages of the recovery, which produced strong job gains and a decline in the unemployment rate. However, in the second quarter of 2010 Canada's economy subsequently slowed to a relatively subdued growth rate of 2.0%, caused by the deterioration in the U.S. outlook, a downswing in Canadian housing and nervousness about the ability of the global economy to weather the implementation of much needed fiscal tightening. Nonetheless, Canada remains a major supplier of needed commodities for nations like China and India, whose economies continue to expand.

### Recent Developments and Other Information

Recently, there have been signs of a change in sentiment with investors appearing to embrace the idea that the global economy has built sufficient momentum to withstand the downward pressure of Europe's sovereign debt crisis. Although doubts about the financial strength of some of the European members (such as Ireland and Spain) resurfaced at the end of the third quarter, there is no longer an immediate threat that this crisis will shatter investor confidence. Global trade volumes have returned to pre-2008 crisis levels, and although there is a long way to go before the global economy is running smoothly, the risk of another dip into recession is no longer dominating market sentiment. A continued improvement in credit conditions in the U.S. and domestic household balance sheets should slowly begin to heal the wounds from the recession, but the recovery and eventual economic prosperity are likely to proceed at a pace of 1.5% to 2.5% per annum for a number of years.

Although Canada is one of the very few countries to recover virtually all of its production output and job losses after the recession, the economy slowed in the third quarter of 2010, with annualized growth dropping to 1.0%. The slowing pace of growth is expected to be short lived with the economy forecast to accelerate in the fourth quarter and throughout 2011, though at a somewhat slower pace than previously expected.

With central banks pledging to do whatever is necessary to keep the global recovery on track, interest rates will remain low, thereby supporting business and consumer spending until confidence is restored. At its October and December meetings in 2010, the Bank of Canada suspended further increases to its policy rate, as it revised its 2011 growth projections downwards to 2.3%. The combination of disappointing growth and below-target core inflation will likely keep Canada's central bank on the sidelines in the first quarter of 2011. It will provide the Bank with the opportunity to assess the need for higher interest rates in the context of both domestic and international developments.

Together, the low interest rate environment, substantial corporate profit recovery and improved access to financing, provide support to a positive outlook for Canadian businesses. At the same time, the unemployment rate is expected to decline to 7.3% by the end of 2011 from 8.0% currently. Further, core inflation has been remarkably stable during the economic downturn and subsequent recovery. Economists are now looking to business investments and exports, rather than household expenditures and governments to drive Canada's growth during this recovery.

Our portfolio managers believe that longer-term yields will remain low. Contained inflation, high excess capacity, demographic trends, investor caution and the current demand for longer term assets support this viewpoint. Until consumers and governments deal with their debt loads, the yield curve will remain flat.

Looking beyond 2010, the expectation exists that Canada's economy will return to a faster growth track in the quarters ahead and that the U.S. economy will be able to sustain upward momentum. With core inflation projected below its 2% target, the Bank of Canada will likely be in a position to resume gradually raising its key policy interest rates to 2.0% by the end of 2011.

We are confident that our investment strategy based on our conservative management approach will continue to provide value. Our goal as always is to provide safety of principal and deliver competitive returns for our contributors and beneficiaries.

### *Investment Fund Manager Registration*

In accordance with the National Instrument 31-103 – Registration Requirements and Exemptions issued by the Canadian Securities Administrators, the Board of the Canadian Scholarship Trust Foundation ("Foundation") approved the registration of C.S.T. Consultants Inc. ("CSTC") as the Plan's Investment Fund Manager ("IFM") effective September 28, 2010. As the IFM, CSTC directs the business, operations and affairs of the Plan and is responsible for its management and administration. The Foundation retains its role as the sponsor of the Plans and has general oversight of the various service providers, including CSTC as the fund manager.

### *Future Accounting Standards*

In February 2008 the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for publicly accountable enterprises. In September 2010, the Canadian Institute of Chartered Accountants ("CICA") extended the deadline for adoption of IFRS by certain qualifying investment funds by one year. Therefore, IFRS will replace Canadian GAAP and become effective for the Plan's interim and annual financial statements relating to the fiscal year ending October 31, 2013 with comparatives. We are taking the following steps to transition to IFRS:

– Identification of areas where changes in disclosure will be required under IFRS standards;
– Identification of operational areas impacted by the adoption of IFRS;
– Identification of major differences between current accounting policies and IFRS standards;
– Assessment of current reporting systems and their readiness for IFRS implementation; and
– Implementation of an IFRS transition plan

## Financial and Operating Highlights (with comparative figures)

The following table shows key financial data for the Plan and is intended to help you understand the financial results for the past five fiscal years ended October 31.

| *($ thousands)* | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **Statement of Net Assets** | | | | | |
| Total Assets | **$ 18,977** | $ 22,967 | $ 36,343 | $ 59,236 | $ 86,032 |
| Net Assets | **10,865** | 19,412 | 31,771 | 53,619 | 76,252 |
| % Change of Net Assets | **-44.0%** | -38.9% | -40.7% | -29.7% | -28.0% |
| **Statement of Investment Operations** | | | | | |
| Net Investment Income | **$ 200** | $ 2,194 | $ 892 | $ 1,567 | $ 2,594 |
| **Statement of Changes in Net Assets** | | | | | |
| Education assistance payments | **$ (3,157)** | $ (7,814) | $ (15,294) | $ (23,916) | $ (33,423) |
| Net Government Grants Received, Net of Payments | **(121)** | (368) | (503) | (712) | (911) |
| **Other** | | | | | |
| Total number of units | **20,196** | 37,617 | 64,597 | 102,423 | 145,567 |
| % Change in the total number of units | **-46.3%** | -41.8% | -37.0% | -29.6% | -26.2% |

## Management Fees

### Administration Fees

An administration fee of $22 thousand comprising Plan administration and processing fees and financial reporting expenses was paid to the Canadian Scholarship Trust Foundation, the sponsor and administrator of the Plan, in accordance with contributors' Education Savings Plan Agreements. The administration of the Plan includes processing and call centre services related to new agreements, Government Grants, plan modifications, terminations, maturities and Education Assistance Payments (EAP). The annual administration fee is calculated as ½ of 1% of the total amount of Principal, Government Grants and income in the contributors' accounts, which is paid monthly.

The Foundation has delegated certain administrative and distribution functions to its wholly-owned subsidiary, C.S.T. Consultants Inc., which is registered as the Plan's Investment Fund Manager and scholarship plan dealer under securities legislation of each of the provinces and territories of Canada in which it operates to sell scholarship plans. C.S.T. Consultants Inc. is the exclusive distributor of the Canadian Scholarship Trust Plans.

In exchange for its administrative services, C.S.T. Consultants Inc. receives an amount equal to the administration costs incurred plus a percentage of such costs from the Foundation. The administration services agreement is renewable on an annual basis.

### Portfolio Management Fees

The Plan's annual investment management fee is 0.11% of the weighted average monthly net assets.

### Trustee and Custodian Fees

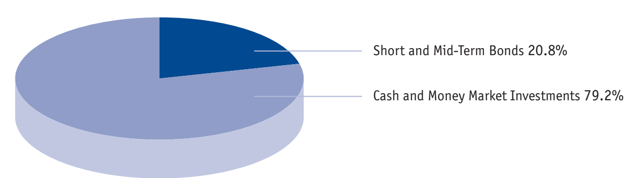
The Plan pays trustee and custodian fees to RBC Dexia Investor Services Trust to settle all investment trades and disburse fees, Education Assistance Payments and other amounts in accordance with the terms of the Plan Agreement. For 2010 these fees charged to the Plan amounted to $6 thousand.

## Summary of Plan Investment Portfolio

The Plan's assets are comprised of the principal and accumulated investment income on all education savings plan agreements that have not reached their maturity date. The income earned on the Plan's assets is the main component in determining the value of Education Assistance Payments (EAPs) to be paid to our beneficiaries. As a result, the Plan's investment portfolio does not include the allocation of assets from the Government Grants and Canadian Scholarship Pool belonging to this Plan.

The following chart illustrates the Plan's assets by appropriate investment categories.

### Asset Mix (as at October 31, 2010)




Plan II is a mature Plan. The following table details the long positions remaining in the Plan. The Plan is prohibited from holding short positions in securities.

| Issuer | | | Fair Value ($) | % of Plan Portfolio Assets |
|---|---|---|---|---|
| Government of Canada | 1.00% | 1 Sep 2011 | 90 | 2.3% |
| Province of British Columbia | 5.75% | 9 Jan 2012 | 80 | 2.0% |
| Government of Canada | 3.50% | 1 Jun 2013 | 79 | 2.0% |
| Canada Housing Trust | 4.60% | 15 Sep 2011 | 67 | 1.7% |
| Province of Quebec | 6.00% | 1 Oct 2012 | 65 | 1.6% |
| Province of Ontario | 5.38% | 2 Dec 2012 | 65 | 1.6% |
| Province of Ontario | 4.75% | 2 Jun 2013 | 65 | 1.6% |
| Canada Housing Trust | 4.80% | 15 Jun 2012 | 63 | 1.6% |
| Province of Quebec | 5.50% | 1 Dec 2014 | 51 | 1.3% |
| Province of Ontario | 4.40% | 2 Dec 2011 | 46 | 1.2% |
| Government of Canada | 3.75% | 1 Jun 2012 | 42 | 1.1% |
| Government of Canada | 3.75% | 1 Jun 2019 | 38 | 1.0% |
| Province of British Columbia | 4.65% | 18 Dec 2018 | 22 | 0.6% |
| Province of Quebec | 4.50% | 1 Dec 2020 | 21 | 0.5% |
| Canada Housing Trust | 3.75% | 15 Mar 2020 | 20 | 0.5% |
| Canada Housing Trust | 4.10% | 15 Dec 2018 | 11 | 0.3% |
| Government of Canada | 1.25% | 1 Jun 2011 | 5 | 0.1% |
| **Long positions as a percentage of Plan portfolio assets** | | | | **20.8%** |

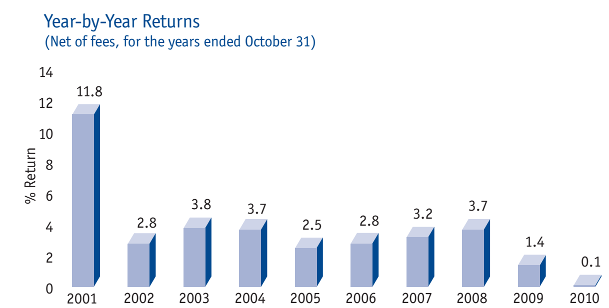
## Past Performance

Our investment philosophy has always been to safeguard our contributors' investments while providing stable and consistent returns.

Past performance of the Plan is set out in the following chart and the annual compound returns table and is based on the growth in assets over the term of the plan to maturity. The returns presented are based on the income earned on the Plan's investment portfolio only and do not reflect the investment income or allocation of assets from the Government Grants and Canadian Scholarship Pools. Investment returns have been calculated using market values and time-weighted cash flows during the periods. Total expenses incurred by the Plan, including administration, portfolio management, custody and trustee fees have been deducted and only net returns are displayed in each period. Past returns of the Plan do not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

The following bar chart illustrates the Plan's annual performance in each of the past ten years to October 31, 2010. The chart illustrates in percentage terms how much an investment made on the first day of each financial year would have increased or decreased by the last day of each financial year:




### Annual Compound Returns

The following table illustrates the Plan's annual compounded returns for the periods shown ended on October 31, 2010.

The blended benchmark (the "Benchmark") is composed of:
80% DEX 91-Day Treasury Bill Index *
20% DEX Short-Term All Government Bond Index *

The broad-based index is the DEX 91-Day Treasury Bill Index.

| | Period | | | |
|---|---|---|---|---|
| | 1 Year | 3 Years | 5 Years | 10 Years |
| **Net Plan Return** | 0.1 | 1.7 | 2.2 | 3.5 |
| **Benchmark*** | 1.1 | 2.5 | 3.1 | 3.4 |
| **Broad-based index: DEX 91-Day Treasury Bill Index*** | 0.4 | 1.7 | 2.6 | 2.9 |

*Note: Investors cannot invest in the index without incurring fees, expenses and commissions, which are not reflected in the index returns.

# Management's Responsibility for Financial Reporting

The accompanying financial statements of Canadian Scholarship Trust – Plan II (the "Plan") are prepared by management and are approved by the Board of Directors of the Canadian Scholarship Trust Foundation (the "Foundation"). Management is responsible for the information and representations contained in these financial statements. The Board of Directors is responsible for reviewing and approving the financial statements and overseeing management's performance of its financial reporting responsibilities.

The Foundation, through C.S.T. Consultants Inc., a wholly-owned subsidiary which administers the Plan, 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 and include certain amounts that are based on estimates and judgments. The significant accounting policies, which management believes are appropriate for the Plan, are described in Note 2 to the financial statements.

Deloitte & Touche LLP are the external auditors of the Plan. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Board of Directors and Members of the Foundation their opinion on the financial statements. Their report is set out below.

**Sherry J. MacDonald, CA**
President and Chief Executive Officer

**Jeffrey Bernstein, CA**
Chief Financial Officer

Toronto, Ontario
December 21, 2010

# Auditors' Report

To the Board of Directors and Members of the Canadian Scholarship Trust Foundation (the "Foundation"):

We have audited the statements of net assets available for education assistance payments of Canadian Scholarship Trust – Plan II (the "Plan") as at October 31, 2010 and 2009 and the statements of investment operations, changes in net assets available for education assistance payments and cash flows for the years then ended. These financial statements are the responsibility of the management of the Foundation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at October 31, 2010 and 2009, and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
December 21, 2010

# Statements of Net Assets Available for Education Assistance Payments

## As at October 31, 2010 and 2009 (in thousands of dollars)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments, at fair value *(Note 4 and Schedule I)* | $ | 4,323 | $ | 5,448 |
| Cash and cash equivalents | | 4,381 | | 3,843 |
| Short-term investments | | 10,152 | | 13,539 |
| Accrued interest and other receivables | | 119 | | 136 |
| Receivables for securities sold | | 2 | | 1 |
| | | 18,977 | | 22,967 |
| **Liabilities** | | | | |
| Accounts payable, accrued liabilities and unclaimed contributors' funds | | 7,202 | | 1,884 |
| Payables for securities purchased | | 4 | | 15 |
| Government grants payable | | – | | 1 |
| Contributors' deposits *(Schedule II)* | | 906 | | 1,655 |
| | | 8,112 | | 3,555 |
| **Net Assets Available for Education Assistance Payments** | | 10,865 | | 19,412 |
| **Represented by:** | | | | |
| **Non-Discretionary Funds** | | | | |
| Accumulated interest held for future education assistance payments *(Schedule II)* | | 5,959 | | 10,172 |
| Government grants | | 966 | | 1,093 |
| Interest on Government grants | | 569 | | 581 |
| General Fund *(Note 6)* | | 3,310 | | 3,642 |
| **Unrealized Gains** | | 61 | | 38 |
| **Discretionary Funds** | | | | |
| Donations from the Foundation *(Note 6 )* | | – | | 3,886 |
| | $ | 10,865 | $ | 19,412 |

Approved on behalf of the Board

Blair A. Corkum, CA
**Director**

Sherry J. MacDonald, CA
**Director**

The accompanying notes are an integral part of these financial statements.

# Statements of Investment Operations

## For the years ended October 31, 2010 and 2009 (in thousands of dollars)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **Income** | | | | |
| Interest income | $ | 253 | $ | 353 |
| Realized (losses) gains | | (5) | | 1,894 |
| | | 248 | | 2,247 |
| **Expenses** | | | | |
| Plan administration and processing fees *(Note 3)* | | 14 | | 18 |
| Financial reporting *(Note 3)* | | 8 | | 11 |
| Portfolio management fees | | 20 | | 16 |
| Custodian fees | | 2 | | 2 |
| Trustee fees | | 4 | | 6 |
| | | 48 | | 53 |
| **Net Investment Income** | | 200 | | 2,194 |
| **Increase (decrease) in Unrealized Gains** | | 23 | | (4,784) |
| **Increase (decrease) in Net Assets from Investment Operations** | $ | 223 | $ | (2,590) |

# Statements of Changes in Net Assets Available for Education Assistance Payments

## For the years ended October 31, 2010 and 2009 (in thousands of dollars)

| | | 2010 | | 2009 |
|---|---|---|---|---|
| **Net Assets Available For Education Assistance Payments, Beginning of Year** | $ | 19,412 | $ | 31,771 |
| **Increase (decrease) in Net Assets from Investment Operations** | | 223 | | (2,590) |
| Transfers to internal and external plans | | (5,362) | | (1,326) |
| | | (5,139) | | (3,916) |
| **Disbursements** | | | | |
| Government grants repaid | | (12) | | (107) |
| Payments to beneficiaries | | | | |
| Education assistance payments *(Schedule III)* | | (3,157) | | (7,814) |
| Government grants | | (109) | | (261) |
| Return of interest | | (130) | | (261) |
| | | (3,396) | | (8,336) |
| **Total Disbursements** | | (3,408) | | (8,443) |
| **Decrease in Net Assets Available for Education Assistance Payments** | | (8,547) | | (12,359) |
| **Net Assets Available for Education Assistance Payments, End of Year** | $ | 10,865 | $ | 19,412 |

The accompanying notes are an integral part of these financial statements.

# Statements of Cash Flows

## For the years ended October 31, 2010 and 2009 (in thousands of dollars)

| | 2010 | 2009 |
|---|---|---|
| **Operating Activities** | | |
| Increase (decrease) in Net Assets from Investment Operations | $ 223 | $ (2,590) |
| Net proceeds from disposal of investments | 4,518 | 10,173 |
| Items not affecting cash | | |
| Realized losses (gains) on sale of investments | 5 | (1,894) |
| (Increase) decrease in Unrealized Gains | (23) | 4,784 |
| Change in non-cash operating working capital | | |
| Decrease in Accrued interest and other receivables | 17 | 615 |
| Decrease in Government grants Payable | (1) | – |
| Increase in Accounts payable, accrued liabilities and unclaimed contributors' funds | 5,318 | 1,356 |
| **Cash flow from Operating Activities** | 10,057 | 12,444 |
| **Financing Activities** | | |
| Transfers to internal and external plans | (5,362) | (1,326) |
| Government grants repaid (net of receipts) | (12) | (107) |
| Decrease in Contributors' deposits *(Schedule II)* | (749) | (1,340) |
| Payments to beneficiaries | (3,396) | (8,336) |
| **Cash flow from Financing Activities** | (9,519) | (11,109) |
| **Net increase in Cash and cash equivalents** | 538 | 1,335 |
| **Cash and cash equivalents, Beginning of Year** | 3,843 | 2,508 |
| **Cash and cash equivalents, End of Year** | $ 4,381 | $ 3,843 |

The accompanying notes are an integral part of these financial statements.

# Schedule I – Statement of Investment Portfolio

## As at October 31, 2010 (in thousands of dollars)

| Security | | Par Value ($) | Fair Value ($) | Average Cost ($) |
|---|---|---|---|---|
| **Bonds** | | | | |
| **Federal – 10.4%** | | | | |
| Government of Canada | | | | |
| 1.25% | 1 Jun 2011 | 5 | 5 | 5 |
| 1.00 | 1 Sep 2011 | 90 | 90 | 90 |
| 3.75 | 1 Jun 2012 | 40 | 42 | 42 |
| 3.50 | 1 Jun 2013 | 75 | 79 | 79 |
| 3.75 | 1 Jun 2019 | 35 | 38 | 37 |
| Canada Housing Trust | | | | |
| 4.60 | 15 Sep 2011 | 65 | 67 | 67 |
| 4.80 | 15 Jun 2012 | 60 | 63 | 64 |
| 4.10 | 15 Dec 2018 | 10 | 11 | 9 |
| 3.75 | 15 Mar 2020 | 20 | 20 | 19 |
| | | | 415 | 412 |
| **Provincial – 10.4%** | | | | |
| Province of British Columbia | | | | |
| 5.75 | 9 Jan 2012 | 75 | 79 | 80 |
| 4.65 | 18 Dec 2018 | 20 | 22 | 21 |
| Province of Ontario | | | | |
| 4.40 | 2 Dec 2011 | 45 | 46 | 48 |
| 5.38 | 2 Dec 2012 | 60 | 65 | 64 |
| 4.75 | 2 Jun 2013 | 60 | 65 | 64 |
| Province of Quebec | | | | |
| 6.00 | 1 Oct 2012 | 60 | 65 | 64 |
| 5.50 | 1 Dec 2014 | 45 | 51 | 49 |
| 4.50 | 1 Dec 2020 | 20 | 21 | 19 |
| | | | 414 | 409 |
| **Total Fixed Income – 20.8%** | | | **829** | **821** |
| **Plan Cash and Short-term Investments – 79.2%** | | | 3,149 | 3,149 |
| **Plan Portfolio Assets - 100.0%** | | | **3,978** | **3,970** |
| **Investments Allocation** *(Note 4)* | | | | |
| **Government Grants** *(Appendix I)* | | | 472 | 421 |
| **Canadian Scholarship Trust Scholarship Pool** *(Appendix II)* | | | 3,022 | 3,020 |
| **Cash and Short-term Investments** *(Appendices I & II)* | | | 11,384 | 11,384 |
| **Total Investment Fund** | | | **18,856** | **18,795** |
| **Represented by:** | | | | |
| **Investments, at fair value** | | | 4,323 | |
| **Cash and cash equivalents** | | | 4,381 | |
| **Short-term Investments** | | | 10,152 | |
| | | | **18,856** | |

The accompanying notes are an integral part of these financial statements.

# Schedule II – Contributors' Deposits and Accumulated Interest

## As at October 31, 2010 and 2009 (in thousands of dollars)

The following is a summary of education savings Plan II units by year of eligibility:

| Year of Eligibility | Opening Units | Inflow Units[1] | Outflow Units[2] | Closing Units | | Contributors' Deposits | | Accumulated Interest[3] |
|---|---|---|---|---|---|---|---|---|
| 2009 and prior to 2009 | 37,361 | 14 | 17,441 | 19,934 | $ | 881 | $ | 5,782 |
| 2010 | 156 | 58 | 40 | 174 | | 14 | | 105 |
| 2011 | 64 | 21 | 33 | 52 | | – | | 43 |
| 2012 | 20 | 14 | 14 | 20 | | 6 | | 16 |
| 2013 and thereafter | 16 | – | – | 16 | | 5 | | 13 |
| **TOTAL** | **37,617** | **107** | **17,528** | **20,196** | **$** | **906** | **$** | **5,959** |

1 Inflow units are comprised of additional units and transfers in.
2 Outflow units are comprised of maturities, terminations and education assistance payments.
3 Accumulated interest represents both interest allocated to contributors' accounts and interest held for future education assistance payments.

The changes in Contributors' deposits are as follows:

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Inter-Plan transfers | $ | (107) | $ | (163) |
| Account maintenance fees | | (1) | | (3) |
| Return of principal | | (641) | | (1,174) |
| Net increase in Contributors' deposits | | (749) | | (1,340) |
| **Balance, Beginning of Year** | | **1,655** | | 2,995 |
| **Balance, End of Year** | **$** | **906** | $ | 1,655 |

The accompanying notes are an integral part of these financial statements.

# Schedule III – Education Assistance Payments

## As at October 31, 2010 and 2009 (in thousands of dollars, except for per unit amounts)

The following charts indicate the number of eligible units paid, the education assistance payment amount by year of eligibility and the total dollar payments.

| Education Assistance Payments | 2010 | 2009 |
|---|---|---|
| Current year payments | $ 309 | $ 2,417 |
| Deferred payments | 2,846 | 5,379 |
| Advance payments | 2 | 18 |
| | $ 3,157 | $ 7,814 |

| Education Assistance Payments | 2010 | 2009 |
|---|---|---|
| Non-Discretionary | $ 3,157 | $ 7,814 |

| | Number of education assistance payment units Year of Eligibility | | | Amount of education assistance payment per unit Year of Eligibility | | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| First | 71 | 315 | 1,605 | $ 327 | $ 400 | $ 400 |
| Second | | 184.4 | 1,008 | | 317 | 400 |
| Third | | | 706.0 | | | 323 |

The accompanying notes are an integral part of these financial statements.

# Notes to the Financial Statements

October 31, 2010 and 2009 (in thousands of dollars)

## Note 1. Nature of Operations

The Canadian Scholarship Trust Plan II ("Plan II" or the "Plan") is a Pooled Education Savings Plan, established on December 1, 1979. The objective of Plan II is to assist parents and others to save for the post-secondary education of children.

Deposits are made by a contributor to an account maintained by the depository trustee on behalf of a beneficiary. The contributor authorizes deductions of enrolment fees from deposits and account maintenance fees from their principal deposit balance. The principal accumulated over the term of the education savings plan agreement is returned to the contributor when:

- the plan matures and the beneficiary is a qualified student eligible to receive the first education assistance payment,
- the plan matures and the beneficiary is not yet a qualified student, in which case the beneficiary will forfeit all Government grants (as defined below), or
- upon termination.

The investment income earned on such principal deposits until maturity is used to provide education assistance payments to qualified students. A beneficiary is deemed to be a qualified student upon receipt by the Canadian Scholarship Trust Foundation (the "Foundation") of evidence of enrolment in a qualifying educational program at an eligible institution.

The Canada Education Savings Grant Program ("CESG") is a grant from the Federal Government whereby Registered Education Savings Plans ("RESPs") receive grant amounts dependent on family income.

Plan II receives the CESG ("Government grants"), which are paid directly into a beneficiary's RESP and invests these funds in accordance with the Plan's investment policies. The Government grants along with investment income earned thereon are paid to qualified students.

Contributor education savings plan contracts ("agreements") are registered, if all required information is provided, with appropriate government authorities and, once registered, are subject to the rules for RESPs under the *Income Tax Act* (Canada). The current tax legislation provides that income credited on contributors' deposits is not taxable income of the contributor. The deposits are not deductible for income tax purposes and are not taxable when returned to the contributor. Payments made to a qualified student will constitute taxable income of that student in the year that the payments are made.

Plan II is administered through the Foundation and its wholly-owned subsidiary, C.S.T. Consultants Inc. ("C.S.T.C."). The Foundation was created to encourage and promote post-secondary education by making education savings plans available to Canadian residents.

## Note 2. Significant Accounting Policies

### (a) Generally accepted accounting principles

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

### (b) Future accounting standards

In February 2008 the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required for publicly accountable enterprises. In September 2010, the Canadian Institute of Chartered Accountants ("CICA") amended the deadline for adoption of IFRS by certain qualifying investment funds to extend the adoption date by one year. Therefore, IFRS will replace Canadian GAAP and become effective for the Plan's interim and annual financial statements relating to the fiscal year ending October 31, 2013. Management is in the process of developing a transition plan, which will include identifying differences between the Plan's current accounting policies and those it expects to apply under IFRS, as well as any accounting policy and implementation decisions and their resulting impact, if any, on the financial statements of the Plan.

### (c) Investment valuation

Investments, at fair value include the following types of securities: bonds, and variable rate securities.

Bonds are valued using bid prices at year end. In the event that quoted market prices are not available, the fair values presented are estimated using present value or other valuation techniques.

Variable rate securities are hybrid financial debt instruments issued by governments, Canadian chartered banks and licensed trust and loan companies that have embedded components that change the risk/return profile of the security. Included in this class are structured notes that are debt instruments whose returns are based on indices or underlying assets rather than typical interest payments. Variable rate securities are carried at fair values using external pricing models to value their components.

Note 7 provides further guidance on the fair value measurements.

### (d) Investment transactions and income recognition

Investment transactions are accounted on a trade-date basis. Interest income on investments is recognized using the effective interest method. Realized gains (losses) on the sale of investments and change in unrealized gains (losses) on investments are calculated with reference to the average cost of the related investments and are recognized in the period that such gains (losses) occur.

### (e) Contributors' deposits, Enrolment fees and Account maintenance fees

Contributors' deposits reflect amounts received from contributors net of enrolment fees and account maintenance fees and do not include future amounts receivable on outstanding agreements. Enrolment fees paid by contributors are collected over periods of up to thirty-two months from the date of initial deposit. Enrolment fees collected during the reporting period are paid to C.S.T.C. as a deduction from contributors' deposits. Account maintenance fees are paid annually to the Foundation by contributors of Plan II from their contributors' deposits. These charges are accrued throughout the year.

# Notes to the Financial Statements (continued)

October 31, 2010 and 2009 (in thousands of dollars)

## Note 2. Significant Accounting Policies (continued)

**(f) Income taxes**

Plan II is exempt from income taxes under Section 146.1 of the *Income Tax Act* (Canada).

**(g) Cash and cash equivalents**

Cash and cash equivalents include short-term investments with a purchase date to maturity of 90 days or less.

**(h) Use of estimates**

In preparing the financial statements, management is required to use estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the current estimates. Significant estimates included in these financial statements relate to valuation of Level 3 financial instruments as discussed in Note 7.

## Note 3. Related Party Transactions

**Administration of Plan II**

The Foundation has appointed its wholly-owned subsidiary, C.S.T.C., to distribute and administer Plan II. Account maintenance fees and administration fees (comprising Plan administration and processing fees and Financial reporting expenses) are paid to the Foundation. Administration fees are annual fees of ½ of 1% of the total amount of principal, Government grants and income earned thereon.

## Note 4. Investment Holdings

The investment holdings are disclosed in Schedule I - Statement of Investment Portfolio – and the related Appendices I and II to the schedule, which are explained below.

The Government grants received from Human Resources and Skills Development Canada are collectively invested together with other C.S.T.C. administered plans. The principal and income received are separately tracked for each contributor's agreement. The portfolio holdings are allocated across all plans based on the proportion of principal and income attributable to agreements within each plan. The Government grant allocation across the plans is provided in Appendix I to Schedule I.

Upon maturity of each agreement, the investment income accumulated to date attributable to that agreement is transferred to the Canadian Scholarship Trust Scholarship Pool (the "Pool"), a shared investment pool with Founders' Plan, another plan administered by C.S.T.C. (see Appendix II to Schedule I). From a contributor's perspective, the income that is transferred is tracked by plan and by year of eligibility. The portfolio holdings of the Pool are allocated based on the Plan's proportionate share of income remaining in the Pool. Income earned from the Pool is credited to the General Fund (Note 6).

## Note 5. Risks Associated with Financial Instruments

In the normal course of business the Plan may be exposed to a variety of risks arising from financial instruments. The Plan's exposures to such risks are concentrated in its investment holdings and are related to market risk (which includes interest rate risk and other price risk), credit risk, liquidity risk and currency risk.

The Plan's risk management process includes monitoring compliance with the Plan's investment policy. The Plan manages the effects of these financial risks to the Plan portfolio performance by retaining and overseeing professional external investment managers. The investment managers regularly monitor the Plan's positions, market events and manage the investment portfolio within the constraints of the investment policy.

**(a) Market risk**

*i. Interest rate risk*

Interest rate risk is the risk of a decrease in the Plan's yield on interest-bearing investments as a result of fluctuations in market interest rates. There is an inverse relationship between changes in interest rates and changes in the fair value of bonds. This risk is actively managed using duration, yield curve analysis, sector and credit selection. There is reduced risk to interest rate changes for cash and cash equivalents due to their short-term nature.

As at October 31, the Plan's holding of debt instruments by maturity is as follows:

| Debt Instruments by Maturity Date | % of Total Investment Fund | |
|---|---|---|
| | **2010** | 2009 |
| Less than 1 year (including short-term investments) | 81% | 78% |
| 1-3 years | 14% | 12% |
| 3-5 years | 1% | 4% |
| Greater than 5 years | 4% | 6% |
| **Total debt instruments** | **100%** | **100%** |

As at October 31, 2010, if prevailing interest rates had increased or decreased by 1%, the Total Investment Fund amount of $18,856 (2009 – $22,830) as per Schedule I – Statement of Investment Portfolio, would have decreased or increased by $122 (2009 – $181). This 1% change assumes a parallel shift in the yield curve with all other variables held constant. In practice, the actual trading results may differ materially.

*ii. Other price risk*

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, other than those arising from interest rate risk. Factors specific to an individual investment, its issuer or all factors affecting all instruments traded in a market or market segment affect other price risk. The asset class that is most impacted by other price risk is variable rate securities, which represents 0.3% (2009 – 0.4%) of the Total Investment Fund amount as at October 31, 2010. The risk is managed by security selection and active management by external managers within approved investment policies and manager mandates.

# Notes to the Financial Statements (continued)

October 31, 2010 and 2009 (in thousands of dollars)

## Note 5. Risks Associated with Financial Instruments (continued)

**(a) Market risk (continued)**

*ii. Other price risk (continued)*

As at October 31, 2010, if underlying indices prices had increased or decreased by 1%, with all other variables held constant, the Total Investment Fund amount as per the Statement of Investment Portfolio would have increased or decreased by approximately $0.6 (2009 – $1.0). In practice, the actual trading results may differ materially.

**(b) Credit risk**

Credit risk refers to the ability of the issuer of debt securities to make interest payments and repay principal. The Plan's portfolio comprises bonds issued or guaranteed by federal or provincial governments along with corporate debt instruments with a minimum approved credit rating as set by the Canadian Securities Administrators, currently A-low. Plan II has a concentration of investments in government and government guaranteed bonds, which are considered to be high credit quality investments thereby moderating credit risk.

As of October 31, the Plan's credit risk exposure is listed below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Credit rating | % of Total Investment Fund | Amount (in thousands) | % of Total Investment Fund | Amount (in thousands) |
| AAA/AAH/AAL | 18% | $ 3,484 | 19% | $ 4,377 |
| AA/AH/AL | 4% | 797 | 4% | 1,015 |
| A | 0% | 37 | 0% | 49 |
| R-1 | 78% | 14,508 | 75% | 17,022 |
| Short-term unrated | 0% | 30 | 2% | 367 |
| **Total Investment Fund** | 100% | $ 18,856 | 100% | $ 22,830 |

The Dominion Bond Rating Service ("DBRS") was the primary source for obtaining credit ratings. Secondary sources used include Standard & Poor's and Moody's.

**(c) Liquidity risk**

Liquidity risk is the risk that the Plan may not be able to meet its obligations on time. The Plan's exposure to liquidity risk is concentrated in principal repayments to subscribers and payments of Education Assistance Payments. The Plan primarily invests in securities that are traded in the active markets and can be readily disposed. The Plan retains sufficient cash and cash equivalents positions to meet liquidity requirements by utilizing cash forecasting models incorporating aging of Accumulated interest and Contributors' deposits (See Schedule II). All other financial liabilities are short-term and due within one year.

**(d) Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Plan is not exposed to currency risk as it only holds Canadian securities.

## Note 6. General Fund and Donations from the Foundation

The Canadian Scholarship Trust (the "Canadian Trust") is a legal trust registered with Canada Revenue Agency as an Education Savings Plan. Included in the Canadian Trust are Plan I, Plan II and Founders' Plan (the "Plans"). According to the trust indenture, the General Fund may be used to subsidize Education Assistance Payments for qualified students to any of the Plans within the Canadian Trust. The General Fund derives its income from the following sources:

i) interest earned on Contributors' deposits and Accumulated interest from the date of maturity to the date the funds are paid to qualified students as Education Assistance Payments;
ii) interest earned on the interest forfeited when a contributor's plan is terminated prior to maturity;
iii) income not collected by beneficiaries before the expiry of the benefit period; and
iv) unclaimed principal and income payments.

Receipts and Disbursements of the General Fund for the years ended October 31, 2010 and 2009, are as follows:

| | 2010 | 2009 |
|---|---|---|
| **Receipts** | | |
| Net investment income | $ 2,430 | $ 4,941 |
| **Disbursements** | | |
| Education assistance payments | (1,398) | (2,502) |
| Transfer to Founders' Plan | (1,364) | – |
| (Deficit) excess of Receipts over Disbursements | (332) | 2,439 |
| **Balance, Beginning of Year** | 3,642 | 1,203 |
| **Balance, End of Year** | $ 3,310 | $ 3,642 |

Donations from the Foundation represent a discretionary pool of funds shared between Plan II and Founders' Plan. These funds are used to supplement Education Assistance Payments when the General Fund is depleted. The amount is allocated annually between the above plans according to the payout forecast in each plan.

Receipts and Disbursements in the Donations from the Foundation for the years ended October 31, 2010 and 2009, are as follows:

| | 2010 | 2009 |
|---|---|---|
| **Disbursements** | | |
| Transfer to Founders' Plan | $ (3,886) | $ (1,250) |
| | (3,886) | (1,250) |
| **Balance, Beginning of Year** | 3,886 | 5,136 |
| **Balance, End of Year** | $ – | $ 3,886 |

In accordance with the policy on Transferring General Fund and Donations Between Plans within the same legal trust, in 2010 management forecasted the remaining liability for Plan II. As a result of this forecast, and in order to satisfy current EAP requirements of Founders' Plan, $5,250 was transferred to Founders' Plan. The forecast will be updated and reviewed annually.

# Notes to the Financial Statements (continued)

October 31, 2010 and 2009 (in thousands of dollars)

## Note 7. Fair Value of Financial Instruments

Investments, at fair value, Cash and cash equivalents and Short-term investments are carried at fair value. The carrying values of other financial instruments such as Accrued interest and other receivables, Receivables for securities sold, Government grants payable, Accounts payable, accrued liabilities and unclaimed contributors' funds, Payables for securities purchased and Contributors' deposits approximate their fair values as these financial instruments are short term in nature.

Fair value represents the amount at which a financial instrument could be exchanged in an arm's-length transaction between willing parties under no compulsion to act and is best evidenced by a quoted bid price in an active market, if one exists.

The following table presents the Plan's financial instruments carried at fair value in the statements of net assets available for education assistance payments, classified by the fair value hierarchy set out in CICA Handbook Section 3862 *Financial Instruments – Disclosures*:

- "Level 1" financial instruments are valued using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- "Level 2" financial instruments are valued using observable inputs other than quoted prices included in Level 1; and
- "Level 3" financial instruments are valued using unobservable inputs for the asset or liability.

**Assets Measured at Fair Value as of October 31, 2010**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and Cash Equivalents | $ 4,381 | $ – | $ – | **$ 4,381** |
| Short-term Investments | – | 10,152 | – | **10,152** |
| Fixed Income Securities | – | 4,260 | – | **4,260** |
| Variable Rate Securities | – | – | 63 | **63** |
| **Total Investment Fund** | **$ 4,381** | **$ 14,412** | **$ 63** | **$ 18,856** |

**Assets Measured at Fair Value as of October 31, 2009**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and Cash Equivalents | $ 3,843 | $ – | $ – | **$ 3,843** |
| Short-term Investments | – | 13,539 | – | **13,539** |
| Fixed Income Securities | – | 5,354 | – | **5,354** |
| Variable Rate Securities | – | – | 94 | **94** |
| **Total Investment Fund** | **$ 3,843** | **$ 18,893** | **$ 94** | **$ 22,830** |

For the years ended October 31, 2010 and 2009, there were no transfers between Levels 1, 2 or 3.

The Plan's financial instruments classified as Level 3 represent the Plan's investment in Equity Linked Notes, which are principal protected by a major Canadian bank (DBRS rating "AA"). Equity Linked Notes are hybrid securities comprised of a bond and an option. The price of the variable rate securities are based on external pricing models provided from third-party brokers. These valuations are derived from the information on similar publicly traded bonds and options using standard pricing methodology. Such techniques include assumptions related to the assessment and quantification of market, credit, liquidity and currency risks referred to in Note 5. There are no reasonable alternative assumptions.

**Level 3 – Variable Rate Securities**

| | 2010 | 2009 |
|---|---|---|
| Opening Balance | **$ 94** | $ 25,485 |
| Net Sales | **(32)** | (21,131) |
| Increase (decrease) in Unrealized Gains/Losses | **1** | (4,260) |
| **Closing Balance** | **$ 63** | $ 94 |

# Government Grants

## (Appendix I to Schedule I)

## Statement of Investment Portfolio

## As at October 31, 2010 (in thousands of dollars)

| Security | | Par Value ($) | Fair Value ($) | Average Cost ($) |
|---|---|---|---|---|
| **Bonds** | | | | |
| **Federal – 46.6%** | | | | |
| Government of Canada | | | | |
| 2.75% | 1 Dec 2010 | 1,095 | 1,097 | 1,126 |
| 1.25 | 1 Jun 2011 | 32,080 | 32,112 | 32,160 |
| 1.00 | 1 Sep 2011 | 2,080 | 2,077 | 2,067 |
| 1.25 | 1 Dec 2011 | 85,740 | 85,771 | 85,527 |
| 1.23 | 15 Sep 2014 | 1,554 | 1,571 | 1,566 |
| 4.00 | 1 Jun 2017 | 4,225 | 4,663 | 4,334 |
| 4.25 | 1 Jun 2018 | 750 | 841 | 848 |
| 3.50 | 1 Jun 2020 | 14,484 | 15,320 | 15,023 |
| 5.75 | 1 Jun 2029 | 4,632 | 6,163 | 5,847 |
| 5.75 | 1 Jun 2033 | 4,475 | 6,105 | 5,490 |
| 5.00 | 1 Jun 2037 | 13,284 | 16,864 | 15,607 |
| 4.00 | 1 Jun 2041 | 3,012 | 3,358 | 3,041 |
| Business Development Bank of Canada | | | | |
| 4.75 | 26 Jul 2021 | 175 | 198 | 175 |
| Canada Housing Trust | | | | |
| 4.60 | 15 Sep 2011 | 38,697 | 39,823 | 40,269 |
| 4.00 | 15 Jun 2012 | 10,883 | 11,321 | 10,975 |
| 4.80 | 15 Jun 2012 | 2,785 | 2,933 | 2,788 |
| 4.55 | 15 Dec 2012 | 9,045 | 9,604 | 9,444 |
| 0.81 | 15 Jun 2013 | 3,920 | 3,912 | 3,912 |
| 2.75 | 15 Sep 2014 | 5,400 | 5,562 | 5,444 |
| 2.75 | 15 Dec 2014 | 7,190 | 7,404 | 7,187 |
| 1.43 | 15 Mar 2015 | 17,814 | 17,857 | 17,840 |
| 3.15 | 15 Jun 2015 | 38,039 | 39,794 | 38,065 |
| 4.10 | 15 Dec 2018 | 4,400 | 4,800 | 4,497 |
| 3.75 | 15 Mar 2020 | 3,744 | 3,957 | 3,750 |
| Canada Post | | | | |
| 4.08 | 16 Jul 2025 | 600 | 634 | 600 |
| 4.36 | 16 Jul 2040 | 1,082 | 1,163 | 1,081 |
| Farm Credit Corporation | | | | |
| 4.55 | 12 Apr 2021 | 350 | 390 | 347 |
| Ontario Infrastructure | | | | |
| 3.95 | 3 Jun 2013 | 877 | 921 | 873 |
| 4.70 | 1 Jun 2037 | 769 | 769 | 760 |
| | | | 326,984 | 320,643 |
| **Municipal and Provincial – 27.2%** | | | | |
| 55 School Board Trust Series A Secured Debenture | | | | |
| 5.90 | 2 Jun 2033 | 501 | 583 | 521 |
| Alberta Capital Finance | | | | |
| 4.45 | 15 Dec 2025 | 3,185 | 3,360 | 3,121 |
| Ottawa Hydro Holdings | | | | |
| 4.93 | 9 Feb 2015 | 1,453 | 1,586 | 1,518 |

| Security | | Par Value ($) | Fair Value ($) | Average Cost ($) |
|---|---|---|---|---|
| **Bonds (continued)** | | | | |
| **Municipal and Provincial – 27.2% (continued)** | | | | |
| Province of British Columbia | | | | |
| 4.70% | 1 Dec 2017 | 2,250 | 2,517 | 2,356 |
| 4.10 | 18 Dec 2019 | 3,014 | 3,078 | 3,021 |
| 8.75 | 19 Aug 2022 | 801 | 1,184 | 1,155 |
| 5.70 | 18 Jun 2029 | 7,194 | 8,736 | 7,972 |
| 4.95 | 18 Jun 2040 | 600 | 681 | 631 |
| 4.30 | 18 Jun 2042 | 962 | 990 | 956 |
| Province of Manitoba | | | | |
| 4.75 | 11 Feb 2020 | 3,226 | 3,564 | 3,216 |
| 4.15 | 3 Jun 2020 | 841 | 888 | 894 |
| 4.60 | 5 Mar 2038 | 993 | 1,059 | 1,060 |
| Province of New Brunswick | | | | |
| 4.45 | 26 Mar 2018 | 5,060 | 5,535 | 5,444 |
| 4.50 | 2 Jun 2020 | 683 | 736 | 706 |
| 4.55 | 26 Mar 2037 | 1,831 | 1,898 | 1,758 |
| Province of Newfoundland | | | | |
| 4.50 | 17 Apr 2037 | 829 | 861 | 797 |
| Province of Nova Scotia | | | | |
| 5.80 | 1 Jun 2033 | 2,471 | 3,005 | 2,828 |
| 4.70 | 1 Jun 2041 | 795 | 853 | 852 |
| Province of Ontario | | | | |
| 3.25 | 8 Sep 2014 | 2,400 | 2,504 | 2,457 |
| 4.40 | 8 Mar 2016 | 3,282 | 3,599 | 3,471 |
| 4.30 | 8 Mar 2017 | 7,710 | 8,401 | 7,415 |
| 4.40 | 2 Jun 2019 | 3,220 | 3,475 | 3,280 |
| 4.20 | 2 Jun 2020 | 26,561 | 28,028 | 26,893 |
| 6.20 | 2 Jun 2031 | 4,079 | 5,207 | 4,951 |
| 5.85 | 8 Mar 2033 | 4,000 | 4,938 | 4,705 |
| 5.60 | 2 Jun 2035 | 15,885 | 19,164 | 18,135 |
| 4.70 | 2 Jun 2037 | 625 | 670 | 623 |
| 4.65 | 2 Jun 2041 | 1,780 | 1,918 | 1,852 |
| Province of Quebec | | | | |
| 0.41 | 16 Sep 2013 | 3,275 | 3,260 | 3,280 |
| 0.83 | 10 Dec 2013 | 2,685 | 2,668 | 2,680 |
| 0.73 | 1 Dec 2014 | 6,790 | 6,699 | 6,765 |
| 4.50 | 1 Dec 2016 | 500 | 551 | 524 |
| 4.50 | 1 Dec 2017 | 1,865 | 2,047 | 1,828 |
| 4.50 | 1 Dec 2018 | 2,570 | 2,802 | 2,519 |
| 4.50 | 1 Dec 2019 | 775 | 838 | 792 |
| 11.00 | 15 Aug 2020 | 2,076 | 3,336 | 3,250 |
| 4.50 | 1 Dec 2020 | 18,809 | 20,197 | 19,749 |
| 6.00 | 1 Oct 2029 | 2,170 | 2,673 | 2,634 |
| 5.75 | 1 Dec 2036 | 8,325 | 10,148 | 9,372 |
| 5.00 | 1 Dec 2038 | 3,160 | 3,505 | 3,163 |
| 5.00 | 1 Dec 2041 | 3,270 | 3,667 | 3,559 |

The accompanying notes are an integral part of these financial statements.

# Government Grants (continued)

## (Appendix I to Schedule I)

## Statement of Investment Portfolio

## As at October 31, 2010 (in thousands of dollars)

| Security | | Par Value ($) | Fair Value ($) | Average Cost ($) |
|---|---|---|---|---|
| **Bonds (continued)** | | | | |
| **Municipal and Provincial – 27.2% (continued)** | | | | |
| Province of Saskatchewan | | | | |
| 4.65% | 5 Sep 2017 | 1,109 | 1,237 | 1,131 |
| 3.90 | 28 Jul 2020 | 720 | 752 | 718 |
| 6.40 | 5 Sep 2031 | 4,648 | 6,148 | 5,604 |
| 4.75 | 1 Jun 2040 | 1,087 | 1,205 | 1,071 |
| | | | 190,751 | 181,227 |
| **Corporate – 21.8%** | | | | |
| 407 International Inc. | | | | |
| 7.13 | 26 Jul 2040 | 2,895 | 3,747 | 3,476 |
| Bank of Canada | | | | |
| 4.05 | 5 May 2014 | 130 | 137 | 133 |
| 5.02 | 31 Aug 2039 | 484 | 462 | 456 |
| Bank of Montreal | | | | |
| 5.04 | 8 Apr 2013 | 3,317 | 3,554 | 3,535 |
| 6.02 | 2 May 2018 | 1,300 | 1,516 | 1,430 |
| 4.63 | 29 Dec 2049 | 2,900 | 3,071 | 2,827 |
| 5.47 | 31 Dec 2049 | 3,335 | 3,635 | 3,519 |
| Bank of Nova Scotia | | | | |
| 6.63 | 30 Jun 2012 | 3,435 | 3,665 | 3,766 |
| 6.28 | 30 Jun 2053 | 1,900 | 2,074 | 2,101 |
| BCIMC Realty Corporation | | | | |
| 3.38 | 29 Jan 2015 | 159 | 163 | 159 |
| 4.65 | 10 Feb 2015 | 2,095 | 2,250 | 2,161 |
| 5.65 | 5 Jan 2018 | 1,385 | 1,561 | 1,506 |
| Bell Canada | | | | |
| 6.90 | 15 Dec 2011 | 2,500 | 2,635 | 2,758 |
| Blue Water Bridge Authority | | | | |
| 6.41 | 9 Jul 2027 | 2,371 | 2,205 | 2,178 |
| Canadian Capital Auto Receivables Asset Trust | | | | |
| 2.00 | 17 Jul 2016 | 993 | 990 | 993 |
| Canadian Imperial Bank of Commerce | | | | |
| 4.75 | 22 Dec 2014 | 5,460 | 5,945 | 5,514 |
| Caterpillar Financial Services Ltd. | | | | |
| 5.20 | 3 Jun 2013 | 950 | 1,020 | 999 |
| CBC | | | | |
| 4.69 | 15 May 2027 | 2,396 | 2,479 | 2,541 |
| CDP Financial | | | | |
| 4.60 | 15 Jul 2020 | 793 | 843 | 791 |
| Citigroup Finance Canada | | | | |
| 4.75 | 17 Mar 2014 | 2,000 | 2,053 | 2,060 |
| Gaz Metropolitain Inc. | | | | |
| 4.93 | 18 Jun 2019 | 2,500 | 2,716 | 2,545 |

| Security | | Par Value ($) | Fair Value ($) | Average Cost ($) |
|---|---|---|---|---|
| **Bonds (continued)** | | | | |
| **Corporate – 21.8% (continued)** | | | | |
| GE Capital Canada | | | | |
| 4.65% | 11 Feb 2015 | 5,650 | 6,019 | 5,653 |
| 4.55 | 17 Jan 2017 | 800 | 839 | 750 |
| 5.53 | 17 Aug 2017 | 1,800 | 1,982 | 1,782 |
| 5.73 | 22 Oct 2037 | 2,000 | 2,091 | 1,704 |
| Gloucester Credit Card Trust | | | | |
| 5.38 | 15 May 2014 | 2,176 | 2,365 | 2,277 |
| Great West Lifeco Inc. | | | | |
| 6.14 | 21 Mar 2018 | 1,352 | 1,547 | 1,482 |
| 4.65 | 13 Aug 2020 | 186 | 190 | 186 |
| Greater Toronto Airports | | | | |
| 5.96 | 20 Nov 2019 | 2,849 | 3,309 | 3,112 |
| 5.63 | 7 Jun 2040 | 200 | 220 | 200 |
| Green Timbers LP | | | | |
| 6.83 | 30 Jun 2037 | 684 | 730 | 746 |
| Honda Canada Finance Inc. | | | | |
| 5.68 | 26 Sep 2012 | 1,200 | 1,278 | 1,280 |
| 5.08 | 9 May 2013 | 83 | 88 | 88 |
| 5.61 | 12 Sep 2013 | 1,135 | 1,232 | 1,135 |
| Hydro One Inc. | | | | |
| 5.49 | 16 Jul 2040 | 3,040 | 3,370 | 3,053 |
| Investors Group Inc. | | | | |
| 6.75 | 9 May 2011 | 1,545 | 1,583 | 1,690 |
| Leisureworld | | | | |
| 4.81 | 24 Nov 2015 | 1,616 | 1,679 | 1,674 |
| Manulife Financial Capital Trust | | | | |
| 4.85 | 12 Dec 2015 | 1,865 | 1,922 | 1,880 |
| 6.70 | 31 Dec 2051 | 3,920 | 4,143 | 4,346 |
| 7.41 | 31 Dec 2108 | 1,200 | 1,314 | 1,200 |
| Manulife Financial Corporation | | | | |
| 4.90 | 2 Jun 2014 | 214 | 224 | 226 |
| 5.16 | 26 Jun 2015 | 2,423 | 2,558 | 2,556 |
| 4.08 | 20 Aug 2015 | 531 | 536 | 538 |
| 7.77 | 8 Apr 2019 | 614 | 731 | 743 |
| Maritimes and Northeast Pipelines | | | | |
| 4.34 | 30 Nov 2019 | 2,410 | 2,524 | 2,498 |
| Merrill Lynch Canadian Finance Corporation | | | | |
| 5.00 | 18 Feb 2014 | 1,722 | 1,789 | 1,807 |
| Merrill Lynch Financial Assets | | | | |
| 4.82 | 12 Feb 2015 | 815 | 841 | 820 |
| 4.62 | 12 Nov 2015 | 1,235 | 1,274 | 1,222 |
| 4.71 | 12 Nov 2016 | 1,192 | 1,215 | 1,201 |
| 4.48 | 12 Jul 2037 | 920 | 938 | 900 |
| Milit-Air Inc. | | | | |
| 5.75 | 30 Jun 2019 | 3,140 | 3,508 | 3,393 |

The accompanying notes are an integral part of these financial statements.

# Government Grants (continued)

## (Appendix I to Schedule I)

## Statement of Investment Portfolio

## As at October 31, 2010 (in thousands of dollars)

| Security | | Par Value ($) | Fair Value ($) | Average Cost ($) |
|---|---|---|---|---|
| **Bonds (continued)** | | | | |
| **Corporate – 21.8% (continued)** | | | | |
| N-45 First CMBS | | | | |
| 5.67% | 15 Nov 2020 | 1,048 | 1,118 | 1,117 |
| National Bank of Canada | | | | |
| 5.55 | 15 Nov 2018 | 1,456 | 1,579 | 1,568 |
| NAV Canada | | | | |
| 4.71 | 24 Feb 2016 | 2,940 | 3,224 | 3,047 |
| OMERS Realty Corporation | | | | |
| 4.74 | 4 Jun 2018 | 3,585 | 3,869 | 3,710 |
| Ontrea Inc. | | | | |
| 5.57 | 9 Apr 2013 | 1,670 | 1,811 | 1,783 |
| Peoples Trust | | | | |
| 4.10 | 1 Jul 2015 | 2,000 | 1,758 | 1,706 |
| Power Corporation of Canada | | | | |
| 7.57 | 22 Apr 2019 | 1,308 | 1,581 | 1,502 |
| PSP Capital Inc. | | | | |
| 4.57 | 9 Dec 2013 | 4,396 | 4,720 | 4,433 |
| RBC Capital Trust | | | | |
| 4.87 | 29 Dec 2049 | 6,000 | 6,446 | 5,950 |
| Real Estate Asset Liquidity Series Class A | | | | |
| 4.62 | 12 Sep 2016 | 1,350 | 1,403 | 1,333 |
| 5.08 | 12 Oct 2036 | 745 | 787 | 763 |
| Royal Bank of Canada | | | | |
| 5.00 | 20 Jan 2014 | 760 | 826 | 817 |
| 3.18 | 16 Mar 2015 | 313 | 322 | 313 |
| 3.55 | 1 Sep 2019 | 5,387 | 5,279 | 5,077 |
| Royal Office Finance | | | | |
| 5.21 | 12 Nov 2032 | 2,236 | 2,430 | 2,219 |
| SNC Lavalin Group | | | | |
| 6.63 | 30 Jun 2044 | 657 | 720 | 657 |
| Sun Life Capital Trust | | | | |
| 6.87 | 31 Dec 2011 | 1,540 | 1,615 | 1,711 |
| 5.86 | 31 Dec 2108 | 2,000 | 2,099 | 2,000 |
| Toronto Community Housing Corporation | | | | |
| 4.88 | 11 May 2037 | 283 | 285 | 284 |
| 5.40 | 22 Feb 2040 | 791 | 863 | 791 |
| Toronto Dominion Bank | | | | |
| 4.85 | 13 Feb 2013 | 1,868 | 1,989 | 1,992 |
| Transcanada Pipelines | | | | |
| 5.65 | 15 Jan 2014 | 4,050 | 4,460 | 4,299 |
| 8.29 | 5 Feb 2026 | 1,824 | 2,458 | 2,282 |
| Vancouver Fraser | | | | |
| 4.63 | 20 Apr 2020 | 1,243 | 1,334 | 1,242 |

| Security | | Par Value ($) | Fair Value ($) | Average Cost ($) |
|---|---|---|---|---|
| **Bonds (continued)** | | | | |
| **Corporate – 21.8% (continued)** | | | | |
| Wells Fargo Finance Canada | | | | |
| 4.40% | 12 Dec 2012 | 1,400 | 1,459 | 1,377 |
| | | | 153,195 | 147,563 |
| **Total Fixed Income – 95.6%** | | | **670,930** | **649,433** |
| **Variable Rate Securities – 3.6%** | | | | |
| Toronto-Dominion Bank S&P/TSX 60 Index Linked Note | | | | |
| | 19 Oct 2011 | 5,000 | 5,405 | 5,000 |
| | 26 Oct 2012 | 5,000 | 4,997 | 5,000 |
| Toronto-Dominion Bank Global Indices Linked Note | | | | |
| | 20 Oct 2011 | 15,000 | 14,858 | 15,001 |
| | | | 25,260 | 25,001 |
| **Total Fixed Income – 99.2%** | | | **696,190** | **674,434** |
| **Cash and Short-term Investments – 0.8%** | | | **4,977** | **4,977** |
| **Total Portfolio Assets – 100.0%** | | | **701,167** | **679,411** |
| **Government Grant Investments Allocation** | | | | |
| Plan II | | | 472 | 421 |
| Founders' Plan | | | 44,871 | 43,369 |
| Group Savings Plan | | | 201,185 | 194,748 |
| Group Savings Plan 2001 | | | 406,303 | 393,612 |
| Family Savings Plan | | | 40,424 | 39,395 |
| Individual Savings Plan | | | 2,935 | 2,889 |
| | | | **696,190** | **674,434** |
| **Cash and Short-term Investments Allocation** | | | | |
| Plan II | | | 10 | 10 |
| Founders' Plan | | | 307 | 307 |
| Group Savings Plan | | | 1,319 | 1,319 |
| Group Savings Plan 2001 | | | 3,100 | 3,100 |
| Family Savings Plan | | | 229 | 229 |
| Individual Savings Plan | | | 12 | 12 |
| | | | **4,977** | **4,977** |

The accompanying notes are an integral part of these financial statements.

# Canadian Scholarship Trust Scholarship Pool

## (Appendix II to Schedule I)

## Statement of Investment Portfolio

## As at October 31, 2010 (in thousands of dollars)

| Security | | Par Value ($) | Fair Value ($) | Average Cost ($) |
|---|---|---|---|---|
| **Bonds** | | | | |
| **Federal – 15.3%** | | | | |
| Government of Canada | | | | |
| 1.25% | 1 Jun 2011 | 140 | 140 | 140 |
| 1.00 | 1 Sep 2011 | 1,580 | 1,578 | 1,575 |
| 3.75 | 1 Jun 2012 | 1,355 | 1,406 | 1,422 |
| 3.50 | 1 Jun 2013 | 2,120 | 2,227 | 2,224 |
| 3.75 | 1 Jun 2019 | 1,180 | 1,276 | 1,241 |
| Canada Housing Trust | | | | |
| 4.60 | 15 Sep 2011 | 1,445 | 1,487 | 1,522 |
| 4.80 | 15 Jun 2012 | 1,565 | 1,648 | 1,668 |
| 4.10 | 15 Dec 2018 | 210 | 229 | 214 |
| 3.75 | 15 Mar 2020 | 465 | 491 | 460 |
| | | | 10,482 | 10,466 |
| **Provincial – 15.3%** | | | | |
| Province of British Columbia | | | | |
| 5.75 | 9 Jan 2012 | 2,050 | 2,156 | 2,171 |
| 4.65 | 18 Dec 2018 | 285 | 317 | 295 |
| Province of Ontario | | | | |
| 4.40 | 2 Dec 2011 | 1,430 | 1,477 | 1,510 |
| 5.38 | 2 Dec 2012 | 1,330 | 1,432 | 1,441 |
| 4.75 | 2 Jun 2013 | 1,445 | 1,554 | 1,547 |
| Province of Quebec | | | | |
| 6.00 | 1 Oct 2012 | 1,760 | 1,906 | 1,929 |
| 5.50 | 1 Dec 2014 | 940 | 1,063 | 1,041 |
| 4.50 | 1 Dec 2020 | 505 | 542 | 505 |
| | | | 10,447 | 10,439 |
| **Total Investments – 30.6%** | | | **20,929** | **20,905** |
| **Cash and Short-term Investments – 69.4%** | | | 47,550 | 47,550 |
| **Total Portfolio Assets – 100.0%** | | | **68,479** | **68,455** |
| **Total Investments Allocation** | | | | |
| Plan II | | | 3,022 | 3,020 |
| Founders' Plan | | | 17,907 | 17,885 |
| | | | **20,929** | **20,905** |
| **Cash and Short-term Investments Allocation** | | | | |
| Plan II | | | 11,374 | 11,374 |
| Founders' Plan | | | 36,176 | 36,176 |
| | | | **47,550** | **47,550** |

The accompanying notes are an integral part of these financial statements.

## Canadian Scholarship Trust Plan

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1.877.333.RESP (7377)

**Trustee**

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For updates on your Plan account,
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