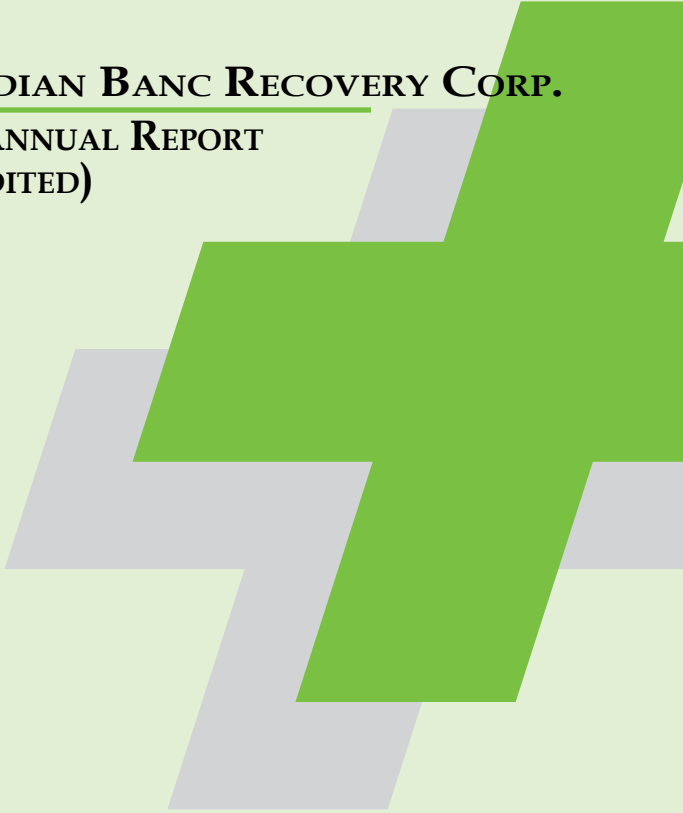


MAY 31 | **CANADIAN BANC RECOVERY CORP.**
2011 | **SEMI-ANNUAL REPORT**
(UNAUDITED)



This report may contain forward-looking statements about the Company. 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” or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Company action, is also forward-looking. 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 Company and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Company. Any number of important factors could contribute to any divergence between what is anticipated and what actually occurs, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technology change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and you should avoid placing undue reliance on forward-looking statements. While the Company currently anticipates that subsequent events and developments may cause the Company’s views to change, the Company does not undertake to update any forward-looking statements.

CANADIAN BANC RECOVERY CORP.
SEMI-ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE
MAY 31, 2011

This is the semi-annual Management Report of Fund Performance (MRFP) for the period ended May 31, 2011. This MRFP contains financial highlights but does not contain the complete financial statements of the Company. The semi-annual financial statements and accompanying notes are attached to this report.

Investors may also obtain a copy of the Company's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure by visiting our website at www.primerateplus.com or by writing to the Company at Investor Relations, Royal Trust Tower, 77 King Street West, P.O. Box 341, Toronto, Ontario, M5K 1K7.

These reports are available to view and download at www.primerateplus.com or www.sedar.com.

INVESTMENT OBJECTIVES AND STRATEGIES

Investment objectives

Canadian Banc Recovery Corp. invests primarily in a portfolio of common shares which will include each of the following Canadian chartered banks:

| | |
|------------------------------------|---------------------------|
| Bank of Montreal | National Bank of Canada |
| The Bank of Nova Scotia | Royal Bank of Canada |
| Canadian Imperial Bank of Commerce | The Toronto-Dominion Bank |

The Company may also invest up to 20% of the Net Assets in equity securities of Canadian or foreign financial services corporations other than the core holdings listed above. In order to supplement the dividends received on the portfolio and to reduce risk, the Company will from time to time write covered call options in respect of some or all of the common shares in the portfolio.

The Company offers two types of shares:

Preferred shares

The investment objectives with respect to the Preferred shares are as follows:

1. To provide holders with cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the prevailing Canadian prime rate plus 0.75%, with a minimum annual rate of 5.0% and a maximum annual rate of 7% based on original issue price; and
2. On or about December 1, 2012 (the termination date) to pay holders the original issue price (\$10) of those shares.

Class A shares

The investment objectives with respect to the Class A shares are as follows:

1. To provide holders with regular floating rate monthly cash distributions targeted to be at a rate per annum equal to the prevailing Canadian prime rate plus 2%, with a minimum targeted annual rate of 5% and a maximum targeted annual rate of 10.0%; and
2. On or about December 1, 2012 (the termination date) to pay holders the original issue price (\$15) of those shares.

Risk

The risks of investing in the Company remain as discussed in the Annual Information form dated February 23, 2011. In addition, Note 3 of the semi-annual financial statements (“Management of Risk”) contains disclosure on specific types of risks related to the financial investments held by the Company.

RESULTS OF OPERATIONS

The six month period ended May 31, 2011 reflected a continuation of the global economic and market recovery although there were clear signs that the pace of the recovery had begun to moderate.

A number of global macro events during the period appeared to have an adverse impact on the rate of growth in the North American economies. Energy prices increased approximately 20% during the period, in part due to the concerns over potential supply declines due to the mid east conflicts, particularly in Libya. The increases in energy combined with rising food costs during the period fueled global inflationary pressures causing many countries around the world to increase interest rates in an attempt to slow growth and bring down inflation levels. In particular, China increased rates numerous times during the period in an attempt to reign in inflation. The Japanese tsunami disaster had a significant impact on the global supply chain, particularly in the auto and technology sectors resulting in decreased production of key components from this region. Continuing concerns over the sovereign debt of Greece, Ireland, Spain and Italy have weighed on European growth and sparked fears of a major currency crisis. Finally as the period came to a close, market participants increasingly began to focus on the potential market impact of the scheduled June 30 termination of the U.S. Federal Reserve's \$600 billion quantitative easing program, the raising of the U.S. debt ceiling and the other policy initiatives that would be required to address the large and growing U.S. annual deficits.

Despite these significant macro events, the Canadian economy continues to rank very high among the developed economies. This strength continues to be reflected in solid GDP growth, lower unemployment rates and a relatively strong housing market that has not been plagued by the same issues that have been prevalent in the U.S. housing market. The recent election of a Conservative majority government in Canada should also help political and economic stability over the next several years.

The 6 Canadian chartered bank stocks continue to rank among the best performing bank stocks in the world and reflect the strength of the Canadian financial system. The Net Asset value finished \$1.27 higher to end at \$23.36 per unit (consisting of one Preferred share and one Class A share) as at May 31, 2011. Preferred shares and Class A shares received distributions based on the floating rate formula. As a result of the low level of the Canadian prime rate during the period, variable distributions made to both classes of shares occurred at the minimum 5 % annual rate as per the distribution formula.

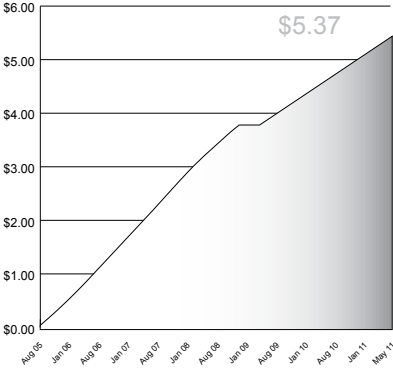
At the current time, the valuations of the Canadian chartered banks in the portfolio generally remain at very reasonable levels when measured by price earnings ratios and dividend yields are expected to continue to act as major support especially in the context of the current very low interest rates environment. The ongoing macro shocks as discussed above have provided periods of increased market volatility which creates opportunities for the Company to add higher option premiums through the covered call writing program.

DISTRIBUTIONS

Class A shares - Distributions

Class A shareholders are entitled to receive regular monthly cash dividends initially targeted to yield a floating rate based on the prime rate in Canada plus 2% per annum on the original issue price. Distributions paid during the period include 6 distributions at the targeted rate for a total of \$0.375 per share.

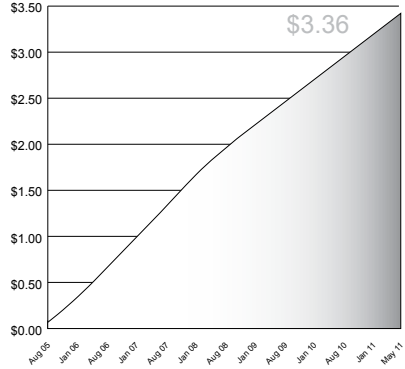
Cumulative Distributions since inception



Preferred shares - Distributions

Preferred shareholders are entitled to receive regular monthly cash dividends initially targeted to yield a floating rate based on the prime rate in Canada plus 0.75% per annum on the original issue price. Distributions paid during the period include 6 distributions at the targeted rate for a total of \$0.25 per share.

Cumulative Distributions since inception



RECENT DEVELOPMENTS

None.

RELATED PARTY TRANSACTIONS

QuadraVest Capital Management Inc. (“QuadraVest”) as Investment Manager and Manager earn fees from the Company as described below in the Management Fees section.

MANAGEMENT FEES

Pursuant to the terms of the investment management agreement, QuadraVest is entitled to a base management fee payable in arrears at an annual rate equal to 0.65% of the transactional net assets of the Company, which include the outstanding Preferred shares, calculated as at each monthly valuation date. In addition, QuadraVest is entitled to receive a performance fee subject to the achievement of certain pre-established total return thresholds.

Pursuant to the administration agreement, QuadraVest is entitled to an administration fee payable monthly in arrears at an annual rate equal to 0.20% of the transactional net assets of the Company, which includes the outstanding Preferred shares, calculated as at each monthly valuation date and an amount equal to the service fee payable to dealers on the Class A shares at a rate of 0.50% per annum. No service fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A shares in respect of each month in such calendar quarter.

Total management fees of \$803,986 paid for the period ended May 31, 2011 include the base management fee and the administration fee. The base management fee was used by QuadraVest to provide investment analysis, make investment decisions, and make brokerage arrangements for the purchase and sale of securities including the covered call writing program. The administration fee was used to provide or arrange administrative services required by the Company which includes all operational services, financial accounting, shareholder reporting and regulatory reporting.

FINANCIAL HIGHLIGHTS

The following tables show selected financial information about the Company and are intended to help you understand the Company's financial performance. This information is derived from the Company's semi-annual financial statements and previous annual audited financial statements. The Net Assets included in the Net Assets per unit table is from the Company's financial statements and calculated using bid prices since November 30, 2007. The Net Asset Value included in the Ratios/Supplemental data Table is for Transactional pricing purposes and calculated using closing prices (see Note 2 in the financial statements).

The Company's Net Assets per unit

| | May 31, 2011 | 2010 | Periods ended November 30 | | | |
|--|---------------|---------------|---------------------------|---------------|---------------|---------------|
| | | | 2009 | 2008 | 2007 | 2006 |
| Net assets per unit, beginning of period ⁽¹⁾ | 22.09 | 21.38 | 15.75 | 25.30 | 26.43 | 24.72 |
| Increase (decrease) from operations | | | | | | |
| Total revenue | 0.40 | 0.80 | 0.90 | 0.94 | 0.82 | 0.75 |
| Total expenses | (0.16) | (0.29) | (0.21) | (0.26) | (0.35) | (0.48) |
| Realized gains for the period | 0.38 | 0.45 | (1.32) | 0.07 | 2.00 | 0.42 |
| Unrealized gains (losses) for the period | 1.27 | 0.96 | 7.35 | (8.69) | (1.68) | 2.81 |
| Total increase (decrease) from operations ⁽²⁾ | <u>1.89</u> | <u>1.92</u> | <u>6.72</u> | <u>(7.94)</u> | <u>0.79</u> | <u>3.50</u> |
| Distributions ⁽³⁾ | | | | | | |
| Taxable Dividends | (0.63) | (1.25) | (1.00) | (1.57) | (0.82) | (1.28) |
| Capital Gains | - | - | - | (0.06) | (1.08) | (0.51) |
| Total annual distributions | <u>(0.63)</u> | <u>(1.25)</u> | <u>(1.00)</u> | <u>(1.63)</u> | <u>(1.90)</u> | <u>(1.79)</u> |
| Net assets per unit at end of period | 23.36 | 22.09 | 21.38 | 15.75 | 25.30 | 26.43 |
| Net assets per Preferred share | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| Net assets per Class A share | <u>13.36</u> | <u>12.09</u> | <u>11.38</u> | <u>5.75</u> | <u>15.30</u> | <u>16.43</u> |
| Net assets per unit at end of period | 23.26 | 22.09 | 21.38 | 15.75 | 25.30 | 26.43 |

- (1) Net Assets per unit is the difference between the aggregate value of the assets of the Company and the aggregate value of the liabilities excluding the Preferred shares of the Company on that date divided by the number of units then outstanding
- (2) Total increase (decrease) from operations is before the payment of Preferred and Class A share distributions and is calculated based on the weighted average number of units outstanding during the period.
- (3) Distributions are to Preferred shares and Class A shares are based on the number of Preferred shares and Class A shares outstanding on the record date for each distribution and were paid in cash. Characterization of distributions is based on the tax treatment that is received by investors.

RATIOS AND SUPPLEMENTAL DATA

| | May 31, 2011 | ┌ 2010 | Periods ended November 30 | | | └ 2006 |
|---|--------------|-----------|---------------------------|------------|------------|------------|
| | | | 2009 | 2008 | 2007 | |
| Net assets (millions) | \$190.9 | \$180.6 | \$192.3 | \$173.7 | \$283.0 | \$304.6 |
| Number of units outstanding ⁽¹⁾ | 8,169,282 | 8,169,282 | 8,992,001 | 10,798,550 | 11,158,200 | 11,525,000 |
| Base Management expense ratio ⁽²⁾ | 1.39% | 1.34% | 1.18% | 1.27% | 1.31% | 1.38% |
| Management expense ratio with performance fee and one time initial offering expenses ⁽³⁾ | 1.39% | 1.34% | 1.18% | 1.27% | 1.31% | 1.92% |
| Management expense ratio per Class A share ⁽⁴⁾ | 6.28% | 6.86% | 9.38% | 7.89% | 6.22% | 7.38% |
| Portfolio turnover rate ⁽⁵⁾ | 15.4% | 23.7% | 3.8% | 0.5% | 30.8% | 15.0% |
| Trading expense ratio ⁽⁶⁾ | 0.01% | 0.03% | 0.02% | 0.02% | 0.06% | 0.03% |
| Closing market price (TSX): Preferred shares | \$10.45 | \$10.35 | \$10.34 | \$7.19 | \$10.55 | \$11.40 |
| Closing market price (TSX): Class A shares | \$12.53 | \$10.85 | \$9.56 | \$5.00 | \$12.80 | \$14.37 |

(1) This information is provided as at May 31 or November 30, as applicable.

(2) A separate base management expense ratio has been presented to reflect the normal operating expenses of the Company excluding the one time initial offering expenses. Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of average net assets during the period.

(3) Performance fees occur in periods in which the total return exceeds a pre-established threshold.

(4) Management expense ratio for Class A shares is based on the requirements of National Instrument 81-106. This policy requires that all Split share companies produce an expense ratio which allocates all operating expenses of the Company, all distributions on Preferred shares and all issuance costs to the Class A shares and expresses this as an annualized percentage of net assets applicable only to the Class A shares during the period. The management expense ratio per Class A share should not be interpreted as the required return necessary for the Company or the Class A share to cover the operating expenses of the Company. This calculation is based only on a portion of the Company's assets whereas the Company utilizes its entire assets to generate investment returns. Management believes that the base management expense ratio per unit disclosed in the table above is the most representative ratio in assessing the ongoing efficiency of the administration of the Company, making comparisons to the expense ratios of single unit mutual funds or determining the minimum investment returns necessary by the Company to achieve growth in Net Assets per unit.

(5) The Company's portfolio turnover rate indicates how actively the Company's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Company buying and selling all of the securities in its portfolio once in the course of the year. The Company employs a covered call writing strategy which can cause the portfolio turnover rate to be higher than conventional mutual funds. The higher the Company's portfolio turnover rate in a year, the greater the trading costs payable by the Company in the year and the greater chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Company.

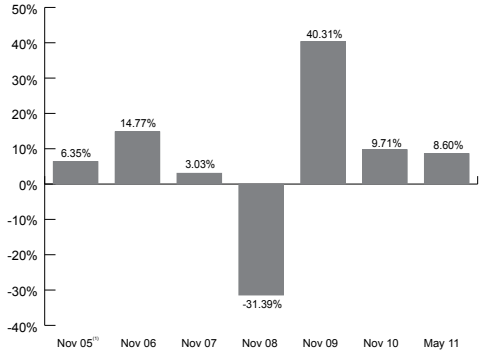
(6) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of average net assets during the period.

PAST PERFORMANCE

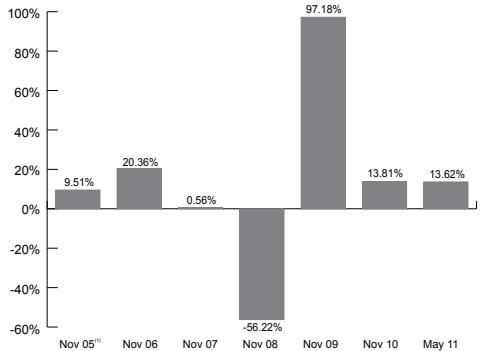
The past performance of 1) the Net Asset Value per unit; 2) the Preferred share on net asset value basis; and 3) the Class A share on a Net Asset Value basis for each period since inception are presented in the bar charts below. Each bar in the chart reflects the change in percentage terms of how a unit, a Preferred share or a Class A share would have increased or decreased during the applicable period. In respect to the charts displayed below, please note the following:

- The performance information shown assumes that all cash distributions made by the Company during the periods shown were reinvested in the applicable additional securities of the Company,
- The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance; and,
- Past performance of the Company does not necessarily indicate how it will perform in the future.

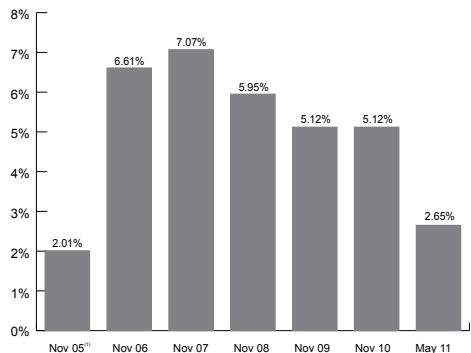
NET ASSET VALUE PER UNIT



CLASS A SHARE



PREFERRED SHARE



⁽¹⁾ Based on the initial year from July 15, 2005 to November 30, 2005

SUMMARY OF INVESTMENT PORTFOLIO
All holdings as at May 31, 2011

| Name | Weighting (%) |
|------------------------------------|----------------------|
| Toronto-Dominion Bank | 21.0% |
| Bank of Nova Scotia | 19.0% |
| Royal Bank of Canada | 17.5% |
| Canadian Imperial Bank of Commerce | 14.5% |
| Bank of Montreal | 11.6% |
| National Bank of Canada | 11.6% |
| Total net assets | 95.2% |
| Other net assets | 4.8% |

The summary of investment portfolio may change due to ongoing portfolio transactions of the Company.
Updates are available quarterly.

CANADIAN BANC RECOVERY CORP.
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Canadian Banc Recovery Corp. (the "Company") and all the information in this semi-annual report are the responsibility of management and have been approved by the Board of Directors of the Company.

The Company maintains appropriate procedures to ensure that relevant and reliable financial information is produced. Statements have been prepared in accordance with Canadian generally accepted accounting principles and may include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Company are described in Note 2 to the financial statements.

The Board of Directors of the Company is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements.

The Company's independent auditors have not performed a review of these semi annual financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

CANADIAN BANC RECOVERY CORP.
STATEMENT OF FINANCIAL POSITION

AS AT MAY 31, 2011 AND NOVEMBER 30, 2010 (UNAUDITED)

| | May 31, 2011 (\$) | November 30, 2010 (\$) |
|---|---------------------------|------------------------------|
| ASSETS | | |
| Investments - at fair value (note 2) | 181,294,660 | 168,517,627 |
| Cash | 10,653,391 | 13,070,472 |
| Interest, dividends and other receivables | 14,271 | 4,422 |
| Total Assets | <u>191,962,322</u> | <u>181,592,521</u> |
| LIABILITIES | | |
| Fees and other accounts payable | 268,421 | 252,356 |
| Dividends payable | 850,994 | 850,994 |
| Preferred shares (note 4) | 81,692,820 | 81,692,820 |
| | <u>82,812,235</u> | <u>82,796,170</u> |
| SHAREHOLDERS' EQUITY | | |
| Class A and Class B shares (note 5) | 112,381,803 | 112,381,803 |
| Deficit | (3,231,716) | (13,585,452) |
| | <u>109,150,087</u> | <u>98,796,351</u> |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY | <u>191,962,322</u> | <u>181,592,521</u> |

| | | |
|---|-----------|-----------|
| Number of units (1 Preferred share and 1 Class A share) outstanding | 8,169,282 | 8,169,282 |
| Net assets per unit (note 2) | \$23.36 | \$22.09 |
| Net assets per Preferred share (note 2) | \$10.00 | \$10.00 |
| Net assets per Class A share (note 2) | \$13.36 | \$12.09 |

Approved on behalf of the Board of Directors



WAYNE FINCH
 Chairman and
 Chief Investment Officer



PETER CRUICKSHANK
 Managing Director and
 Chief Financial Officer

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

CANADIAN BANC RECOVERY CORP.
STATEMENT OF OPERATIONS AND DEFICIT
FOR THE SIX MONTH PERIOD ENDED **MAY 31** (UNAUDITED)

| | 2011 (\$) | 2010 (\$) |
|---|---------------------|---------------------|
| INCOME | | |
| Dividends | <u>3,259,530</u> | <u>3,682,568</u> |
| | 3,259,530 | 3,682,568 |
| EXPENSES (note 6) | | |
| Management fees | 803,986 | 825,807 |
| Service fees | 257,048 | 264,711 |
| Audit fees | 13,553 | 9,762 |
| Directors' fees | 9,085 | 9,512 |
| Independent Review Committee fees | 1,766 | 1,766 |
| Custodian fees | 22,486 | 44,389 |
| Legal fees | 15,563 | 20,493 |
| Shareholder reporting costs | 14,462 | 64,476 |
| Other operating expenses | 59,502 | 23,493 |
| Harmonized sales tax/Goods and services tax | <u>113,605</u> | <u>49,984</u> |
| | <u>1,311,056</u> | <u>1,314,393</u> |
| Net investment income | | |
| before distributions on Preferred shares | <u>1,948,474</u> | <u>2,368,175</u> |
| Distributions on Preferred shares (note 4 and 7) | <u>(2,042,484)</u> | <u>(2,248,180)</u> |
| Net investment income (loss) for the period | <u>(94,010)</u> | <u>119,995</u> |
| Realized and unrealized gain (loss) | | |
| on investments and options and transaction costs | | |
| Net realized gain on investments and options | 3,161,827 | 2,329,086 |
| Change in unrealized appreciation (depreciation) of investments | 10,367,832 | (1,785,062) |
| Transaction costs on purchase and sale of investments (note 2) | <u>(18,432)</u> | <u>(30,272)</u> |
| Net gain on investments and options for the period | <u>13,511,227</u> | <u>513,752</u> |
| Increase in net assets from operations for the period | <u>13,417,217</u> | <u>633,747</u> |
| Deficit - Beginning of period | <u>(13,585,452)</u> | <u>(21,395,825)</u> |
| Distributions on Class A shares (note 5 and 7) | <u>(3,063,481)</u> | <u>(3,372,000)</u> |
| Deficit - End of period | <u>(3,231,716)</u> | <u>(24,134,078)</u> |
| Increase in net assets from operations | | |
| per Class A share | 1.65 | 0.07 |

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

CANADIAN BANC RECOVERY CORP.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 FOR THE SIX MONTH PERIOD ENDED MAY 31 (UNAUDITED)

| | 2011 (\$) | 2010 (\$) |
|---|---------------------------|---------------------------|
| Shareholders' equity - Beginning of period | 98,796,351 | 102,303,820 |
| Increase in net assets from operations for the period | 13,417,217 | 633,747 |
| Distributions on Class A shares | | |
| From net income | - | (119,995) |
| From net realized gains | (3,052,150) | (2,329,086) |
| From return of capital | (11,331) | (922,919) |
| | <u>(3,063,481)</u> | <u>(3,372,000)</u> |
| Increase (decrease) in net assets for the period | <u>10,353,736</u> | <u>(2,738,253)</u> |
| | | |
| Shareholders' equity - End of period | <u>109,150,087</u> | <u>99,565,567</u> |

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

CANADIAN BANC RECOVERY CORP.**STATEMENT OF CASH FLOW**

FOR THE SIX MONTH PERIOD ENDED MAY 31 (UNAUDITED)

| | 2011 | 2010 |
|---|--------------------------|--------------------------|
| | (\$) | (\$) |
| Cash flow from Operating activities | | |
| Net investment income for the period | (94,010) | 119,995 |
| Proceeds from sale of investments | 27,807,045 | 40,895,694 |
| Purchase of investments | (27,072,851) | (26,256,816) |
| Net change in interest, dividends and other receivable balances | (9,849) | - |
| Net change in fees, other accounts payable and Dividends payable to Preferred shares | 16,065 | (340) |
| Cash flow from operations | <u>646,400</u> | <u>14,758,533</u> |
| Cash flow from Shareholder activities | | |
| Distributions on Class A shares | (3,063,481) | (3,372,000) |
| Amount paid on redemption of Class A shares and Preferred shares | - | - |
| Cash flow from Shareholder activities | <u>(3,063,481)</u> | <u>(3,372,000)</u> |
| Net increase in cash for the period | (2,417,081) | 11,386,533 |
| Cash, beginning of period | 13,070,472 | 6,950,449 |
| Cash, end of period | <u>10,653,391</u> | <u>18,336,982</u> |
| Supplemental information | | |
| Distributions paid on Preferred shares | 2,042,484 | 2,248,180 |

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

CANADIAN BANC RECOVERY CORP.
STATEMENT OF PORTFOLIO INVESTMENTS

AS AT MAY 31, 2011

| No. of shares | Description | Average Cost (\$) (Premiums received) | Fair Value (\$) |
|---|--|--|---------------------------|
| 6 Core Holdings | | | |
| Canadian Common Equities | | | |
| 356,900 | Bank of Montreal | 21,570,031 | 22,099,248 |
| 611,400 | Bank of Nova Scotia | 26,929,536 | 36,292,704 |
| 345,100 | Canadian Imperial Bank of Commerce | 29,120,658 | 27,714,981 |
| 271,900 | National Bank of Canada | 16,926,632 | 22,010,305 |
| 590,300 | Royal Bank of Canada | 27,576,130 | 33,422,786 |
| 480,800 | Toronto-Dominion Bank | 32,582,804 | 40,108,336 |
| Total Canadian Common Equities in Core Holdings (100.2%) | | <u>154,705,791</u> | <u>181,648,360</u> |
| Call Options written (100 shares per contract) | | | |
| Canadian call options written | | | |
| (500) | Bank of Montreal @ \$64, June 2011 | (16,250) | (5,000) |
| (600) | Bank of Nova Scotia @ \$58.50, June 2011 | (48,228) | (78,000) |
| (1,000) | Bank of Nova Scotia @ \$60, July 2011 | (50,040) | (73,000) |
| (400) | Canadian Imperial Bank of Commerce @ \$80.5, June 2011 | (36,800) | (37,600) |
| (250) | Canadian Imperial Bank of Commerce @ \$84, June 2011 | (22,375) | (1,750) |
| (250) | Canadian Imperial Bank of Commerce @ \$82, July 2011 | (18,500) | (18,250) |
| (475) | National Bank of Canada @ \$80, June 2011 | (59,375) | (76,000) |
| (340) | Royal Bank of Canada @ \$58.5, July 2011 | (24,480) | (17,000) |
| (550) | Toronto-Dominion Bank @ \$84, June 2011 | (32,010) | (39,600) |
| (500) | Toronto-Dominion Bank @ \$86, June 2011 | (32,000) | (7,500) |
| Total Canadian call options written (-0.2%) | | <u>(340,058)</u> | <u>(353,700)</u> |
| | | <u>154,365,733</u> | <u>181,294,660</u> |
| less adjustment for transaction costs (note 2) | | (59,317) | |
| Total Investments (100%) | | <u>154,306,416</u> | <u>181,294,660</u> |

The Statement of Portfolio Investments is at May 31, 2011 and may or may not be indicative of the current portfolio.

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

CANADIAN BANC RECOVERY CORP.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED MAY 31, 2011 AND 2010 (UNAUDITED)

1. Incorporation

Canadian Banc Recovery Corp. (the “Company”) is a mutual fund corporation established under the laws of the Province of Ontario on May 25, 2005 that began investment operations on July 15, 2005. The Company’s name was changed to Canadian Banc Recovery Corp. (previously Prime Rate Plus Corp.) on April 21, 2009. The manager and the investment manager of the Company is Quadravest Capital Management Inc. (“Quadravest”). All Preferred shares and Class A shares outstanding on December 1, 2012, the termination date of the Company, will be redeemed by the Company on that date.

2. Summary of significant accounting policies

These financial statements, prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), include estimates and assumptions by management that affect the reported amount of assets, liabilities, income and expenses during the reporting years. Actual results could differ from these estimates.

The following is a summary of the significant accounting policies followed by the Company.

Valuation of investments

Investments are categorized as held for trading and are recorded at fair value for purposes of determining the Net Assets per unit reflected in the financial statements.

The fair value of investments as at the financial reporting date is determined as follows:

- Shares or other securities for which market quotations are readily available are valued at the closing bid price
- Call options written are valued at closing ask prices as reported on recognized exchanges
- Fixed income investments are based on the average bid quotations from recognized dealers

National Instrument 81-106 (“NI 81-106”) requires an investment fund to calculate its Net Asset Value for the purposes of any purchases or redemption of units based on the fair value of the investment fund’s assets and liabilities (Net Asset Value or NAV).

The fair value of investments for purposes of calculating the bi monthly Net Asset Value used for the purposes of calculating the price paid on any redemptions received is determined as follows:

- Shares or other securities for which market quotations are readily available are valued at the last traded market price
- Call options written are valued at the last traded prices as reported on recognized exchanges
- Fixed income investments are based on the average bid quotations from recognized dealers

In accordance with NI 81-106, the Net Asset Value per unit is compared to the Net Assets per unit and the difference is required to be disclosed in the notes to the financial statements. The following table is presented to show the differences between these amounts:

CANADIAN BANC RECOVERY CORP.**NOTES TO FINANCIAL STATEMENTS**FOR THE SIX MONTH PERIOD ENDED **MAY 31, 2011 AND 2010 (UNAUDITED)**

| | Net Assets (GAAP) per unit | Difference | Net Asset Value (Published NAV) per unit |
|-------------------|-------------------------------|------------|---|
| May 31, 2011 | \$23.36 | \$0.01 | \$23.37 |
| November 30, 2010 | \$22.09 | \$0.02 | \$22.11 |

Transaction costs

- Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities by the Company are recognized as an expense in the Statement of Operations and Deficit.

Investment transactions and income recognition

- Investment transactions are accounted for on the trade date
- Realized gains and losses on investment sales and unrealized appreciation or depreciation in investment values are calculated on the average cost basis
- Written call option income received is deferred and included in investments on the statements of financial position. Realized capital gains or losses are recognized in the statements of operations when options are exercised, expire or are closed out
- Deferred gains and losses on options are recognized in investments and as a component of net unrealized appreciation (depreciation) in the statements of operations
- Dividend income is recognized on the ex-dividend date. Interest income is recognized when earned
- Net realized gains and losses on investments include net realized gains or losses from foreign currency changes

Redeemable Preferred shares

In accordance with their terms, each redeemable Preferred share is valued at the lesser of: (i) \$10.00; and (ii) the Net Assets of the Company divided by the number of Preferred shares outstanding. The Net Assets are equal to the difference between the aggregate value of the assets of the Company and the aggregate value of its liabilities, excluding Preferred shares of the Company.

Other Assets and Liabilities

Other assets are designated as loans and receivables and recorded at cost or amortized cost. Similarly, other liabilities are designated as financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short-term nature.

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3. Management of Risk of Financial Instruments

CICA Handbook – Accounting Section 3862, Financial Instruments–Disclosures (“Section 3862”) requires disclosure about the inputs to fair value measurements, including the classification with a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 - Inputs that are not based on observable market data.

The following table illustrates the classification of the Company’s financial instruments within the fair value hierarchy as at May 31, 2011 and November 30, 2010:

Financial assets at fair value as at May 31, 2011

| | Level 1 | Level 2 | Level 3 | Total |
|----------|----------------------|----------|----------|----------------------|
| Equities | \$181,648,360 | - | - | \$181,648,360 |
| Options | (\$353,700) | - | - | (\$353,700) |
| | <u>\$181,294,660</u> | <u>-</u> | <u>-</u> | <u>\$181,294,660</u> |

Financial assets at fair value as at November 30, 2010

| | Level 1 | Level 2 | Level 3 | Total |
|----------|----------------------|----------|----------|----------------------|
| Equities | \$168,908,057 | - | - | \$168,908,057 |
| Options | (\$390,430) | - | - | (\$390,430) |
| | <u>\$168,517,627</u> | <u>-</u> | <u>-</u> | <u>\$168,517,627</u> |

The Company’s investment activities expose it to a variety of financial risks: market risk (including price risk, interest rate risk and currency risk), credit risk and liquidity risk.

Any sensitivity analysis presented below may differ from actual results and the difference could be material.

Market Price Risk

All securities investments present a risk of loss of capital. The 6 core Canadian Bank holdings were selected because of their long term history of above average market price appreciation and dividend growth. These Companies were selected from the banking sector of the financial services index of the S&P/TSX 60 index and are among the largest financial services companies in Canada.

The market price risk is affected by three main components: price movements, interest rate risk and foreign currency movements.

Price risk

It would be reasonable to expect that the Company’s portfolio will exhibit market price movements that are reflective and generally highly correlated with the 6 securities. The supplemental covered call writing program which generates an additional stream of income to the portfolio may also help mitigate against market price declines during years in which a particular Portfolio company has a covered call option written against that position.

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A 10% increase/decrease in the Portfolio would currently increase/decrease Net Assets of the Company by \$18,129,466 (November 30, 2010-\$16,851,763).

Interest rate risk

The majority of the Company's financial assets and liabilities are non interest bearing. As a result, the Company is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates and considers interest rate risk insignificant.

Currency risk

All portfolio holdings and other Net Assets are denominated in Canadian dollars and therefore there is no currency risk (consistent with previous period).

Other risks**Credit risk**

Credit risk is defined as the risk that a counterparty will be unable to pay amounts in full when due. All of the Company's transactions are in listed securities and options and are settled and paid for using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment (consistent with previous period). Payment is made on purchase once the securities have been received by the broker.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price. The Company is exposed to liquidity risk primarily through its monthly and annual retractions of Class A shares and Preferred shares. The Company receives adequate notice for all retraction requests. The Company's Portfolio is invested in highly liquid large capitalization investments that trade on the Toronto Stock Exchange ("TSX") (consistent with previous period). All Class A shares and Preferred shares outstanding are redeemable on demand but are scheduled to be redeemed upon termination of the Company on December 1, 2012. All other financial liabilities are payable within three months from the end of the period.

Concentration risk

The Company's 6 core holdings are concentrated in the banking sector and as such will be exposed to the specific factors that affect this sector (consistent with previous period). An individual portfolio holding could be as high as 20% of the Net Asset Value of the Company.

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4. Preferred shares

The Company is authorized to issue an unlimited number of Preferred shares.

| <u>Issued and outstanding</u> | May 31, 2011 | May 31, 2010 |
|---|---------------------|---------------------|
| 8,169,282 Preferred shares (May 31, 2010-8,992,001) | <u>\$81,692,820</u> | <u>\$89,920,010</u> |

Preferred share transactions

| | | |
|-------------------------------|------------------|------------------|
| Beginning of period | 8,169,282 | 8,992,001 |
| Redemptions during the period | <u>-</u> | <u>-</u> |
| End of period | <u>8,169,282</u> | <u>8,992,001</u> |

Preferred shares are entitled to cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the Prime Rate in Canada plus 0.75% with a minimum annual rate of 5.0% and a maximum annual rate of 7.0% (based on the original issue price).

All Preferred shares outstanding on December 1, 2012 will be redeemed by the Company on that date. The Preferred shares have been presented as liabilities in the financial statements.

Preferred shares trade under the symbol "BK.PR.A" on the TSX. Preferred shares trading price on the TSX was \$10.45 as at May 31, 2011 (November 30, 2010-\$10.35). Preferred shares may be surrendered at any time for retraction at specified retraction amounts, but will be retracted only on the last day of each month. Shareholders who concurrently retract a Preferred share and a Class A share (together, a "unit") in the month of July in each year will be entitled to receive an amount equal to the Net Asset Value per unit calculated on the last day of July. Preferred shares retracted in any other month will receive a retraction price based on a discounted specified retraction formula. Under the terms of a Recirculation Agreement, the Company may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Preferred shares or Class A shares tendered for retraction.

The Preferred shares rank in priority to the Class A shares with respect to the payment of dividends. Preferred shares rank in priority to the Class A shares upon termination of the Company.

5. Class A shares and Class B sharesAuthorized

An unlimited number of Class A shares

1,000 Class B shares

| <u>Issued and outstanding</u> | May 31, 2011 | May 31, 2010 |
|---|----------------------|----------------------|
| 8,169,282 Class A shares (May 31, 2010-8,992,001) | \$112,380,803 | \$123,698,645 |
| 1,000 Class B shares | <u>\$1,000</u> | <u>\$1,000</u> |
| | <u>\$112,381,803</u> | <u>\$123,669,645</u> |

Class A share transactions

| | | |
|-------------------------------|------------------|------------------|
| Beginning of period | 8,169,282 | 8,992,001 |
| Redemptions during the period | <u>-</u> | <u>-</u> |
| End of period | <u>8,169,282</u> | <u>8,992,001</u> |

Class A shares were issued at \$15 per share. Class A share distributions are floating rate monthly cash distributions targeted to be at a rate per annum equal to the Prime Rate in Canada plus 2.0% with a minimum targeted annual rate of 5.0% and a maximum targeted annual rate of 10% (based on the original issue price). All Class A shares outstanding on December 1, 2012 will be redeemed by the Company on that date.

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Class A shares trade under the symbol “BK” on the TSX. Class A shares trading price on the TSX was \$12.53 as at May 31, 2011 (November 30, 2010-\$10.85). Class A shares may be surrendered at any time for retraction at specified retraction amounts, but will be retracted only on the last day of each month. Shareholders who concurrently retract a Class A share and a Preferred share (together, a “unit”) in the month of July in each year will be entitled to receive an amount equal to the Net Asset Value per unit calculated on the last day of July. Class A shares retracted in any other month will receive a retraction price based on a discounted specified retraction formula. Under the terms of a Recirculation Agreement, the Company may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Preferred shares or Class A shares tendered for retraction.

The Preferred shares rank in priority to the Class A shares with respect to the payment of dividends. Upon the termination of the Company, Class A shareholders will receive an amount equal to the Net Asset Value per unit less \$10 (the redemption value of the Preferred shares).

The holders of Class B shares are not entitled to receive dividends. The Class B shares are retractable at a price of \$1.00 per share. Class B shareholders are entitled to one vote per share. On July 15, 2005, the Company issued \$1,000 Class B shares to Canadian Banc Recovery Corp. Holding Trust for cash consideration of \$1,000.

The Deficit in the Statement of Financial Position includes contributed surplus of \$9,631,472 (May 31, 2010-\$7,725,535) in connection with amounts paid on the retractions of Class A shares. Contributed surplus arises when the amount of the retraction allocated to the Class A shares is less than the average cost of capital per share of the Class A shares.

6. Expenses

The Company is responsible for all expenses incurred in connection with the operation and administration of the Company, including, but not limited to, ongoing custodian, transfer agent, legal and audit expenses.

Pursuant to the administration agreement, Quadravest is entitled to an administration fee payable monthly in arrears at an annual rate of 0.20% of the Net Assets of the Company, which includes the outstanding Preferred shares, calculated as at each monthly valuation date and an amount equal to the service fee payable to dealers on the Class A shares at a rate of 0.50% per annum. No service fee will be paid in any calendar quarter if regular dividends are not paid to holders of Class A shares in respect of each month in such calendar quarter.

Pursuant to the terms of the investment management agreement, Quadravest is entitled to a base management fee payable in arrears at an annual rate equal to 0.65% of the Net Assets of the Company, which includes the outstanding Preferred shares, calculated as at each monthly valuation date. In addition, Quadravest is entitled to receive a performance fee subject to the achievement of certain pre-established total return thresholds.

Total management fees of \$803,986 (May 31, 2010-\$825,807), incurred during the period, include the administration fee and base management fee. No performance fees were paid in 2011 or 2010. Total brokerage commission paid during the period by the Company for its Portfolio transactions were \$18,432 (May 31, 2010-\$30,272).

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7. Distributions

The Company's investment objectives are to provide floating monthly distributions to both the Preferred and Class A shareholders while returning the original issue price to each shareholder on the termination date of the Company on December 1, 2012.

Distributions per share were as follows:

| | May 31, 2011 | May 31, 2010 |
|------------------|--------------|--------------|
| Preferred shares | \$0.25 | \$0.25 |
| Class A shares | \$0.375 | \$0.375 |

8. Capital Management

The Company considers its capital to consist of Class A, Class B and Preferred shares.

The Company's objectives in managing its capital are:

- i) to provide holders of Preferred shares with cumulative preferential floating rate monthly cash dividends at a rate per annum equal to the prevailing Canadian prime rate plus 0.75%, with a minimum annual rate of 5.0% and a maximum annual rate of 7% based on original issue price and return the original issue price on December 1, 2012; and
- ii) to provide holders of Class A shares with regular floating rate monthly cash distribution targeted to be at a rate per annum equal to the prevailing Canadian prime rate plus 2%, with a minimum targeted annual rate of 5% and a maximum targeted annual rate of 10.0% based on original issue price and return the original issue price on December 1, 2012.

In order to manage its capital structure, the Company may adjust the amount of dividends paid to shareholders or return capital to shareholders.

9. Income Taxes

The Company is a mutual fund corporation as defined in the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. Also, the Company is generally subject to a tax of 33-1/3% under Part IV of the Act on taxable dividends received in the year. This tax is fully refundable upon payment of sufficient dividends.

The Company is also a financial intermediary corporation as defined in the Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends received nor is it generally liable to tax under Part VI.1 on dividends paid on taxable preferred shares.

Temporary differences between the carrying value of assets and liabilities for accounting and income tax purposes give rise to future income tax assets and liabilities. When the market value of a security in the Company exceeds its cost base, a future income tax liability arises. As capital gains taxes payable by the Company are refundable under the provisions of the Income Tax Act (Canada), the future tax liability is offset by these future refundable taxes. If the cost base exceeds the market value of the security, a future income tax asset is generated. A full valuation allowance is taken to offset this asset given the uncertainty that such future assets will ultimately be realized. Future income tax liabilities or assets are calculated using substantively enacted tax rates expected to apply in the period that the temporary differences are expected to reverse.

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The Company has estimated accumulated non capital losses for tax purposes of \$15,376,004 (May 31, 2010-\$13,942,658) that are available to lower taxable income in future years if required and expire after the scheduled termination date of the Company on December 1, 2012. The Company also has estimated accumulated capital losses for tax purposes of \$8,482,705 (May 31, 2010-\$8,482,705) which may be used to lower future capital gains if required.

10. Comparative Financial Statements

Certain 2010 comparative figures have been reclassified from statements previously presented to conform to the presentation of the 2011 financial statements.

QUADRAVEST CAPITAL MANAGEMENT INC.

Quadravest Capital Management Inc. was formed in 1997 and is focused on the creation and management of enhanced yield products for retail investors. The investment strategy combines fundamental based equity investing with covered call writing. Guided by four key principles, Quadravest sets attainable investment objectives that allow the team to stay focused on a long-term investment strategy.

The four principles – innovation in financial products, discipline in investment management, solid results for investors, and excellence in client service – form the foundation of Quadravest. Each member of the firm’s tight-knit team is committed to upholding these principles, ensuring a coherence and dedication that is unique to the Company.

Quadravest has raised over \$2.5 billion in initial public offerings.

BOARD OF DIRECTORS

Wayne Finch,
Chairman and
Chief Investment Officer

Laura Johnson,
Managing Director and
Portfolio Manager

Michael W. Sharp
Blake, Cassels & Graydon LLP

Peter Cruickshank,
Managing Director and
Chief Financial Officer

William Thornhill,
President, William C.
Thornhill Consulting Inc.

John Steep
President, S. Factor Consulting Inc.

CORPORATE DETAILS

Auditors

PricewaterhouseCoopers LLP
77 King Street West, P.O. Box 82
Toronto, Ontario M5K 1G8

Transfer Agent

Computershare
100 University Avenue
Toronto, Ontario M5J 2Y1

Legal Counsel

Blake, Cassels & Graydon LLP
Commerce Court West
Toronto, Ontario M5L 1A9

Custodian

RBC Dexia Investor Services Trust
155 Wellington St. West
Toronto, Ontario M5V 3L3



77 King Street West,
P.O. Box 341, Toronto, ON
M5K 1K7

Tel: 416.304.4443

Toll: 877.4QUADRA

or 877.478.2372

Fax: 416.304.4441

info@quadravest.com

www.quadravest.com