CONNOR, CLARK & LUNN

CAPITAL MARKETS

2012

North American Financials Capital Securities Trust

Annual Report

December 31, 2012

North American Financials Capital Securities Trust Message to Unitholders

March 28, 2013

Dear Investor,

We are pleased to provide you with the annual report for the North American Financials Capital Securities Trust (the "Fund") for the year ended December 31, 2012. The Fund commenced operations on October 23, 2009. It is designed to provide investors with exposure to an actively managed portfolio of Innovative Tier 1 Capital Securities. The portfolio consists primarily of the six largest Canadian banks, large Canadian insurance companies and U.S. financial institutions with a minimum issuer rating of "A" by S&P. The portfolio is actively managed by Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager"). The current portfolio composition is approximately 41% Canadian issuers and 59% U.S. issuers.

The Fund's investment objectives are to (i) provide Unitholders with attractive tax-advantaged quarterly cash distributions, and (ii) return to Unitholders the original issue price of the Units upon termination of the Fund on November 30, 2014. Distributions are initially targeted to be $1.50 per annum per Unit consisting primarily of returns of capital, representing a yield on the Unit issue price of 6.0% per annum.

The Fund continues to perform well. The net asset value ("NAV") for Class A units at the end of December was $26.98. Distributions of $4.78 have been paid. This compares favourably with the opening NAV of $23.39 after the deduction of agents' fees and issuance expenses. The return for 2012 was 17.84%. Its benchmark, the DEX Universe Bond index was up 3.60% over the same period. The increase in net asset value is primarily due to a decrease in credit spreads for the Fund's holdings and a drop in the benchmark government bond yields. Credit spreads are the additional amount that a company has to pay over and over the cost for government bonds. The Fund has delivered a compound annual growth rate of 10.92% from opening NAV.

We expect that the moderate pace of economic growth will accelerate somewhat in 2013, driven mostly by an increase in US private demand fuelled by a more robust housing sector and continued progress on the employment front. Eventually, business confidence should turn around from very depressed levels. On the other hand, we expect that the European economy will remain under pressure because of fiscal austerity and restructuring programs. The positive economic momentum in China should bode well for Canada as our reliance on external demand will help counterbalance domestic challenges such as a cooling housing sector and a heavily indebted consumer.

A number of risks remain to our modest growth scenario including government austerity programs that become too draconian; a stalemate in US debt ceiling negotiations leading to another credit downgrade; a policy misstep in Europe; rising food inflation in China and an energy shock due to increased conflict in the Middle East. However, we view these risks are roughly in balance with the positive factors we foresee and, possibly tilted to the upside.

We expect this low rate environment will prevail for the first half of the year albeit yields should have a slight upward bias. Consequently, the Fund's focus on high quality banking and insurance North American issuers should be again rewarded given the extra yield associated with the financial sector and the potential for further spread tightening.

The Federal government's budget on March 21 changed the rules regarding funds that use tax advantaged structures such as that employed by NAF. Our current understanding of the government's intentions is that the Fund will be grandfathered and therefore not impacted by the changes.

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

Yours truly,

W. Neil Murdoch

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

Management Report of Fund Performance

This annual management report of fund performance for North American Financials Capital Securities Trust (the "Fund") contains financial highlights but does not contain the complete annual financial statements of the Fund. **The annual financial statements and accompanying notes are attached to this report.**

You can obtain a copy of the annual financial statements at no cost by writing to the Manager to the following address: Connor, Clark & Lunn Capital Markets Inc. (the "Manager"), 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7, or calling (416) 862-2020 or visiting the Manager's website at www.cclcapitalmarkets.com or by visiting www.sedar.com.

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

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

Investment Objective and Strategies

The Fund is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement between the Manager of the Fund and RBC Dexia Investor Services Trust (the "Trustee") dated September 28, 2009. The Fund's principal office is at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The fiscal year-end of the Fund is December 31. Beneficial interest in the net assets and net income of the Fund is divided into units of two classes, Class A Units and Class F Units. Class A Units are listed on the Toronto Stock Exchange under the symbol NAF.UN. Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis. The principal differences between the Class A Units and the Class F Units are that the agents' fees payable with respect to the original issuance of the units were lower for the Class F Units, and that the service fee and the TSX listing fees are not paid by Class F Units.

The Fund's investment objectives are to:

(i) provide Unitholders with attractive tax-advantaged quarterly cash distributions; and

(ii) return to Unitholders the original issue price of the Units upon termination of the Fund on November 30, 2014.

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

In order to achieve the Fund's investment objectives, the Fund obtained exposure, in a tax-efficient manner, to the performance of a portfolio (the "Portfolio") held by North American Portfolio Trust (the "NAPT" or the "Trust"). Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager"), the Trust's investment manager, actively manages the Portfolio. The Portfolio consisting primarily of Canadian Innovative Tier 1 Capital Securities issued by banks (or entities related to banks) and U.S. Financials Capital Securities. The Investment Manager may also invest up to 15% of the Portfolio (measured at the time of investment) in other bonds with a minimum issuer rating of "A" by S&P.

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

Risk

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

Use of leverage

The Fund is entitled to employ leverage of up to 25% of the levered notional amount or total assets (being the net asset value of the NAPT). The Fund applied leverage in the range from 21.2% to 22.4%. The leverage factor as of December 31, 2012 was 21.2%.

For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated September 28, 2009 and to the Fund's most recent Annual Information Form.

Recent Developments

Future accounting changes

The Canadian Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (C1CA) had originally planned to adopt International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), effective January 1, 2011. Subsequently, the AcSB deferred the adoption of IFRS for investment companies, which include investment funds. Investment companies may continue to apply existing GAAP standards until fiscal years beginning on or after January 1, 2014.

The Manager is reviewing and developing its IFRS changeover plan by performing an impact assessment and identifying differences between existing Canadian GAAP and IFRS. Management has also been monitoring developments in IFRS and has been assessing the likely impacts on accounting policies, implementation decisions, internal controls, information systems and training.

In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. This may result in the elimination of the differences between the transactional NAV and NAV per unit at the financial statements reporting dates.

In October 2012, the IASB issued Investment Entities (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements). The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments allow an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9, Financial Instruments. The amendments also introduce new disclosure requirements for investment entities. Entities are required to apply the amendments for annual periods beginning on or after January 1, 2014.

The Manager has currently not identified any changes that will impact Net Asset Value per Unit as a result of the changeover to IFRS. The impact of IFRS on other accounting policies and implementation decisions will mainly be in the areas of presentations and disclosures in the financial statements of the Portfolios. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

Federal budget announcement

The recently announced federal budget proposed measures with respect to certain financial arrangements, such as the Forward Agreement, that would eliminate certain tax benefits for taxable Unitholders of investment funds that utilize this kind of agreement. The budget announcement states that these changes apply only to forward agreements entered into on or after March 21, 2013 (the "Budget Day").

The Forward Agreement was entered into prior to the Budget Day. Based on the Manager's current understanding of the budget announcement and discussions with the Manager's tax counsel, distributions paid by the Fund are expected to continue to be treated as capital gains and return of capital for tax purposes until the scheduled termination date of the Fund.

The budget announcement has not yet been enacted and there is no assurance that the proposals will not be changed from the proposals announced.

Results of Operations

Caution regarding forward-looking statements

The analysis in the document includes forward looking statements. The use of any of the words anticipate, may, will, expect, estimate, should, believe and similar expressions are intended to identify forward-looking statements. Such statements reflect the opinion of the Investment Manager regarding factors that might be reasonably expected to affect the performance and the distributions on units of the Fund, and are based on information available at the time of writing. The Investment Manager believes that the expectations reflected in these forward-looking statements and in the analysis are reasonable, but no assurance can be given that these expectations or the analysis will prove to be correct and accordingly they should not be unduly relied on. These statements speak only as of the date of this report. Actual events and outcomes may differ materially from those described in these forward-looking statements or analysis.

Portfolio Manager Commentary (as at February 2013)

Results of Operations

The year started with modest expectations of below-trend global growth, extremely accommodative monetary policies and benign inflation. The risks of debt defaults in Europe were elevated and investors were also concerned about a potential hard landing in the Chinese economy and tension flare ups in the Middle East. The issue of the US fiscal cliff was only starting to garner attention.

The first half of the year was marked by a return of the 'flight to safety' mentality due to slowing global growth and evidence that the debt crisis in Europe was spreading. However, monetary authorities provided welcome relief prompting investors' risk appetite to return. Most importantly, a full-blown crisis in Europe was averted due to several programs announced by the European Central Bank. In fact, European policymakers made significant strides towards a blueprint for a banking union and fiscal compact. At the same time, the European Central Bank (ECB) committed unequivocally to defending the euro and lowering interest rates in peripheral EU countries through its OMT program (Open Monetary Transactions).

In the US, the Federal Reserve (Fed) extended its quantitative easing programs and provided additional clarity as it linked its policy to specific economic milestones. It also committed to maintaining its unconventional monetary policies until explicit unemployment (6.5%) and inflation (2.5%) thresholds are reached while other global central banks moved lockstep with the Fed and ECB. In addition, the Chinese government shifted gears in favour of more stimulative measures, thereby averting a hard landing.

The extremely accommodative monetary policies set in place by the major global central banks helped anchor rates at levels much lower than fundamentals would otherwise dictate. Although fears leading to the 'flight to safety' receded, government bond yields finished the year slightly lower. The biggest beneficiary of these accommodative measures remained the credit sector and corporate spreads tightened materially over the year.

Canadian banks posted decent results throughout the year with strong earnings growth despite all the upcoming regulations impacting their results. On January 1, 2013, the 10-year phase-out period to eliminate Canadian bank non-common capital securities such as Tier 1 Capital deb, will begin and undoubtedly enhance their already-high scarcity value. TD bank remains one of the Fund's largest exposures and we expect it will continue to perform very well due to its strong franchise and capital position. In fact, TD posted an 8% Basel III Tier One ratio, which is well above the 7% regulatory requirement. Its US exposure also provides a strong diversifier, which could help offset any potential pressure emanating from a softening Canadian consumer sector.

Canadian insurance companies as a group exceeded their pre-crisis earning levels despite low rates and a very challenging regulatory environment. Despite these factors likely remaining in the forefront over the coming year, the Fund holds companies such as Manulife, which has improved its position by making great strides to reduce risk and strengthen its balance sheet.

On the US front, the additional measures designed to increase capital and control overall risk within the banking business are finally coming to fruition. The Collins amendments to the Dodd-Frank Wall Street reform solidified bond investor interest and fueled some of the spread compression that took place through the year. Some of our largest US exposures continued to improve with JP Morgan's generating an annual net profit of over $21 billion while Goldman Sachs also posted strong growth with revenues of over $34 billion. We expect further improvement in the financial sector, driven by an improving economy strengthened by favorable monetary policies and positive momentum in the housing sector. From a regulatory standpoint, the US Basel III implementation, which was scheduled to take effect on January 1 2013, was delayed with no new effective date as the various financial authorities finalized the details associated with the regulations.

Performance was positive as the Fund outperformed its benchmark by a wide margin due mainly to tightening credit spreads primarily in US banking issues and the Canadian insurance sector.

Recent Development

We expect that the moderate pace of economic growth will accelerate somewhat in 2013, driven mostly by an increase in US private demand fuelled by a more robust housing sector and continued progress on the employment front. Eventually, business confidence should turn around from very depressed levels. On the other hand, we expect that the European economy will remain under pressure because of fiscal austerity and restructuring programs. The positive economic momentum in China should bode well for Canada as our reliance on external demand will help counterbalance domestic challenges such as a cooling housing sector and a heavily indebted consumer.

A number of risks remain to our modest growth scenario including government austerity programs that become too draconian; a stalemate in US debt ceiling negotiations leading to another credit downgrade; a policy misstep in Europe; rising food inflation in China and an energy shock due to increased conflict in the Middle East. However, we view these risks are roughly in balance with the positive factors we foresee and, possibly tilted to the upside.

We expect this low rate environment will prevail for the first half of the year albeit yields should have a slight upward bias. Consequently, the Fund's focus on high quality banking and insurance North American issuers should be again rewarded given the extra yield associated with the financial sector and the potential for further spread tightening.

Capital transactions

The Fund is authorized to issue an unlimited number of Units of each class. On October 23, 2009, the Fund completed an initial public offering pursuant to the prospectus dated September 28, 2009. $50,000,000 was raised through the issue of 2,000,000 Class A Units and $821,500 was raised through the issue of 32,860 Class F Units. The Class A Units were issued at $25 per unit and incurred agents fees and issue expenses of $3,215,301or $1.61 per unit, for an opening Transactional NAV of $23.39 per unit. The Class F Units were issued at $25 per unit and incurred agents fees and issue expenses of $28,182 or $0.86 per unit, for an opening Transactional NAV of $24.14 per unit.

On November 6, 2009, the Agents exercised an over-allotment option in respect of 158,940 Class A Units, raising a further $3,973,500. Agents' fees were $208,609 or $1.31 per unit. During the year ended December 31, 2010 the Fund incurred additional Agents' fees of $11,731 or $0.01 per Class A Unit and Class F Unit respectively.

During the year ended December 31, 2012 there were 67,720 Class A Units redeemed for $1,715,602 and 3,600 Class F Units for $91,222 ($4,223,800 was paid to redeem 162,245 of Class A Units and $27,130 for 1,080 Class F Units during the year ended December 31, 2011). There were no Class F Units converted into Class A Units during the year ended December 31, 2012 (3,200 Class F Units were converted into 3,335 Class A Units for $86,284 during the year ended December 31, 2011).

Net Assets

The net assets per unit is calculated as the value of the prepaid amount to the counterparty under forward agreement plus any other investments held by the Fund, plus the value of any gain or loss on the Forward Agreement, less any net liabilities of the Fund, divided by the number of units outstanding.

On December 31, 2012, the value of the prepaid amount to counterparty under forward agreement was $49,090,039. Since the Fund can at any time terminate the Forward Agreement with the Counterparty in exchange for the value of the NAPT, the value of the Forward Agreement to the Fund is equal to the value of the NAPT less the value of the prepaid amount to counterparty under the forward agreement. On December 31, 2012 the value of the unrealized gain on forward agreement balance was $17,656,003. Other liabilities net of other assets in the Fund totalled $15,063,286 leaving net assets of $51,682,756. This amount is assigned to Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses. On December 31, 2012 the GAAP Net assets per unit was $26.98 per Class A Units and $28.81 per Class F Units.

Leverage

The Fund's exposure to the securities in the Portfolio through the Forward Agreement may be increased to 25% of the levered notional amount or total assets (being the net asset value of the NAPT) (tested daily) for the purposes of adding leverage to the Portfolio and such other short term funding purposes as may be determined by the Investment Manager from time to time and in accordance with the Investment Strategy. The use of leverage has the potential to enhance or reduce returns.

The Fund entered into a letter of agreement (the "Credit Agreement") dated October 23, 2009, between the Manager and the Bank of Montreal (the "Counterparty" or "BMO"), to borrow amounts up to 25% of the net asset value of the NAPT as being part of the Forward Agreement (see note 8). This agreement will be terminated on the earlier of (i) November 21, 2014, and (ii) the date on which this Transaction is pre-settled in full pursuant to the terms of the Credit Agreement.

During the year ended December 31, 2012, the Fund had bank indebtedness balance of $14.1 million or 21.2% to 22.4% of the net asset value of NAPT ($12.4 million to $14.1 million or 17.9% to 23.0% of the net asset value of NAPT during the year ended December 31, 2011). The related interest expense during the same period was $324,916 ($311,021 during the year ended December 31, 2011). At December 31, 2012, the borrowed balance was $14,135,000 ($14,135,000 as at December 31, 2011).

Market repurchases

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

During the year ended December 31, 2012, the Fund did not purchase any Class A Units for cancellation (43,100 Class A Units were purchased for $1,090,861 during the year ended December 31, 2011).

Distributions

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

The Fund has made all its scheduled distributions since its commencement of operations on October 23, 2009. The Fund paid a total of $1.50 per Class A and Class F Units during the year ended December 31, 2012 ($1.50 during the year ended December 31, 2011).

Recommendations or Reports by the Independent Review Committee

The Independent Review Committee of the Board of Advisors tabled no special reports and made no extraordinary material recommendations to management of the Fund during the year ended December 31, 2012.

Related Party Transactions

Management Fees

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

The management fees charged to the Fund and the NAPT on a combined basis during the year ended December 31, 2012 were $252,696 ($253,495 during the year ended December 31, 2011). The Manager is responsible for payment of the investment management fees out of these management fees.

Service Fees

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

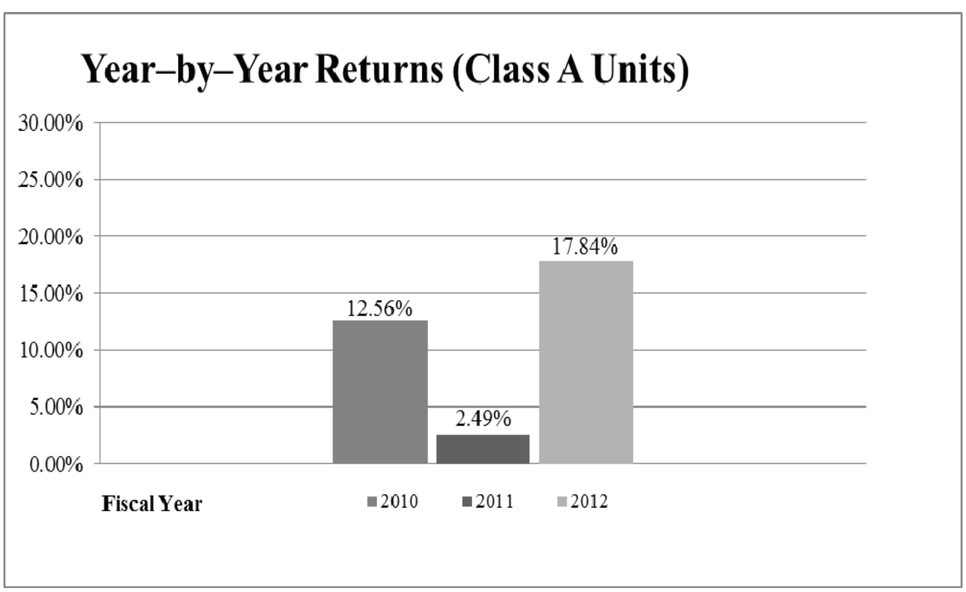
The service fees charged to the Fund during the year ended December 31, 2012 were $201,352 ($199,974 during the year ended December 31, 2011).

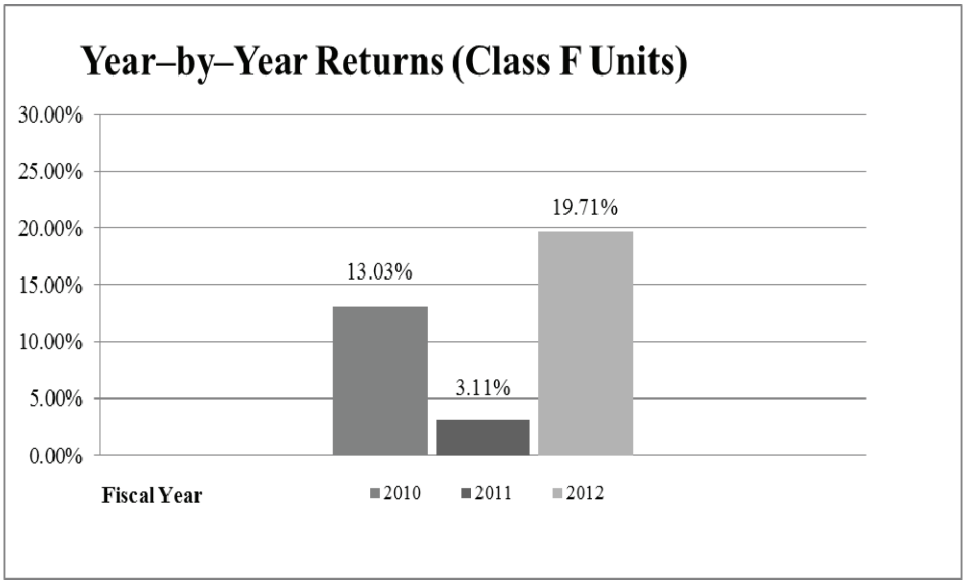
Past Performance

The following bar charts and table show the Fund's annual performance of the Class A Units and the Class F Units by showing annual returns by fiscal year and annualized compound returns from inception assuming all the distributions made by the Fund during the periods shown were reinvested. The performance information does not take into account sales, redemption, distribution or other optional charges that would have reduced returns or performance. Past performance is not necessarily indicative of future performance.

Year-by-Year Returns

The following bar charts show the Fund's annual performance for the years shown. These bar charts show, in percentage terms, how much an investment made on the first day of the period would have grown or decreased by the last day of the period.





Annual Compound Returns

	Past Year	Three Years	Since Inception (1)
Based on NAV (Class A Units)	17.84%	10.77%	10.92%
Based on share price (Class A Units)	19.36%	9.73%	8.14%
Based on NAV (Class F Units)	19.71%	11.73%	11.83%
DEX Universe Bond Index	3.60%	6.64%	6.35%

(1) Results for the period from October 23, 2009 (commencement of operations) to December 31, 2012.

The DEX Universe Bond Index is the broadest and most widely used measure of performance of virtually all of the outstanding marketable bonds in the Canadian market. The Fund outperformed compared to the Index as corporate spreads tighten considerably throughout the year reflecting the low yield environment and the highly accommodative monetary policies set in place by the major central banks around the world. In addition, financial issuers benefited relative to other industries reflecting their solid fundamentals especially US banking sector which outperformed their Canadian counterparts. Finally, Canadian Tier One securities especially in the insurance sector, posted the strongest return followed by sub-debt securities.

Financial Highlights

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

Class A Units:

The Fund's Net Assets per Class A Unit:

	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009 [1]
Net Assets, beginning of year	**24.14**	**24.99**	**23.50**	25.00
Unit issue expense [3]	**–**	**–**	**(0.01)**	**(1.61)**
Increase (decrease) from operations:				
Total revenues	–	–	–	–
Total expenses	(0.54)	(0.49)	(0.45)	(0.09)
Realized gains (losses) for the period	0.61	0.69	0.15	–
Unrealized gains (losses) for the period	4.27	0.55	3.30	0.46
Total increase (decrease) from operations [3]	**4.34**	**0.75**	**3.00**	**(0.37)**
Distributions:				
From income (excluding dividends)	–	–	–	–
From dividends	–	–	–	–
From capital gains	–	–	–	–
Return of capital	(1.50)	(1.50)	(1.50)	(0.28)
Total Distributions [4]	**(1.50)**	**(1.50)**	**(1.50)**	**(0.28)**
Net Assets, end of year [5]	**26.98**	**24.14**	**24.99**	**23.50**

(1) Results for the period from October 23, 2009 (commencement of operations) to December 31, 2009.

(1) Issue expense of $3,423,910 incurred in connection with the Class A Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes. Additional issue expense of $11,549 incurred in connection with the Class A Units issuance during the year ended December 31, 2010.

(2) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on weighted average number of units of 1,911,968 units outstanding as of December 31, 2012 (December 31, 2011 – 2,019,038).

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

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

Ratios and Supplemental Data (Class A Units):

	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009 [1]
Net asset value (000's)	50,963	47,413	54,174	51,099
Number of units outstanding	1,889,210	1,956,930	2,158,940	2,158,940
Base Management expense ratio [2] [3]	1.42%	1.33%	1.36%	1.72%
Issue expenses ratio [2] [3]	0.00%	0.00%	0.02%	6.90%
Interest expense ratio [2] [3]	0.64%	0.60%	0.48%	0.37%
Management expense ratio (annualized) [3]	2.06%	1.93%	1.86%	8.99%
Management expense ratio before waivers or absorptions (annualized) [3]	2.06%	1.93%	1.86%	8.99%
Portfolio turnover rate [4]	0.00%	0.00%	0.00%	0.00%
Trading expense ratio [5]	0.00%	0.00%	0.00%	0.00%
Net asset value per unit	26.98	24.23	25.09	23.67
Closing market price (TSX)	26.50	23.53	25.00	24.00

(1) Results for the period from October 23, 2009 (commencement of operations) to December 31, 2009.

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

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

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

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

(6) The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio, whereas the net assets per unit (GAAP Net Assets) is based on the closing bid prices of the underlying portfolio; hence the difference between the two amounts.

Class F Units:

The Fund's Net Assets per Class F Unit:

	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009 [1]
Net Assets, beginning of year	**25.30**	**25.97**	**24.26**	25.00
Unit issue expense [2]	**–**	**–**	**(0.01)**	**(0.86)**
Increase (decrease) from operations:				
Total revenues	–	–	–	–
Total expenses	(0.45)	(0.51)	(0.47)	(0.09)
Realized gains (losses) for the period	0.64	0.73	0.15	–
Unrealized gains (losses) for the period	4.53	0.70	3.53	0.49
Total increase (decrease) from operations [3]	**4.72**	**0.92**	**3.21**	**(0.40)**
Distributions:				
From income (excluding dividends)	–	–	–	–
From dividends	–	–	–	–
From capital gains	–	–	–	–
Return of capital	(1.50)	(1.50)	(1.50)	(0.28)
Total Distributions [4]	**(1.50)**	**(1.50)**	**(1.50)**	**(0.28)**
Net Assets, end of year [5]	**28.81**	**25.30**	**25.97**	**24.26**

(1) Results for the period from October 23, 2009 (commencement of operations) to December 31, 2009.

(2) Issue expense of $28,182 incurred in connection with the Class F Units issuance. The full amount of issue expenses was deducted from the unit capital for accounting purposes and is amortized over a period of five years for tax purposes. Additional issue expense of $182 incurred in connection with the Class F Units issuance during the year ended December 31, 2010.

(3) Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on weighted average number of units of 27,098 units outstanding as of December 31, 2012 (December 31, 2011 – 30,690).

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

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

Ratios and Supplemental Data (Class F Units):

	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009 [1]
Net asset value (000's)	720	726	857	803
Number of units outstanding	24,980	28,580	32,860	32,860
Base Management expense ratio [3] [4]	0.99%	0.92%	0.94%	1.25%
Issue expenses ratio [3] [4]	0.00%	0.00%	0.02%	3.56%
Interest expense ratio [3] [4]	0.64%	0.60%	0.48%	0.37%
Management expense ratio (annualized) [4]	1.63%	1.52%	1.44%	5.18%
Management expense ratio before waivers or absorptions (annualized) [4]	1.63%	1.52%	1.44%	5.18%
Portfolio turnover rate [5]	0.00%	0.00%	0.00%	0.00%
Trading expense ratio [6]	0.00%	0.00%	0.00%	0.00%
Net asset value per unit	28.81	25.40	26.08	24.44

(1) Results for the period from October 23, 2009 (commencement of operations) to December 31, 2009.

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

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

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

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

(6) The net asset value (Transactional NAV) per unit is based on the last traded price for the day of the underlying portfolio, whereas the net assets per unit (GAAP Net Assets) is based on the closing bid prices of the underlying portfolio; hence the difference between the two amounts.

Summary of Investment Portfolio as of December 31, 2012

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

Investment portfolio of the Fund

	Fair value $	% of NAV
Portfolio by Category		
Equity Derivatives	66,746,042	129.1%
Cash	30,897	0.0%
Information Technology	7,263	0.0%
Top 25 Holdings		
Equity Derivatives	66,746,042	129.1%
Cash	30,897	0.0%
Celestica Inc.	7,263	0.0%
Net asset value	**51,682,756**	

Investment portfolio of the North American Portfolio Trust

	Coupon Rate %	Maturity date	Fair value $	% of NAV
Portfolio by Category				
Foreign Corporate Bonds (US$)			30,332,602	45.3%
Domestic Corporate Bonds			27,189,811	41.1%
Foreign Preferred Stock (US$) / Financials			6,944,998	11.4%
Cash and Short term investments			2,395,044	3.6%
Foreign currency forward contracts			(328,457)	-0.5%
Top 25 Holdings				
Manulife Financial Capital Trust II	7.41%	12/31/2019	7,418,389	11.1%
Wachovia Capital Trust III (U.S. Dollar)	5.57%	3/15/2049	6,961,178	10.4%
Citigroup Capital XIII			6,944,998	10.4%
TD Capital Trust III	7.24%	12/31/2018	6,480,877	9.7%
JP Morgan Chase (U.S. Dollar)	7.90%	4/30/2018	5,660,970	8.5%
Morgan Stanley	4.90%	2/23/2017	5,366,329	8.0%
NBC Asset Trust	7.24%	6/30/2018	5,170,552	7.7%
CIBC Capital Trust	9.98%	6/30/2019	4,004,761	6.0%
GE Capital Trust I (U.S. Dollar)	6.38%	6/15/2022	3,915,099	5.9%
Goldman Sachs Capital II	5.00%	5/03/2018	3,205,154	4.8%
Great West Life Co. (U.S. Dollar)	7.15%	5/16/2016	3,114,047	4.7%
NBC Asset Trust	7.45%	6/30/2020	2,723,648	4.1%
RBC Capital Trust V	6.82%	6/30/2018	1,391,584	2.1%
Merrill Lynch & Co., Inc.	5.29%	5/30/2017	1,330,860	2.0%
Goldman Sachs Capital II (U.S. Dollar)	4.00%	6/1/2043	778,965	1.2%
Cash and Short term investments			51,265	0.1%
Foreign currency forward contracts			(328,457)	-0.5%
Net asset value			**66,746,042**	

Management's Responsibility for Financial Reporting

The accompanying financial statements of **North American Financials Capital Securities Trust** (the "Fund") and all the information have been prepared by Connor, Clark & Lunn Capital Markets Inc. in its capacity as Manager of the Fund and have been approved by the Board of Directors of the Manager. The Fund's Manager is responsible for all the information and representations contained in these financial statements and other sections of the Annual Report.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgements made by the Manager. The Manager has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP, appointed by the unitholders. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is set out here in.

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

Darren Cabral
Vice President and Chief Financial Officer
Connor, Clark & Lunn Capital Markets Inc.

Toronto, Canada
March 28, 2013

pwc

March 28, 2013

Independent Auditor's Report

To the Unitholders of
North American Financials Capital Securities Trust (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investments as at December 31, 2012, the statements of net assets as at December 31, 2012 and 2011, and the statements of operations, changes in net assets and surplus and cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2012 and 2011 and the results of its operations, the changes in its net assets and surplus and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

North American Financials Capital Securities Trust

Statements of Net Assets

As at December 31, 2012 and 2011

	2012	2011
	$	$
Assets		
Cash	30,897	41,656
Investments at fair value (cost - $10,035; 2011 - $10,035)	7,263	6,741
Prepaid Forward Agreement (note 8)	66,746,042	63,024,269
Prepaid expenses and other receivables	13,822	21,840
	66,798,024	63,094,506
Liabilities		
Bank indebtedness (note 5)	14,135,000	14,135,000
Interest payable	81,915	80,296
Distributions payable	717,821	744,566
Accounts payable and accrued liabilities	170,181	158,138
Management fees payable	10,351	10,200
	15,115,268	15,128,200
Net assets and unitholders' equity	51,682,756	47,966,306
Net Assets		
Class A Units	50,962,999	47,243,116
Class F Units	719,757	723,190
	51,682,756	47,966,306
Units issued and outstanding (note 6)		
Class A Units	1,889,210	1,956,930
Class F Units	24,980	28,580
Net assets per unit		
Class A Units	26.98	24.14
Class F Units	28.81	25.30
Unitholders' equity (note 6)		
Unit Capital	35,584,609	39,918,237
Retained earnings	16,098,147	8,048,069
Total Unitholders' equity	51,682,756	47,966,306

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

W. Neil Murdoch

Director

Director

(See accompanying notes to financial statements)

North American Financials Capital Securities Trust

Statements of Operations

For the years ended December 31, 2012 and 2011

	2012	2011
	$	$
Income		
Interest income	205	142
Expenses		
Interest expense (note 5)	324,916	311,021
Forward fees (note 8)	228,290	230,633
Service fees (note 10)	201,352	199,974
Management fees (note 10)	126,675	126,651
Harmonized sales tax	29,683	13,306
Custodial and other unitholder fees	23,340	24,297
Administration fees	26,842	20,493
TSX Sustaining fees	12,503	14,239
Transfer agent fees	14,156	14,189
Audit fees	20,561	13,986
Filing fees	12,415	12,864
Other	8,246	9,950
Printing and mailing fees	4,478	1,686
Legal fees	3,355	5,289
IRC fees	3,133	3,589
	1,039,945	1,002,167
Investment loss	(1,039,740)	(1,002,025)
Realized and unrealized gain (loss) on investments		
Net realized gain on forward agreement (note 3 and 8)	1,179,863	1,424,845
Change in unrealized gain (loss) on investments	522	(1,944)
Change in unrealized gain on forward agreement (note 8)	8,282,011	1,118,311
	9,462,396	2,541,212
Increase in net assets from operations	8,422,656	1,539,187
Increase (decrease) in net assets from operations		
Class A Units	8,294,695	1,510,833
Class F Units	127,961	28,354
Increase (decrease) in net assets from operations per unit *		
Class A Units	4.34	0.75
Class F Units	4.72	0.92

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

(See accompanying notes to financial statements)

North American Financials Capital Securities Trust

Statements of Changes in Net Assets and Surplus

For the years ended December 31, 2012 and 2011

	Class A		Class F		Total	
	2012	2011	2012	2011	2012	2011
	$	$	$	$	$	$
Increase in net assets from operations	8,294,695	1,510,833	127,961	28,354	8,422,656	1,539,187
Distributions to unitholders from: (note 9)						
Return of capital	(2,859,210)	(2,994,671)	(40,172)	(45,180)	(2,899,382)	(3,039,851)
Unitholders' transactions: (note 6)						
Class F Units converted to Class A Units	-	86,284	-	(86,284)	-	-
Payments on redemption/cancellation of units (notes 4 & 5)	(1,715,602)	(5,314,661)	(91,222)	(27,130)	(1,806,824)	(5,341,791)
	(1,715,602)	(5,228,377)	(91,222)	(113,414)	(1,806,824)	(5,341,791)
Change in net assets during the year	3,719,883	(6,712,215)	(3,433)	(130,240)	3,716,450	(6,842,455)
Net assets - beginning of year	47,243,116	53,955,331	723,190	853,430	47,966,306	54,808,761
Net assets - end of year	50,962,999	47,243,116	719,757	723,190	51,682,756	47,966,306
Retained earnings, beginning of year	7,900,889	7,262,902	147,180	118,826	8,048,069	7,381,728
Increase in net assets from operations	8,294,695	1,510,833	127,961	28,354	8,422,656	1,539,187
Cost of shares redeemed/ repurchased in excess of average price per unit	(353,912)	(872,846)	(18,666)	-	(372,578)	(872,846)
Retained earnings, end of year	15,841,672	7,900,889	256,475	147,180	16,098,147	8,048,069

(See accompanying notes to financial statements)

North American Financials Capital Securities Trust

Statement of Investments

As at December 31, 2012

	Coupon Rate %	Maturity date	Number of shares / Par value	Average cost $	Fair value $	% of net assets
Investments						
Canadian common stocks						
Information Technology						
Celestica Inc.			900	10,035	7,263	0.0%
Total Canadian common stocks				10,035	7,263	0.0%
Forward agreement:						
Investments held in North American Portfolio Trust under the Forward Agreement with Bank of Montreal (note 8)(*)						
Short-term investments						
Bankers Acceptance						
Bank of Nova Scotia	2.11%	02/19/2013	450,000	448,709	448,709	0.9%
Bank of Nova Scotia	1.31%	03/18/2013	250,000	249,292	249,292	0.5%
Bank of Nova Scotia	2.81%	02/04/2013	300,000	299,207	299,207	0.6%
Bank of Nova Scotia	1.20%	03/25/2013	100,000	99,717	99,717	0.2%
Bank of Nova Scotia	3.62%	01/28/2013	400,000	398,877	398,877	0.8%
Bank of Nova Scotia	1.10%	03/18/2013	850,000	847,977	847,977	1.6%
				2,343,779	2,343,779	4.6%
Investments						
Fixed Income						
Domestic Corporate Bonds						
NBC Asset Trust	7.24%	06/30/2018	4,300,000	4,925,848	5,170,552	10.0%
RBC Capital Trust V	6.82%	06/30/2018	1,155,000	1,347,953	1,391,584	2.7%
TD Capital Trust III	7.24%	12/31/2018	5,205,000	6,116,043	6,480,877	12.5%
CIBC Capital Trust	9.98%	06/30/2019	3,000,000	3,894,210	4,004,761	7.7%
Manulife Financial Capital Trust II	7.41%	12/31/2019	6,326,000	7,066,035	7,418,389	14.4%
NBC Asset Trust	7.45%	06/30/2020	2,168,000	2,579,506	2,723,648	5.3%
				25,929,595	27,189,811	52.6%
Foreign Corporate Bonds						
Goldman Sachs Capital II	5.00%	05/03/2018	3,000,000	2,784,900	3,205,154	6.2%
Morgan Stanley	4.90%	02/23/2017	5,100,000	4,805,333	5,366,329	10.4%
Merrill Lynch & Co., Inc.	5.29%	05/30/2017	1,305,000	1,224,795	1,330,860	2.6%
Goldman Sachs Capital II (U.S. Dollars)	4.00%	06/01/2043	1,000,000	805,522	778,965	1.5%
Great West Life Co. (U.S. Dollars)	7.15%	05/16/2016	3,000,000	2,797,535	3,114,047	6.0%
GE Capital Trust I (U.S. Dollars)	6.38%	06/15/2022	3,465,000	3,706,818	3,915,099	7.6%
JP Morgan Chase (U.S. Dollars)	7.90%	04/30/2018	5,000,000	5,436,052	5,660,970	11.0%
Wachovia Capital Trust III (U.S. Dollars)	5.57%	03/15/2049	7,000,000	5,470,471	6,961,178	13.5%
				27,031,426	30,332,602	58.8%
Total Fixed Income				52,961,021	57,522,413	111.4%
Foreign Preferred Stock (U.S. Dollars)						
Financials						
Citigroup Capital XIII			250,000	6,534,287	6,944,998	13.4%
Total Foreign Preferred Stock				6,534,287	6,944,998	13.4%
Total investments				59,495,308	64,467,411	124.8%

North American Financials Capital Securities Trust

Statement of Investments …. Continued

As at December 31, 2012

	Maturity date	Contract price / rate $	Unrealized gain (loss) $	% of Net Assets
Foreign currency forward contracts				
Bought CAD 27,018,052, sold USD 27,419,000	03/20/2013	0.9854	(328,249)	-0.6%
Sold CAD 113,555, bought USD 114,000	03/20/2013	0.9961	145	0.0%
Bought CAD 148,255, sold USD 149,000	03/20/2013	0.9950	(353)	0.0%
			(328,457)	-0.6%
Other liabilities net of other assets of North American Portfolio Trust			263,309	0.5%
Transactional net asset value of North American Portfolio Trust			66,746,042	129.3%
Prepaid forward agreement			66,746,042	129.3%
Other liabilities net of other assets of the Fund			(15,070,549)	-29.3%
Net asset value of the Fund			51,682,756	100.0%

[*] North American Financials Capital Securities Trust (the "Fund") obtained exposure to the performance of the portfolio held by North American Portfolio Trust ("NAPT") through the Forward Agreement (see note 8), thus, the portfolio of NAPT is presented as part of this statement.

(See accompanying notes to financial statements)

1 Corporate activities

North American Financials Capital Securities Trust (the "Fund") is an investment fund established under the laws of the Province of Ontario and governed by the Trust Agreement between Connor, Clark & Lunn Capital Markets Inc. (the "Manager") the Manager of the Fund and RBC Dexia Investor Services Trust (the "Trustee") dated September 28, 2009. The Fund's principal office is at 181 University Avenue, Suite 300, Toronto, Ontario M5H 3M7. The fiscal year-end of the Fund is December 31. The Fund is divided into units of two classes, Class A Units and Class F Units. Class A Units are listed on the Toronto Stock Exchange under the symbol NAF.UN. Class F Units are not listed on a stock exchange but may be converted into Class A Units on a weekly basis.

2 Investment objectives

The Fund's investment objectives as set out in the Prospectus dated September 28, 2009 are to:

(i) provide Unitholders with attractive tax-advantaged quarterly cash distributions; and

(ii) return to Unitholders the original issue price of the Units upon termination of the Fund on November 30, 2014.

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

In order to achieve the Fund's investment objectives, the Fund obtained exposure, in a tax-efficient manner, to the performance of a portfolio (the "Portfolio") held by North American Portfolio Trust (the "NAPT" or the "Trust"). Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager"), the Trust's investment manager, actively manages the Portfolio. The Portfolio consisting primarily of Canadian Innovative Tier 1 Capital Securities issued by banks (or entities related to banks) and U.S. Financials Capital Securities. The Investment Manager may also invest up to 15% of the Portfolio (measured at the time of investment) in other bonds with a minimum issuer rating of "A" by S&P.

3 Summary of significant accounting policies

Basis of presentation

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

Valuation of investments

Investments are deemed to be categorized as "held for trading" in accordance with CICA 3855, Financial Instruments – Recognition and Measurement ("Section 3855") and therefore are recorded at fair value, established by the closing bid price for a security held long on the recognized exchange on which it is principally traded ("GAAP Net Assets"). Should the quoted value for a security, in the opinion of the Manager, be inaccurate, unreliable or not readily available, the fair value of the security is estimated based on valuation techniques. Fair value is determined by the Manager on the basis of the most recently reported information for the security, similar securities and the markets in which the security is active. Investment purchase and sale transactions are recorded as of the trade date and realized and unrealized gains and losses on investments are determined using average cost. Brokers' commissions and other transaction charges are immediately charged to net income in the period incurred. The Fund calculates its daily Net Asset Value for the purchase and redemption of units in accordance with part 14.2 of National Instrument 81-106 ("Transactional NAV" or "NAV") based on the fair value of the investment fund's assets and liabilities (being the last traded price for the day).

The reconciliation between the Transactional NAV and the GAAP Net Assets as a result of the adoption of Section 3855 is as follows:

	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets
Per Class A Unit			
December 31, 2012	26.98	–	26.98
December 31, 2011	24.23	(0.09)	24.14
Per Class F Unit			
December 31, 2012	28.81	–	28.81
December 31, 2011	25.40	(0.10)	25.30

Cash and short term investments

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

Income recognition

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

Foreign currency translation

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

Realized foreign currency gains and losses on monetary assets and liabilities other than investment denominated in foreign currencies are included in the Statement of Operations in “Net realized gain (loss) on foreign exchange”. Unrealized on foreign currency gains and losses on monetary assets and liabilities other than investment denominated in foreign currencies are included in the Statement of Operations in “Change in unrealized gain (loss) on foreign exchange”.

Expense recognition

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

Increase (decrease) in net assets from operation per unit

This calculation is based on the increase (decrease) in net assets from operations attributable to each class divided by the weighted average number of units of that class outstanding during the period.

Initial fees and expenses

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

Valuation of a class

A separate net assets per unit is calculated for each class. The net assets of a class are computed by calculating the class’ proportionate share of the assets and liabilities to all classes, less the liabilities attributable only to that class. Expenses directly attributable to a class are charged to that class. Other expenses, income, realized and unrealized gains and losses are allocated proportionately to each class based upon the relative net assets of each class.

Designation of financial assets and liabilities

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

Related party transactions

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

Future accounting changes

The Canadian Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (C1CA) had originally planned to adopt International Financial Reporting Standards (IFRS), as published by the International Accounting Standards Board (IASB), effective January 1, 2011. Subsequently, the AcSB deferred the adoption of IFRS for investment companies, which include investment funds. Investment companies may continue to apply existing GAAP standards until fiscal years beginning on or after January 1, 2014.

The Manager is reviewing and developing its IFRS changeover plan by performing an impact assessment and identifying differences between existing Canadian GAAP and IFRS. Management has also been monitoring developments in IFRS and has been assessing the likely impacts on accounting policies, implementation decisions, internal controls, information systems and training.

In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. If an asset or a liability measured at fair value has a bid price and an ask price, it requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. The standard allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical means for fair value measurements within a bid-ask spread. This may result in the elimination of the differences between the Net Asset Value per unit at the financial statements reporting dates.

In October 2012, the IASB issued Investment Entities (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements). The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments allow an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9, Financial Instruments. The amendments also introduce new disclosure requirements for investment entities. Entities are required to apply the amendments for annual periods beginning on or after January 1, 2014.

The Manager has currently not identified any changes that will impact Net Asset Value per Unit as a result of the changeover to IFRS. The impact of IFRS on other accounting policies and implementation decisions will mainly be in the areas of presentations and disclosures in the financial statements of the Portfolios. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

4 Custodian

Pursuant to the Trust Agreement RBC Dexia Investor Services Trust (the “Custodian”) (whose credit rating is AA- by S&P as of December 31, 2012 and 2011) acts as custodian of the assets of the Fund. The Custodian is also responsible for certain aspects of the Fund’s day-to-day operations, including calculating the Net Asset Value

(“NAV”), net income and net realized capital gains of the Fund and maintaining the books and records of the Fund. In consideration for these services, the Fund pays a fee to the Custodian.

5 Bank indebtedness

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

The Fund entered into a letter of agreement (the "Credit Agreement") dated October 23, 2009, between the Manager and the Bank of Montreal (the "Counterparty" or "BMO"), whose Standard & Poor ("S&P") credit rating was A+ as at December 31, 2012 and 2011, to borrow amounts up to 25% of the NAV of the NAPT as being part of the Forward Agreement (see note 8). This agreement will be terminated on the earlier of (i) November 21, 2014, and (ii) the date on which this Transaction is pre-settled in full pursuant to the terms of the Credit Agreement.

During the year ended December 31, 2012, the Fund had bank indebtedness balance of $14,135,000 million or 21.2% to 22.4% of the net asset value of NAPT ($12,400,000 million to $14,135,000 million or 17.9% to 23.0% of the net asset value of NAPT during the year ended December 31, 2011). The related interest expense during the same period was $324,916 ($311,021 during the year ended December 31, 2011). At December 31, 2012, the borrowed balance was $14,135,000 ($14,135,000 as at December 31, 2011).

6 Unitholders' equity

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

A holder of Class F Units may convert Class F Units into Class A Units on a weekly basis.

On October 23, 2009, the Fund completed an initial public offering pursuant to the prospectus dated September 28, 2009. $50,000,000 was raised through the issue of 2,000,000 Class A Units and $821,500 was raised through the issue of 32,860 Class F Units. The Class A Units were issued at $25 per unit and incurred agents fees and issue expenses of $3,215,301or $1.61 per unit, for an opening Transactional NAV of $23.39 per unit. The Class F Units were issued at $25 per unit and incurred agents fees and issue expenses of $28,182 or $0.86 per unit, for an opening Transactional NAV of $24.14 per unit.

On November 6, 2009, the Agents exercised an over-allotment option in respect of 158,940 Class A Units, raising a further $3,973,500. Agents' fees were $208,609 or $1.31 per unit.

During the year ended December 31, 2012 there were 67,720 Class A Units redeemed for $1,715,602 and 3,600 Class F Units for $91,222 ($4,223,800 was paid to redeem 162,245 of Class A Units and $27,130 for 1,080 Class F Units during the year ended December 31, 2011). There were no Class F Units converted into Class A Units during the year ended December 31, 2012 (3,200 Class F Units were converted into 3,335 Class A Units for $86,284 during the year ended December 31, 2011).

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

In addition to the annual redemption right, Class A Units and Class F Units may also be redeemed on a Monthly Redemption Date, subject to certain conditions and, in order to effect such a redemption, the Units must be surrendered by no later than 5:00 p.m. (Toronto time) on the date which is the last Business Day of the month preceding the Monthly Redemption Date. Payment of the redemption price will be made on or before the Redemption Payment Date, subject to the Manager's right to suspend redemptions in certain circumstances. Concurrently with the payment of the proceeds of redemption, the Fund may pay to the redeeming Unitholder a cash distribution in the amount of the net realized capital gains of the Fund incurred by it to fund the payment of the redemption price. Unitholders surrendering a Class A Unit for redemption will receive a redemption price equal to the lesser of (i) 95% of the Market Price of a Class A Unit, and (ii) 100% of the Closing Market Price of a Class A Unit on the applicable Monthly Redemption Date less, in each case, any costs associated with the redemption, including brokerage costs, being the Monthly Redemption Amount. Unitholders surrendering a Class F Unit for redemption will receive an amount equal to the product of (i) the Monthly Redemption Amount and (ii) a fraction, the numerator of which is the most recently calculated Net Asset Value per Class F Unit and the denominator of which is the most recently calculated Net Asset Value per Class A Unit.

Changes in outstanding units during the years ended December 31, 2012 and 2011 are summarized as follows:

	Class A Units		Class F Units	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Balance – beginning of year	1,956,930	2,158,940	28,580	32,860
Units redeemed	(67,720)	(162,245)	(3,600)	(1,080)
Class F Units converted to Class A Units	–	3,335	–	(3,200)
Units cancelled (note 7)	–	(43,100)	–	–
Balance – end of year	1,889,210	1,956,930	24,980	28,580

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

7 Market Purchase Program

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

During the year ended December 31, 2012, the Fund did not purchase any Class A Units for cancellation (43,100 Class A Units were purchased for $1,090,861 during the year ended December 31, 2011).

8 Forward Agreement

The Fund does not invest directly in the NAPT, the Fund used the net proceeds of the initial public offering of its Class A and Class F Units to pre-pay its purchase obligations under a forward purchase and sale agreement (the "Forward Agreement") with The Bank of Montreal (the "Counterparty" or "BMO") whose S&P credit rating was A+ as of December 31, 2012 and 2011. Under the Forward Agreement, the Fund will receive, on or before November 21, 2014, a specified portfolio consisting of securities of Canadian public issuers that are "Canadian securities" for the purposes of the Tax Act ("Canadian Securities") in an amount equal to the value of the NAPT. Partial settlements under the Forward Agreement are intended to ensure that Unitholders have economic exposure to the distributions effected by NAPT. A fee of 0.35% per annum, calculated with reference to the net asset value of the NAPT, is payable to BMO under the Forward Agreement.

On December 31, 2012, the value of the prepaid amount to counterparty under forward agreement was $49,090,039 (2011 - $53,650,545). The value of the unrealized gain on forward agreement balance was $17,656,003 (2011 - $9,373,724). Other liabilities net of other assets in the Fund totalled $15,063,286 ($2011 - $15,057,963) leaving net assets of $51,682,756 (2011 - $47,966,306). This amount is assigned to Class A and Class F Unitholders using an allocation percentage that takes into consideration any class level specific expenses.

9 Distributions

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

The Fund has made all its scheduled distributions since its commencement of operations on October 23, 2009. The Fund paid a total of $1.50 per Class A and Class F Units during the year ended December 31, 2012 ($1.50 during the year ended December 31, 2011).

10 Management Fees and related party transactions

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

The management fees charged to the Fund and the NAPT on a combined basis during the year ended December 31, 2012 were $252,696 ($253,495 during the year ended December 31, 2011). The Manager is responsible for payment of the investment management fees out of these management fees.

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

The service fees charged to the Fund during the year ended December 31, 2012 were $201,352 ($199,974 during the year ended December 31, 2011).

11 Income taxes

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

The Fund did not have any net taxable capital losses carry forward balances as at December 31, 2012 and 2011 and had non-capital losses of $3,564,570 (2011 – $2,750,457), which will expire within the next twenty years as shown in the following table:

Year of the realized non–capital tax loss	Amount of tax loss	Expiry date
2009	309,908	2029
2010	1,480,918	2030
2011	959,631	2031
2012	814,113	2032
Total	**3,564,570**	

12 Broker commission charges and soft dollar services

There were $nil of broker commissions paid during the year ended December 31, 2012 ($nil during the year ended December 31, 2011) in connection with portfolio transactions. No contractual arrangements for soft dollar services exist in the broker commission charges.

13 Financial instruments

	December 31, 2012	December 31, 2011
Assets	**$**	**$**
Cash	30,897	41,656
Held for trading	66,753,305	63,031,010
Loans and receivables	13,822	21,840
Total assets	**66,798,024**	**63,094,506**
Liabilities		
Held for trading	–	–
Financial liabilities at amortized cost	15,115,268	15,128,200
Total liabilities	**15,115,268**	**15,128,200**

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

The Fund obtained exposure to the performance of the portfolio held by NAPT through the Forward Agreement (see note 8), and therefore the following table illustrates the classification of the Fund's and the NAPT's financial instruments within the fair value hierarchy as at December 31, 2012 and 2011:

Assets at fair value as at December 31, 2012	Level 1	Level 2	Level 3	Total
Equities	6,952,261	–		6,952,261
Bonds	–	57,522,413	–	57,522,413
Short-term investments	–	2,343,779	–	2,343,779
Foreign currency forward contracts	–	145	–	145
Total	**6,952,261**	**59,866,337**	**–**	**66,818,598**

Liabilities at fair value as at December 31, 2012	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	328,602	–	328,602
Total	–	**328,602**	–	**328,602**

Assets at fair value as at December 31, 2011	Level 1	Level 2	Level 3	Total
Equities	7,027,468	–		7,027,468
Bonds	–	55,150,632	–	55,150,632
Foreign currency forward contracts	–	451,141	–	451,141
Total	**7,027,468**	**55,601,773**	**–**	**62,628,787**

Liabilities at fair value as at December 31, 2011	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	454	–	454
Total	**–**	**454**	**–**	**454**

Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

Equities: The Fund's long equity positions are classified as Level 1 as the security held is actively traded and a reliable quote is observable.

Bonds and short-term investments: Bonds and Short-term investments are classified as Level 2 as they are valued using observable inputs, including interest rate curves, credit spreads and volatilities.

Foreign currency forward contracts: Foreign currency forward contracts for which inputs, including interest rates, forward market rates and credit spreads are observable and reliable, or for which unobservable inputs are determined not to be significant to fair value, are classified as Level 2.

There were no transfers among the three levels during the periods ended December 31, 2012 and 2011.

14 Financial instrument risk

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

Interest rate risk

Interest rate risk arises on interest-bearing financial instruments held in the investment portfolio such as bonds and short term notes. The Fund is exposed to the risk that the value of interest-sensitive financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. The table below summarizes the exposure of the Fund and NAPT interest rate risks. It includes the assets and liabilities of the Fund and NAPT at fair value.

December 31, 2012:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Total
Investments	–	–	9,811,236	47,711,177	**57,522,413**
Short-term investments	2,343,779	–	–	–	**2,343,779**
Net assets					**59,866,192**

December 31, 2011:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Total
Investments	–	–	2,978,372	52,172,260	**55,150,632**
Net assets					**55,150,632**

As at December 31, 2012, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant, net assets would have decreased or increased, respectively, by approximately $3,450,000 or $3,901,000 (2011 - $3,291,000 or $3,666,000). In practise, actual results may differ from this sensitivity analysis and the difference could be material.

Currency risk

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

The table below summarizes the Fund's combined exposure to foreign currencies held by the fund and NAPT. Amounts shown are based on the carrying values of monetary and non-monetary assets as well as the underlying principal amounts of foreign currency derivatives such as forward contracts. Other financial assets and liabilities such denominated in foreign currencies do not expose the Fund to significant currency risk. The table below summarizes the NAPT's significant exposure to foreign currencies and the approximate impact on net assets had the Canadian Dollar ("CAD") weakened by 5% in relation to these currencies. If the Canadian dollar were to strengthen relative to these currencies, the opposite would occur. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

December 31, 2012:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
U.S. Dollar	20,430,251	6,944,998	(27,335,909)	39,340	0.1%	2,000

December 31, 2011:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
U.S. Dollar	18,544,325	7,020,727	(25,795,251)	(230,199)	(0.5%)	(12,000)

Credit risk

The Fund is exposed to the risk that a security issuer or counterparty will be unable to pay amounts in full when due. The fair value of debt securities includes consideration of the credit worthiness of the debt issuer. The carrying amount of debt investments and unrealized gain on derivative instruments outstanding with counterparties represents the maximum credit risk exposure as at December 31, 2012 and 2011.

The tables below summarize the Fund's exposure to credit risk through its investment in NAPT as of December 31, 2012 and 2011. Amounts shown are based on the carrying value of debt investments and the unrealized gain on derivative instruments outstanding with counterparties.

Rating (1)	December 31, 2012 (% of Net Assets)
AAA	-0.6%
A	14.4%
A-	37.8%
AA-	7.6%
BBB+	16.1%
BBB	34.0%
BB+	1.5%
BB	13.4%
A-1	4.6%
Total	128.8%

Rating (1)	December 31, 2011 (% of Net Assets)
AAA	0.9%
A+	7.4%
A	14.3%
A-	43.1%
BBB+	37.5%
BBB	11.3%
BB+	1.3%
BB	14.6%
Total	130.4%

As at December 31, 2012 and 2011, no debt securities were contractually past due and no longer meeting interest payment obligations.

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

Liquidity risk

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

Market price risk

Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Investment Manager moderates this risk through a careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk resulting from financial instruments is equivalent to their fair value. The Fund's equity instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

If equity prices had increased or decreased by 10% on December 31, 2012, all other variables held constant, the net assets of the Fund would have increased or decreased, respectively, by approximately $700 (December 31, 2011 - $700). In practise, actual results may differ from this sensitivity analysis and the difference could be material.

15 Subsequent event

The recently announced federal budget proposed measures with respect to certain financial arrangements, such as the Forward Agreement, that would eliminate certain tax benefits for taxable Unitholders of investment funds that utilize this kind of agreement. The budget announcement states that these changes apply only to forward agreements entered into on or after March 21, 2013 (the "Budget Day").

The Forward Agreement was entered into prior to the Budget Day. Based on the Manager's current understanding of the budget announcement and discussions with the Manager's tax counsel, distributions paid by the Fund are expected to continue to be treated as capital gains and return of capital for tax purposes until the scheduled termination date of the Fund.

The budget announcement has not yet been enacted and there is no assurance that the proposals will not be changed from the proposals announced.