North American Portfolio Trust

Annual Report

December 31, 2012

Management Report of Fund Performance

This annual management report of fund performance for North American Portfolio 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 Connor, Clark & Lunn Capital Markets Inc. (the "Manager") to the following address: Connor, Clark & Lunn Capital Markets Inc., Suite 300, 181 University Avenue, 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 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. The Fund is divided into units of one class.

The Fund's investment objectives are to:

(i) provide Unitholder with attractive cash distributions; and

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

In order to achieve the Fund's investment objectives, Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager"), the Fund's investment manager, actively manages its 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.

Risk

There were no changes in the risk exposure of the Fund during the year ended December 31, 2012.

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 redeemable, transferable one class of units (the "Units"), each of which represents an equal, undivided interest in the net assets of the Fund, subject to the terms and conditions of the Trust Agreement.

On October 23, 2009, the Fund completed an initial public offering pursuant to the prospectus dated September 28, 2009. $47,568,016 was raised through the issue of 2,032,860 Units. The Units were issued at $23.40 per unit. During the period from October 23, 2009 (commencement of operation) to December 31, 2009, the fund issued an additional 777,383 Units for net proceeds of $18,164,892.

During the year ended December 31, 2012, the Fund subscribed nil units and redeemed 71,458 Units for net payment of $1,777,100 (82,354 subscribed units for $2,035,000 and redeemed 223,256 Units for net payment of $5,599,000 during the year ended December 31, 2011).

Distributions

The Fund pays distributions if, as and when declared by the Fund from time to time. The Fund paid $10,067,963 in distributions during the year ended December 31, 2012 of which the amount $6,104,963 was reinvested and the units were consolidated ($11,337,957 was paid in distributions during the year ended December 31, 2011 of which the amount $6,091,957 was reinvested and the units were consolidate).

Recommendations or Reports by the Independent Review Committee

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

Related Party Transactions

Management Fees

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

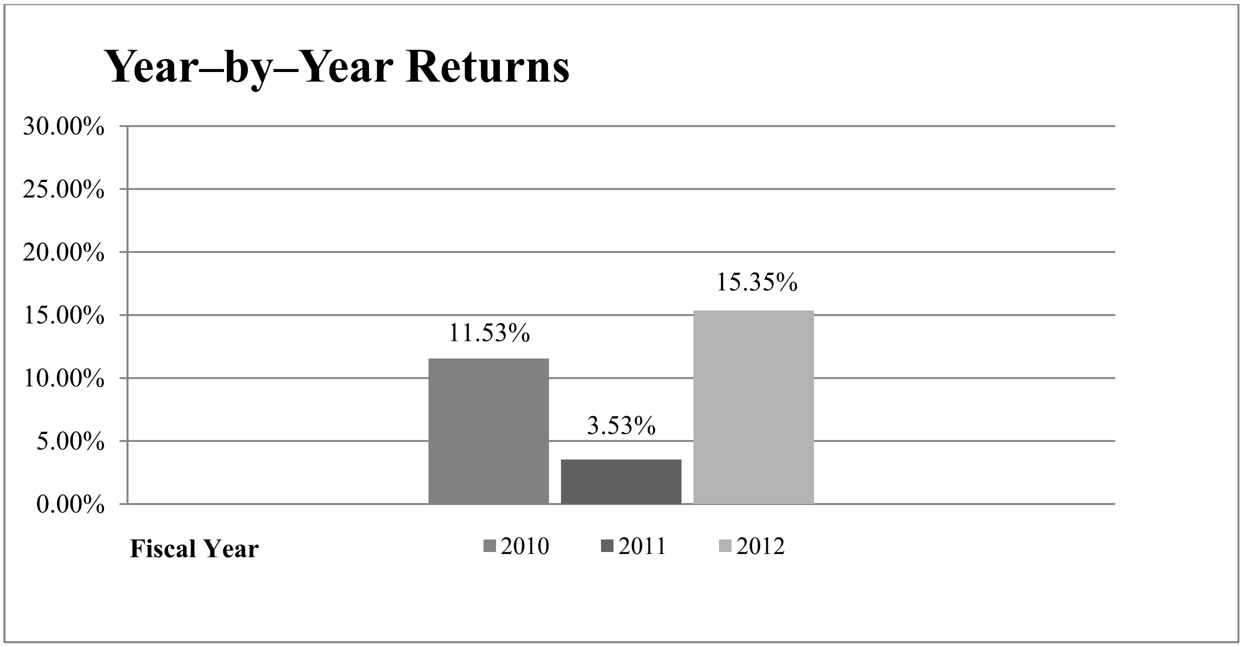
The management fees charged to the Fund during the year ended December 31, 2012 were $126,021 ($126,844 during the year ended December 31, 2011). The Manager is responsible for payment of the investment management fees out of these management fees.

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	15.35%	10.01%	10.50%
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:

The Fund's Net Assets per Unit:

	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009 (1)
Net Assets, beginning of period	23.96	25.01	23.74	23.40
Increase (decrease) from operations:				
Total revenues	1.53	1.49	1.57	0.27
Total expenses	(0.07)	(0.07)	(0.06)	(0.02)
Realized gains (losses) for the period	0.77	(0.36)	0.87	0.04
Unrealized gains (losses) for the period	1.38	(0.10)	0.35	0.08
Total increase (decrease) from operations (2)	**3.61**	**0.96**	**2.73**	**0.37**
Distributions:				
From income (excluding dividends)	(1.53)	(1.94)	(2.07)	(0.40)
From dividends	–	–	–	–
From capital gains	–	–	(0.58)	–
Return of capital	–	–	–	–
Total Distributions (3)	**(1.53)**	**(1.94)**	**(2.65)**	**(0.40)**
Net Assets, end of period (4) (5)	**26.00**	**23.96**	**25.01**	**23.74**

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

(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 2,558,500 units outstanding as of December 31, 2012 (December 31, 2011 – 2,661,620).

(3) The percentages used to allocate distributions among income, dividends, capital gain and return on capital are based on the Fund's actual tax information.

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

(5) 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.

Ratios and Supplemental Data:

	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2009 (1)
Net asset value (000's)	66,746	63,197	69,513	67,107
Number of units outstanding	2,558,500	2,629,958	2,770,860	2,810,243
Management expense ratio (2)	0.28%	0.30%	0.26%	0.35%
Management expense ratio before waivers or absorptions (annualized) (2)	0.28%	0.30%	0.26%	0.35%
Portfolio turnover rate (3)	6.47%	19.21%	65.40%	1.68%
Trading expense ratio (4)	0.00%	0.00%	0.00%	0.00%
Net asset value per unit (5)	26.09	24.03	25.09	23.88

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

(2) 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.

(3) 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.

(4) 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.

(5) 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.

	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**	

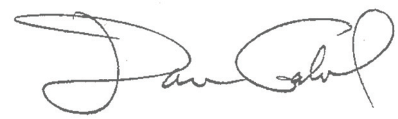
Management's Responsibility for Financial Reporting

The accompanying financial statements of **North American Portfolio 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 Unitholder of
North American Portfolio Trust (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio 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 (deficit) 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 (deficit) and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

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North American Portfolio Trust

Statements of Net Assets

As at December 31, 2012 and 2011

	2012	2011
	$	**$**
Assets		
Cash	51,265	-
Short-term investments	2,343,779	-
Investments at fair value (cost - $59,495,308; 2011 - $61,717,413)	64,247,645	62,171,359
Interest and dividends receivable	241,759	1,170,717
Unrealized gain on foreign currency forward contracts	145	451,141
	66,884,593	63,793,217
Liabilities		
Cash overdraft	-	739,612
Accounts payable and accrued liabilities	19,364	18,682
Management fees payable	10,351	10,200
Unrealized loss on foreign currency forward contracts	328,602	454
	358,317	768,948
Net assets and unitholder's equity	66,526,276	63,024,269
Units outstanding (note 5)	2,558,500	2,629,958
Net asset value per unit	26.00	23.96
Unitholder's equity (note 5)		
Unit Capital	75,806,584	71,648,362
Contributed surplus	169,641	-
Retained deficit	(9,449,949)	(8,624,093)
Total Unitholder's equity	66,526,276	63,024,269

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

Director **Director**

(See accompanying notes to financial statements)

North American Portfolio Trust

Statements of Operations

For the years ended December 31, 2012 and 2011

	2012	2011
	$	$
Income		
Interest income	3,406,269	3,522,812
Dividends (net of withholding taxes)	507,582	451,011
Other income	9,969	-
	3,923,820	3,973,823
Expenses		
Management fees (note 7)	126,021	126,844
Custodial and other unitholder fees	23,438	22,423
Harmonized sales tax	20,686	22,428
Audit fees	10,565	20,098
Filing fees	1,819	1,916
Interest fees	455	1,736
	182,984	195,445
Investment income	3,740,836	3,778,378
Unrealized gain (loss)		
Change in unrealized gain (loss) on investments	4,298,391	(347,203)
Change in unrealized gain (loss) on foreign currency forward contracts	(779,144)	71,610
Change in unrealized gain on foreign exchange	-	42
	3,519,247	(275,551)
Realized gain (loss)		
Net realized gain (loss) on investments	431,505	(247,396)
Net realized gain (loss) on foreign currency forward contracts	1,555,262	(647,146)
Net realized loss on foreign exchange	(4,743)	(64,861)
	1,982,024	(959,403)
Net gain (loss) on investments	5,501,271	(1,234,954)
Increase in net assets from operations	9,242,107	2,543,424
Increase in net assets from operations per unit *	3.61	0.96

* (based on weighted average number of units outstanding during the year)
(See accompanying notes to financial statements)

North American Portfolio Trust

Statements of Changes in Net Assets and Surplus (Deficit)

For the years ended December 31, 2012 and 2011

	2012	2011
	$	$
Increase in net assets from operations	9,242,107	2,543,424
Distributions to unitholder from: (note 6)		
Net investment income	(10,067,963)	(11,337,957)
Unitholder's transactions (note 5)		
Proceeds from issue of units	-	2,035,000
Distributions reinvested	6,104,963	6,091,957
Payments on redemption of units	(1,777,100)	(5,599,000)
	4,327,863	2,527,957
Change in net assets during the year	3,502,007	(6,266,576)
Net assets - beginning of year	63,024,269	69,290,845
Net assets - end of year	66,526,276	63,024,269
Retained earnings (deficit), beginning of year	(8,624,093)	202,838
Increase in net assets from operations	9,242,107	2,543,424
Distributions to unitholder	(10,067,963)	(11,337,957)
Cost of shares redeemed in excess of the average price per unit	-	(32,398)
Retained (deficit), end of year	(9,449,949)	(8,624,093)
Contributed surplus, beginning of year	-	-
Cost of shares redeemed at less than average price per unit	169,641	-
Contributed surplus, end of year	169,641	-

(See accompanying notes to financial statements)

North American Portfolio Trust

Statements of Cash Flow

For the years ended December 31, 2012 and 2011

	2012	2011
	$	$
Operating Activities		
Increase in net assets from operations	9,242,107	2,543,424
Items not affecting cash:		
Change in unrealized (gain) loss on investments	(4,298,391)	347,203
Change in unrealized (gain) loss on foreign currency forward contracts	779,144	(71,610)
Net realized (gain) loss on investments	(431,505)	247,396
Changes in non-cash working capital:		
(Increase) decrease in interest and dividends receivable	928,958	(762,174)
Increase (decrease) in accounts payable and accrued liabilities	682	170
Increase (decrease) in management fees payable	151	(2,576)
Purchase of investment	(4,101,466)	(12,373,993)
Proceeds on disposition of investment	6,755,076	15,795,720
Net cash flow provided by (used in) operating activities	8,874,756	5,723,560
Financing Activities		
Proceeds from issuance of units	-	2,035,000
Distributions to unitholder	(3,963,000)	(5,246,000)
Payments on redemption of units	(1,777,100)	(5,599,000)
Net cash flow used in financing activities	(5,740,100)	(8,810,000)
Net increase (decrease) in cash and short-term investments	3,134,656	(3,086,440)
Cash (overdraft) - beginning of year	(739,612)	52,140
Short-term investments - beginning of year	-	2,294,688
Cash (overdraft) - end of year	51,265	(739,612)
Short-term investments - end of year	2,343,779	-

(See accompanying notes to financial statements)

North American Portfolio Trust

Statement of Investment Portfolio

As at December 31, 2012

	Coupon Rate %	Maturity date	Number of shares / par value $	Average cost $	Fair value $	% of Net Assets
Short-term investments						
Bearer Deposit Notes						
Bank of Nova Scotia	2.11%	02/19/2013	450,000	448,709	448,709	0.7%
Bank of Nova Scotia	1.31%	03/18/2013	250,000	249,292	249,292	0.4%
Bank of Nova Scotia	2.81%	02/04/2013	300,000	299,207	299,207	0.4%
Bank of Nova Scotia	1.20%	03/25/2013	100,000	99,717	99,717	0.1%
Bank of Nova Scotia	3.62%	01/28/2013	400,000	398,877	398,877	0.6%
Bank of Nova Scotia	1.10%	03/18/2013	850,000	847,977	847,977	1.3%
				2,343,779	2,343,779	3.5%
Investments						
Fixed Income						
Domestic Corporate Bonds						
NBC Asset Trust	7.24%	06/30/2018	4,300,000	4,925,848	5,149,259	7.7%
RBC Capital Trust V	6.82%	06/30/2018	1,155,000	1,347,953	1,386,811	2.1%
TD Capital Trust III	7.24%	12/31/2018	5,205,000	6,116,043	6,457,024	9.7%
CIBC Capital Trust	9.98%	06/30/2019	3,000,000	3,894,210	3,998,198	6.0%
Manulife Financial Capital Trust II	7.41%	12/31/2019	6,326,000	7,066,035	7,394,667	11.1%
NBC Asset Trust	7.45%	06/30/2020	2,168,000	2,579,506	2,716,873	4.1%
				25,929,595	27,102,832	40.7%
Foreign Corporate Bonds						
Goldman Sachs Capital II	5.00%	05/03/2018	3,000,000	2,784,900	3,195,734	4.8%
Morgan Stanley	4.90%	02/23/2017	5,100,000	4,805,333	5,347,028	8.0%
Merrill Lynch & Co., Inc.	5.29%	05/30/2017	1,305,000	1,224,795	1,327,293	2.0%
Goldman Sachs Capital II (U.S. Dollars)	4.00%	06/01/2043	1,000,000	805,522	777,720	1.2%
Great West Life Co. (U.S. Dollars)	7.15%	05/16/2016	3,000,000	2,797,535	3,091,644	4.6%
GE Capital Trust I (U.S. Dollars)	6.38%	06/15/2022	3,465,000	3,706,818	3,899,609	5.9%
JP Morgan Chase (U.S. Dollars)	7.90%	04/30/2018	5,000,000	5,436,052	5,640,682	8.5%
Wachovia Capital Trust III (U.S. Dollars)	5.57%	03/15/2049	7,000,000	5,470,471	6,935,041	10.4%
				27,031,426	30,214,751	45.4%
Total Fixed Income				52,961,021	57,317,583	86.1%
Foreign Preferred Stock (U.S. Dollars)						
Financials						
Citigroup Capital XIII			250,000	6,534,287	6,930,062	10.4%
Total Foreign Preferred Stock				6,534,287	6,930,062	10.4%
Total investments				59,495,308	64,247,645	96.5%

	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)	-0.5%
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)	-0.5%
Other assets net of other liabilities			263,309	0.5%
Net assets			66,526,276	100.0%

(See accompanying notes to financial statements)

1 Corporate activities

North American Portfolio 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 one class.

2 Investment objectives

The Fund's investment objectives are to:

(i) provide Unitholder with attractive cash distributions; and
(ii) return to Unitholder the original issue price of the Units upon termination of the Fund on November 30, 2014.

In order to achieve the Fund's investment objectives, Connor, Clark & Lunn Investment Management Ltd. (the "Investment Manager"), the Fund's investment manager, actively manages its 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
December 31, 2012	26.09	(0.09)	26.00
December 31, 2011	24.03	(0.08)	23.96

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".

Foreign currency forward contracts

The Fund may enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The carrying value of these contracts is the gain or loss that would be realized if the position were closed out on the valuation date, and is recorded as an unrealized gain or loss. Upon closing of a contract, the gain or loss is recorded as a net realized gain of loss on foreign currency forward contracts.

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 divided by the weighted average number of units of that class outstanding during the period.

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 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 Unitholder’s equity

The Fund is authorized to issue an unlimited number of redeemable, transferable single class of units (the “Units”), each of which represents an equal, undivided interest in the net assets of the Fund, subject to the terms and conditions of the Trust Agreement.

On October 23, 2009, the Fund completed an initial public offering pursuant to the prospectus dated September 28, 2009. $47,568,016 was raised through the issue of 2,032,860 Units. The Units were issued at $23.40 per unit. During the period from October 23, 2009 (commencement of operation) to December 31, 2009, the Fund issued an additional 777,383 Units for net proceeds of $18,164,892.

During the year ended December 31, 2012, the Fund subscribed nil units and redeemed 71,458 Units for net payment of $1,777,100 (82,354 subscribed units for $2,035,000 and redeemed 223,256 Units for net payment of $5,599,000 during the year ended December 31, 2011).

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

	Number of units	
	December 31, 2012	**December 31, 2011**
Opening balance	2,629,958	2,770,860
Units purchased	–	82,354
Units redeemed	(71,458)	(223,256)
Ending balance	2,558,500	2,629,958

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.

6 Distributions

The Fund pays distributions if, as and when declared by the Fund from time to time. The Fund paid $10,067,963 in distributions during the year ended December 31, 2012 of which the amount $6,104,963 was reinvested and the units were consolidated ($11,337,957 was paid in distributions during the year ended December 31, 2011 of which the amount $6,091,957 was reinvested and the units were consolidated).

7 Management fees and related party fees

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

The management fees charged to the Fund during the year ended December 31, 2012 were $126,021 ($126,844 during the year ended December 31, 2011). The Manager is responsible for payment of the investment management fees out of these management fees.

8 Income taxes

The Fund is a financial institution for purposes of the "specified debt obligation" and “mark-to-market” rules contained in the Income Tax Act (Canada) as more than 50% of the fair market value of all interests in the Fund are held any time by one or more such financial institutions. The Fund will be subject to tax in each taxation year under Part I of the Income Tax Act (Canada) on the amount of its income for the year, including net unrealized gains, if any, less the portion thereof that it deducts in respect of the amount paid or payable to unitholders in the year. The Fund may also be subject to “minimum tax” under the Tax Act.

The Fund did not have any net taxable capital losses or non–capital losses carry forward balances as at December 31, 2012 and 2011.

9 Broker commission charges and soft dollar services

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

10 Financial instruments

	December 31, 2012	December 31, 2011
Assets	**$**	**$**
Cash	51,265	–
Held for trading	66,591,569	62,622,500
Loans and receivables	241,759	1,170,717
Total assets	**66,884,593**	**63,793,217**
Liabilities		
Cash overdraft	–	739,612
Held for trading	328,602	454
Financial liabilities at amortized cost	29,715	28,882
Total liabilities	**358,317**	**768,948**

For the purposes of categorization in accordance with CICA Section 3862, Financial Instruments - Disclosures, interest and dividends receivable is deemed to be loans and receivables and recorded at cost or amortized cost. Similarly, management fees payable and accounts payable and accrued liabilities are deemed to be financial liabilities and reported at amortized cost.

The following table illustrates the classification of the Fund'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	6,930,062	–	–	6,930,062
Bonds	–	57,317,583	–	57,317,583
Short-term investments		2,343,779		2,343,779
Foreign currency forward contracts	–	145	–	145
Total	**6,930,062**	**59,661,507**	–	**66,591,569**

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

Assets at fair value as at December 31, 2011	Level 1	Level 2	Level 3	Total
Equities	7,020,727	–	–	7,020,727
Bonds	–	55,150,632	–	55,150,632
Foreign currency forward contracts	–	451,141	–	451,141
Total	**7,020,727**	**55,601,773**	–	**62,622,500**

Liabilities at fair value as at December 31, 2011	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	–	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 years ended December 31, 2012 and 2011.

11 Financial instrument risk

The Fund's activities expose it to a variety of financial risks. The Investment Manager may invest in derivatives for the purpose of hedging interest rate exposure. The Investment Manager also invests in foreign currency forward contracts to hedge the Fund's foreign exchange risk exposure.

Interest rate risk

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

December 31, 2012:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Total
Investments	–	–	9,765,965	47,551,618	**57,317,583**
Short-term investments	2,343,779	–	–	–	**2,343,779**
					59,661,362

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**
					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 $3,434,000 or $3,883,000 (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 tables below summarize the Fund's exposure to foreign currencies as at December 31, 2012 and 2011. 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 Fund'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) $
US Dollar	20,344,688	6,930,062	(27,335,909)	(61,159)	(0.1%)	(3,000)

December 31, 2011:

	Monetary instruments $	Non-monetary instruments $	Derivative instruments $	Net Exposure $	% of Net Assets	Sensitivity (based on devaluation of CAD) $
US Dollar	18,544,325	7,020,727	(25,795,251)	(230,199)	(0.4%)	(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 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	-0.5%
A	11.1%
A-	29.2%
AA-	5.9%
BBB+	12.4%
BBB	26.3%
BB+	1.2%
BB	10.4%
A-1	3.5%
Total	99.5%

Rating [1]	December 31, 2011 (% of Net Assets)
AAA	0.7%
A+	5.6%
A	10.9%
A-	32.8%
BBB+	28.6%
BBB	8.6%
BB+	1.0%
BB	11.1%
Total	99.3%

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

The Fund is exposed to unlimited annual redemptions in any given year. Therefore, the Fund invests the majority of its assets in investments that can be readily disposed. In addition, the Fund retains sufficient cash positions to maintain liquidity. All liabilities 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.

As at December 31, 2012 and 2011, the Fund was not exposed to any other market price risk.

12 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.