Portfolio Trust

Annual Report
December 31, 2012

Management Report of Fund Performance

This annual management report of fund performance for **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 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 in accordance with the Canadian Securities Administrators. An explanation of the difference between both values can be found in note 3 to the financial statements.

Investment Objectives and Strategies

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 Investor Services Trust (formerly "RBC Dexia Investor Services Trust") (the "Trustee") dated May 22, 2009. The Fund's principal office is located 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 June 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 consists of Innovative Tier 1 Capital Securities of the six largest Canadian banks. The Portfolio includes a minimum of 80% Canadian Bank Capital Securities. The Portfolio Manager may also invest up to 20% of the Portfolio (measured at the time of investment) in Bank Shares and Life Insurance Company Securities. The Fund may also invest in other securities issued by Canadian financial institutions, including subordinated debt, preferred shares and common shares.

Risk

The risk profile of the Fund has not changed from the prior year. For full disclosure of risks associated with an investment in the Fund's units, please refer to the Prospectus dated May 27, 2009 and to the Fund's most recent Annual Information Form. Both are available at www.sedar.com.

Recent Developments

Future accounting changes

The Canadian Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) 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.

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 Portfolio 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 Portfolio 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 January 2013)

The year started with 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 concerned about a potential hard landing in the Chinese economy and tension flare ups in the Middle East. The issue of the 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 (the "ECB"). In fact, European policymakers made significant strides towards a blueprint for a banking union and fiscal compact. At the same time, the ECB committed unequivocally to defending the Euro and lowering interest rates in peripheral European Union countries through its OMT (Open Monetary Transactions) program.

In the U.S., the Federal Reserve extended its quantitative easing programs and provided additional clarity as it linked its policy to specific economic milestones. The U.S. Federal Reserve (the "Fed") committed to the ongoing use of unconventional monetary policies until explicit targets for unemployment (6.5%) are met or their inflation target of 2.5% is breached and other central banks around the world are in lockstep with the Fed and ECB. Meanwhile, the Chinese government shifted gears in favour of stimulative measures, thereby averting a hard landing.

The extremely accommodative monetary policies set in place by the major central banks around the world helped anchor rates at levels much lower than fundamentals would otherwise dictate. Although fears leading to the 'flight to safety' receded during the year, government bond yields finished slightly lower. The biggest beneficiary of these accommodative worldwide 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 began regarding the Canadian banks' obligation to eliminate their legacy non-common capital securities such as Tier 1 Capital debt, enhancing their already high scarcity value. Toronto-Dominion Bank is one of the Fund's largest exposures. We expect Toronto-Dominion Bank will continue to perform very well due to its strong franchise and robust capital position. In fact, Toronto-Dominion Bank posted an 8% Basel III Tier One ratio, which is well above the 7% required level under Basel III. Toronto-Dominion Bank's exposure to the U.S. is also a good diversifier, offsetting some of the possible pressure emanating from the Canadian consumer sector.

From an insurance perspective, insurance companies as a group actually exceeded their pre-crisis earning levels despite a very challenging low rates and regulatory environment. These factors will remain in the forefront over the upcoming year; the Fund holds companies such as Manulife Financial Capital, which has made great strides to reduce risk and strengthen its balance sheet.

The performance of the Fund was positive and outperformed the benchmark by a wide margin due mainly to the tightening of credit spreads over the year, especially in the financial sector.

Recent development

We expect that the moderate pace of economic growth will accelerate somewhat in 2013, driven mostly by an increase in U.S. 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 U.S. 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 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 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 June 9, 2009, the Fund completed an initial public offering pursuant to the Prospectus dated May 27, 2009. $90,662,497 was raised through the issue of 3,851,560 Units. The Units were issued at $23.54 per Unit.

During the year ended December 31, 2012, the Fund issued 58,159 Units for net proceeds of $1,590,000 and redeemed 1,237,028 Units for net payment of $33,660,000 (the Fund issued 149,178 Units for a total value of $3,930,000 and redeemed 267,061 Units for net payment of $7,070,000 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 declared $11,419,428 in distributions during the year ended December 31, 2012 ($8,417,957 during the year ended December 31, 2011). The amount of $3,974,428 was reinvested and the Units were consolidated during the same period (the amount of $832,957 was reinvested and the Units were consolidated during the year ended December 31, 2011).

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

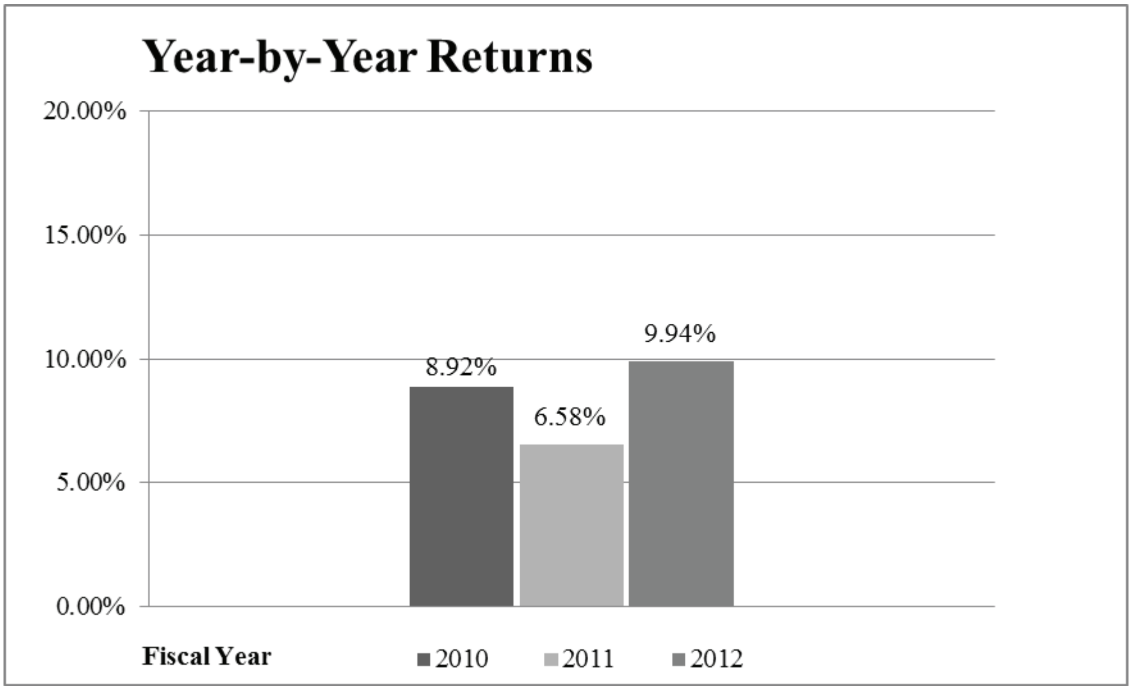
The Manager receives a management fee from the Fund equal in the aggregate to 0.25% per annum of the applicable Net Asset Value, calculated and payable monthly in arrears, plus applicable taxes.

The management fees charged to the Fund during the year ended December 31, 2012 were $238,536 plus applicable taxes ($248,603 plus applicable taxes during the year ended December 2011).

The Manager is responsible for payment of the investment management fees out of these management fees.

Past Performance

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



Annual Compound Returns

	Past Year	Past 3 Years	Since Inception [1]
Based on NAV	9.94%	8.47%	9.66%
DEX Universe Bond Index	3.60%	6.64%	6.69%

(1) Annualized for the period June 9, 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 tightened 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 benefitted relative to other industries reflecting their solid fundamentals. Finally, 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 audited annual financial statements:

The Fund's Net Assets per Unit:	2012	2011	2010	2009 (1)
Net Assets, beginning of period	**26.38**	**26.26**	**25.51**	**23.54**
Increase (decrease) from operations:				
Total revenues	1.54	1.55	1.70	0.97
Total expenses	(0.07)	(0.07)	(0.06)	(0.04)
Realized gains (losses) for the period	0.32	0.12	1.65	0.11
Unrealized gains (losses) for the period	0.77	0.10	(1.02)	1.40
Total increase (decrease) from operations (2)	**2.56**	**1.70**	**2.27**	**2.44**
Distributions:				
From income (excluding dividends)	(1.59)	(1.57)	(2.26)	(2.55)
From dividends	–	–	–	–
From capital gains	–	–	–	–
Return of capital	–	–	–	–
Total Distributions (3)	**(1.59)**	**(1.57)**	**(2.26)**	**(2.55)**
Net Assets, end of period (4)	**27.31**	**26.38**	**26.26**	**25.51**

(1) Results for the period from June 9, 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 the weighted average number of 4,585,066 units outstanding as of December 31, 2012 (2011 – 4,827,006 units).

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

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

Ratios and Supplemental Data:	2012	2011	2010	2009 (1)
Net asset value (000's)	96,830	124,626	127,230	131,664
Number of units outstanding	3,533,400	4,712,269	4,830,152	5,139,756
Management expense ratio (annualized) (2)	0.25%	0.26%	0.23%	0.26%
Management expense ratio before waivers or absorptions (annualized) (2)	0.25%	0.26%	0.23%	0.26%
Portfolio turnover rate (3)	0.00%	5.28%	114.24%	51.88%
Trading expense ratio (4)	0.00%	0.00%	0.00%	0.00%
Net asset value per unit (5)	27.40	26.45	26.34	25.62

(1) Results for the period from June 9, 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 advisor 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 and at www.sedar.com.

	Coupon Rate %	Maturity date	Fair value $	% of NAV
Portfolio by Category				
Corporate Bonds			93,471,319	96.5%
Cash & short-term investments			3,209,567	3.3%
Futures contracts			159,175	0.2%
Top 25 Holdings				
Toronto-Dominion Capital Trust (CATS III)	7.24%	12/31/2018	29,361,297	30.4%
National Bank of Canada Capital Trust	7.24%	06/30/2018	20,080,980	20.7%
Manulife Financial Capital (MACS II)	7.41%	12/31/2019	13,251,312	13.7%
National Bank of Canada Asset Trust	7.45%	06/30/2020	11,371,984	11.7%
Toronto-Dominion Bank (CGR III)	5.76%	12/18/2017	10,979,345	11.3%
Great West Lifeco Finance (Delaware) LP II	7.13%	06/26/2018	4,667,317	4.8%
Royal Bank of Canada Capital Trust (TRUCS V)	6.82%	06/30/2018	3,759,084	3.9%
Cash and short-term investments			3,209,567	3.3%
Futures contracts			159,175	0.2%
Net asset value			**96,830,186**	

Management's Responsibility for Financial Reporting

The accompanying financial statements of **Portfolio Trust** (the "Fund") and all of the information therein 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 of the information and representations contained in these financial statements and other sections of the annual report. Management maintains appropriate process to ensure that relevant and reliable financial information is produced.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements are not precise since they include certain amounts based on estimates and judgements. 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 on behalf of the unitholder. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholder their opinion on the financial statements. Their report is contained within.

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

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

Toronto, Canada

March 28, 2013

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March 28, 2013

Independent Auditor's Report

To the Unitholder of
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 deficit and cash flows 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 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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Portfolio Trust

Statements of Net Assets

As at December 31, 2012 and 2011

	2012	2011
	$	$
Assets		
Cash	17,559	30,301
Short-term investments	3,192,008	1,397,015
Investments at fair value (cost - $87,308,568; December 31, 2011 - $117,319,191)	93,150,528	119,928,721
Interest receivable	24,270	2,812,828
Futures contracts	72,240	-
Cash held as margin	86,935	402,230
	96,543,540	124,571,095
Liabilities		
Accounts payable and accrued liabilities	16,065	19,687
Management fees payable	18,080	20,891
Futures contracts	-	221,600
	34,145	262,178
Net assets and unitholder's equity	96,509,395	124,308,917
Units outstanding (note 5)	3,533,400	4,712,269
Net assets per unit	27.31	26.38
Unitholder's equity (note 5)		
Unit Capital	97,480,149	124,633,544
Deficit	(970,754)	(324,627)
Total Unitholder's equity	96,509,395	124,308,917

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

Director **Director**

(See accompanying notes to financial statements)

Portfolio Trust

Statements of Operations

For the years ended December 31, 2012 and 2011

	2012	2011
	$	**$**
Income		
Interest income	7,047,218	7,501,840
Expenses		
Management fees (note 7)	238,536	248,603
Harmonized sales tax	35,109	37,531
Custodial and other unitholder fees	22,575	19,277
Audit fees	10,592	17,287
Interest expense	1,241	177
Other fees	15	-
Filing fees	-	4,216
Legal fees	-	127
	308,068	327,218
Investment income	6,739,150	7,174,622
Realized gain (loss)		
Net realized gain on investments	1,815,353	590,443
Net realized gain (loss) on foreign exchange	-	(94,793)
Net realized gain (loss) on future contracts	(365,295)	152,230
Net realized gain (loss) on foreign currency forward contracts	-	(56,566)
	1,450,058	591,314
Unrealized gain (loss)		
Change in unrealized gain on investments	3,232,430	715,135
Change in unrealized gain (loss) on futures contracts	293,840	(221,600)
Change in unrealized gain (loss) on foreign currency forward contracts	-	(75,625)
	3,526,270	417,910
Net gain on investments	4,976,328	1,009,224
Increase in net assets from operations	11,715,478	8,183,846
Increase in net assets from operations per unit *	2.56	1.70
Distributions paid per unit	1.59	1.57

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

(See accompanying notes to financial statements)

Portfolio Trust

Statements of Changes in Net Assets and Deficit

For the years ended December 31, 2012 and 2011

	2012	2011
	$	**$**
Increase in net assets from operations	11,715,478	8,183,846
Distributions to unitholder from: (note 6)		
Net investment income	(11,419,428)	(8,417,957)
Unitholder's transactions (note 5)		
Proceeds from issue of units	1,590,000	3,930,000
Distributions reinvested (note 6)	3,974,428	832,957
Payments on redemption of units	(33,660,000)	(7,070,000)
	(28,095,572)	(2,307,043)
Change in net assets during the year	(27,799,522)	(2,541,154)
Net assets - beginning of year	124,308,917	126,850,071
Net assets - end of year	96,509,395	124,308,917
Deficit, beginning of year	(324,627)	(36,102)
Increase in net assets from operations	11,715,478	8,183,846
Distributions to unitholder	(11,419,428)	(8,417,957)
Cost of shares redeemed in excess of the average cost price	(942,177)	(54,414)
Deficit, end of year	(970,754)	(324,627)

(See accompanying notes to financial statements)

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	11,715,478	8,183,846
Items not affecting cash:		
Change in unrealized gain on investments	(3,232,430)	(715,135)
Change in unrealized (gain) loss on foreign currency forward contracts	-	75,625
Net realized gain on investments	(1,815,353)	(590,443)
Changes in non-cash working capital:		
(Increase) decrease in interest receivable	2,788,558	(2,681,455)
(Increase) decrease in futures contracts	21,455	(180,630)
Increase (decrease) in management fees payable	(2,811)	(564)
Increase (decrease) in accounts payable and accrued liabilities	(3,622)	3,797
Purchase of investment	-	(6,565,875)
Proceeds on disposition of investment	31,825,976	11,405,495
Net cash flow provided by (used in) operating activities	41,297,251	8,934,661
Financing Activities		
Proceeds from issuance of units	1,590,000	3,930,000
Distributions paid to unitholder	(7,445,000)	(7,585,000)
Payments on redemption of units	(33,660,000)	(7,070,000)
Net cash flow provided by (used in) financing activities	(39,515,000)	(10,725,000)
Net increase (decrease) in cash and short-term investments	1,782,251	(1,790,339)
Cash - beginning of year	30,301	23,314
Short-term investments - beginning of year	1,397,015	3,194,341
Cash - end of year	17,559	30,301
Short-term investments - end of year	3,192,008	1,397,015
Supplementary Information		
Interest paid	1,241	192

(See accompanying notes to financial statements)

Portfolio Trust

Statement of Investment Portfolio

As at December 31, 2012

	% Coupon Rate	Maturity date	Number of shares	Average cost $	Fair value $	% of NAV
Short-term investments						
Bearer Deposit Notes						
Bank of Nova Scotia	1.16%	03/25/2013	100,000	99,726	99,726	0.1%
Bank of Nova Scotia	1.48%	02/11/2013	250,000	249,580	249,580	0.3%
Bank of Nova Scotia	1.10%	03/18/2013	2,350,000	2,344,407	2,344,407	2.4%
Treasury Bills						
Government of Canada Treasury Bill	1.66%	03/14/2013	100,000	99,659	99,659	0.1%
Government of Canada Treasury Bill *	1.66%	03/14/2013	400,000	398,636	398,636	0.4%
				3,192,008	3,192,008	3.3%
Investments						
Fixed Income						
Corporate Bonds						
Royal Bank of Canada Capital Trust (TRUCS V)	6.82%	06/30/2018	3,120,000	3,518,973	3,746,190	3.9%
Great West Lifeco Finance (Delarware) LP II	7.13%	06/26/2018	3,913,000	4,424,434	4,650,779	4.8%
Toronto Dominion Bank (CGR III)	5.76%	12/18/2017	9,559,000	10,485,201	10,949,406	11.3%
National Bank of Canada Asset Trust	7.45%	06/30/2020	9,052,000	10,756,533	11,343,697	11.8%
Manulife Financial Capital (MACS II)	7.41%	12/31/2019	11,300,000	11,300,000	13,208,937	13.7%
National Bank of Canada Capital Trust	7.24%	06/30/2018	16,700,000	19,188,752	19,998,283	20.7%
Toronto Dominion Capital Trust (CATS III)	7.24%	12/31/2018	23,581,000	27,634,675	29,253,236	30.3%
				87,308,568	93,150,528	96.5%
Total investments				90,500,576	96,342,536	99.8%

	% Coupon Rate	Maturity date	Number of contracts	Average cost CAD $	Fair value CAD $	Unrealized gain (loss) CAD $	% of NAV
Futures contract							
Canadian 5 Year Bond Futures (S&P credit rating: AAA)	1.33%	03/19/2013	(516)	(60,160,440)	(60,088,200)	72,240	0.1%
Cash held as margin						86,935	0.1%
Total futures contract						159,175	0.2%
Other assets net of other liabilities						7,684	0.0%
Net assets						96,509,395	100.0%

* This security is pledged as collateral for the futures contract.

(See accompanying notes to financial statements)

1 Corporate activities

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 Investor Services Trust (formerly "RBC Dexia Investor Services Trust") (the "Trustee") dated May 22, 2009. The Fund's principal office is located 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 Unitholders with attractive cash distributions; and

(ii) return to Unitholders the original issue price of the Units upon termination of the Fund on June 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 consists of Innovative Tier 1 Capital Securities of the six largest Canadian banks. The Portfolio includes a minimum of 80% Canadian Bank Capital Securities. The Investment Manager may also invest up to 20% of the Portfolio (measured at the time of investment) in Bank Shares and Life Insurance Company Securities. The Fund may also invest in other securities issued by Canadian financial institutions, including subordinated debt, preferred shares and common shares.

3 Summary of significant accounting policies

Basis of presentation

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

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 on the recognized exchange on which it is principally traded ("GAAP Net Assets" or "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 Canadian Securities Administrators allow investment funds to calculate the daily net asset value for the purpose of processing unitholder transactions using the last traded price for the day as fair value of financial instruments traded in an active market, which is referred to as a "Transactional NAV" or "NAV". The Fund processes unitholder transactions using Transactional NAV.

The difference between the net asset value per unit and the net assets per unit as shown on the Statements of Net Assets is due to the different pricing methodology discussed above. The reconciliation between the Transactional NAV and the GAAP Net Assets is as follows:

	Transactional NAV	Section 3855 Adjustment	GAAP Net Assets
December 31, 2012	27.40	(0.09)	27.31
December 31, 2011	26.45	(0.07)	26.38

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. Interest income is accrued 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. Realized gains (losses) are recorded on the transaction date they are incurred.

Expense recognition

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

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 investments denominated in foreign currencies are included in the Statements of Operations in "Net realized gain (loss) on foreign exchange". Unrealized on foreign currency gains and losses on monetary assets and liabilities other than investments denominated in foreign currencies are included in the Statements of Operations in "Change in unrealized gain (loss) on foreign exchange".

Futures contracts

The futures contracts are exchange-traded futures contracts and are valued at their settlement price at the close of business on each valuation date. Any difference between the settlement value at the close of business on the current valuation date and that of the previous valuation date is recorded in the Statements of Operations as "Change in unrealized gain (loss) on futures contracts". Amounts receivable (payable) from futures contracts are reflected in the Statements of Net Assets as "Futures contracts". Gains/losses are settled on a daily basis. The variation margin account is adjusted for the settlement amount.

Increase (decrease) in net assets from operations per unit

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

Unit valuation

The net asset value per unit is determined by dividing the aggregate market value of net assets of the Fund by the total number of units of the Fund outstanding before giving effect to redemptions or subscriptions for units on that day.

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 financial 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 (CICA) 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.

4 Custodian

Pursuant to the Trust Agreement, RBC Investor Services Trust (formerly "RBC Dexia Investor Services Trust") (the "Custodian") also acts as custodian of the assets of the Fund. The Custodian is responsible for certain aspects of the Fund's day-to-day operations, including calculating Transactional 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. The Custodian is rated AA- by Standard & Poor's ("S&P") as of December 31, 2012 and 2011.

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 June 9, 2009, the Fund completed an initial public offering pursuant to the Prospectus dated May 27, 2009. $90,662,497 was raised through the issue of 3,851,560 Units. The Units were issued at $23.54 per Unit.

During the year ended December 31, 2012, the Fund issued 58,159 Units for net proceeds of $1,590,000 and redeemed 1,237,028 Units for net payment of $33,660,000 (149,178 Units were issued for net proceeds of $3,930,000 and 267,061 Units were redeemed for net payment of $7,070,000 during the year ended December 31, 2011).

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

	December 31, 2012	December 31, 2011
Balance – beginning of year	4,712,269	4,830,152
Units issued	58,159	149,178
Units redeemed	(1,237,028)	(267,061)
Balance – end of year	3,533,400	4,712,269

The Unit Capital dollar amount represents the face value of the Fund's units minus any return on capital distributions and issue costs paid since June 9, 2009 (commencement of operations) to December 31, 2012. If the redemption price is lower than the average cost per unit, the difference is included in Contributed Surplus on the Statements of Net Assets. If the redemption price is greater than the average cost per unit, the difference is first charged to Contributed Surplus until the balance in Contributed Surplus is eliminated and the remaining amount is charged to Surplus (Deficit).

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 declared $11,419,428 in distributions during the year ended December 31, 2012 ($8,417,957 during the year ended December 31, 2011). The amount of $3,974,428 was reinvested and the units were consolidated during the same period ($832,957 was reinvested and the units were consolidated during the year ended December 31, 2011).

7 Management fees

The Manager receives a management fee from the Fund equal in the aggregate to 0.25% per annum of the applicable NAV, calculated and payable monthly in arrears, plus applicable taxes.

The management fee charged to the Fund during the year ended December 31, 2012 were $238,536 plus applicable taxes ($248,603 plus applicable taxes 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) at any time if more than 50% of the fair market value of all interests in the Fund are held at that 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 realized 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 of broker commissions paid during the years ended December 31, 2012 and 2011 in connection with portfolio transactions. No contractual arrangements for soft dollars services exist in the broker commission charges.

10 Financial instruments

	December 31, 2012	December 31, 2011
Assets	**$**	**$**
Cash	17,559	30,301
Held for trading	96,501,711	121,727,966
Loans and receivables	24,270	2,812,828
Total assets	**96,543,540**	**124,571,095**
Liabilities		
Held for trading	–	221,600
Financial liabilities at amortized cost	34,145	40,578
Total liabilities	**34,145**	**262,178**

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

The following tables illustrate 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
Bonds	–	93,150,528	–	93,150,528
Short-term investments	–	3,192,008	–	3,192,008
Futures contracts	159,175	–	–	159,175
Total	**159,175**	**96,342,536**	–	**96,501,711**

Assets at fair value as at December 31, 2011	Level 1	Level 2	Level 3	Total
Bonds	–	119,928,721	–	119,928,721
Short-term investments	–	1,397,015	–	1,397,015
Futures contracts	180,630	–	–	180,630
Total	**180,630**	**121,325,736**	–	**121,506,366**

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.

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.

Futures contracts: The futures contracts relate to the Government of Canada Bonds. These contracts are exchange-traded and therefore, are classified as Level 1 as the fair value is based on a quote in an active market.

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 may also invest 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. This exposure includes a bond future with a notional amount of ($60,160,440). The tables below summarize 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	159,175	–	10,949,406	82,201,122	**93,309,703**
Short-term investments	3,192,008	–	–	–	**3,192,008**
Total	**3,351,183**	–	**10,949,406**	**82,201,122**	**96,501,711**

December 31, 2011:

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Total
Investments	180,630	–	–	119,928,721	**120,109,351**
Short-term investments	1,427,316	–	–	–	**1,427,316**
Total	**1,607,946**	–	–	**119,928,721**	**121,536,667**

As at December 31, 2012, had prevailing interest rates raised or lowered by 1.0%, with all other variables held constant and assuming a parallel shift in the yield curve, net assets would have decreased or increased, respectively, by approximately $2,477,000 or $2,754,000 from bonds, short-term notes and bond futures (2011 – $3,123,008 or $3,558,008). In practice, 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. As at December 31, 2012 and 2011, currency risk was negligible as the Fund had no exposure to foreign currencies.

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 futures contracts 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 the futures contracts.

Rating	December 31, 2012 (% of Net Assets)
AAA	0.7%
A	13.7%
A-	50.3%
A-1	2.8%
BBB	32.5%
Total	100.0%

Rating	December 31, 2011 (% of Net Assets)
AAA	0.6%
A	9.9%
A-	62.5%
A-1+	0.6%
BBB+	24.2%
Total	97.8%

As at December 31, 2012 and December 31, 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 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 investments, 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 of December 31, 2012 and 2011, market price risk was negligible as the Fund did not hold any equity instruments.