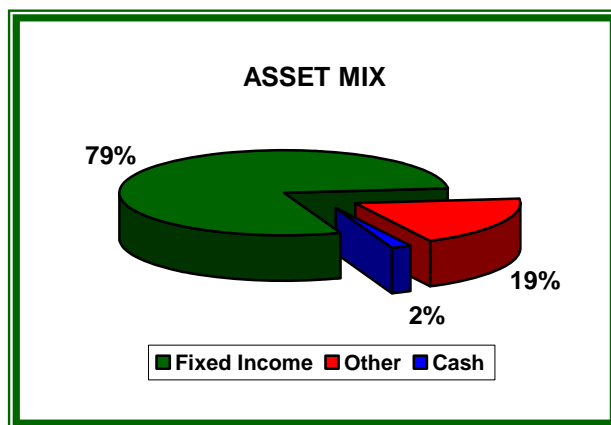


NEXUS NORTH AMERICAN INCOME FUND

QUARTERLY REPORT – March 31, 2010

The first quarter of 2010 has ended, leaving economic and capital markets analysts of bullish or bearish persuasion each some evidence to support their respective views. The true economic picture is never known and there will always be a debate between the bears and bulls; however, even the most bearish observer would acknowledge that the global economy improved over the course of the quarter. As a generalization, most indicators of economic performance have shown outright positive improvement, and even those sectors of the economy still in decline generally are softening at a moderating pace. As expected, the global economic recovery has been uneven. Countries of the developing world, which had begun to recover in 2009, continued their strong performance, while more developed economies, such as those in Europe, Japan and North America, are recovering at a slower rate.



Governments around the globe continue to lead the rebound in economic activity with stimulative monetary policies and generous spending initiatives. Despite fundamental concerns about the long-term consequences of low interest rates and large deficits, investors have, for the time-being, concentrated more on the improvement in short-term indicators of economic activity, such as industrial production and consumer and business confidence, all of which improved steadily in the first three months of the year.

Like the economic recovery, capital markets returns have also been uneven. After beginning the year weakly, North American equity markets staged a strong rebound in February and March, to be up modestly over the full quarter. Bond returns have also been modestly positive; corporate bonds have continued to out-perform higher quality government bonds, and shorter-dated maturities have returned considerably less than bonds of longer maturity. This latter development reflects the bond market's increasing confidence that an eventual change to a tighter monetary policy is in the cards as the economic recovery takes hold. As the second quarter began, the National Bureau of Economic Research in the U.S., which is the official arbiter of determining the beginning and end to economic recessions, declared this latest recession over.

Last quarter we stated that if 2008 was a year of crisis and 2009 was a year of intervention, then 2010 might well be a year of normalization. Such a characterization continues to be accurate as central bankers and fiscal policy makers prepare to withdraw the incredible levels of economic and monetary support enacted in 2009. While it is clear that government economic stimulus saved the world (for now) from a second Great Depression, current economic policy settings must change. Zero per cent interest rates and massive government deficits have the potential to create even greater risks to future economic stability.

Governments generally used four main tools to stave off economic catastrophe; interest rates were slashed, government and private sector debts were monetized by central banks (quantitative easing), public spending was increased and taxes were cut. The challenge for policymakers in 2010 is to effect a normalization of monetary and fiscal conditions quickly enough to prevent inflation from re-igniting, but deftly enough to avoid a dip back into economic recession.

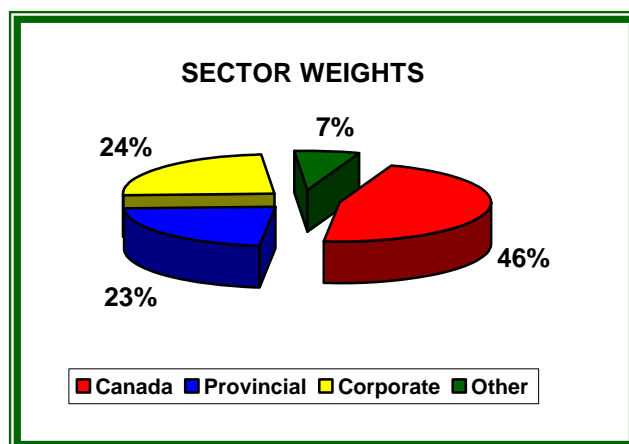
We continued to have excellent returns in the Fund and we outperformed our benchmark. In the past quarter we generated positive returns in both the bond market and with our equity investments. The Fund gained 1.9%¹ in the last quarter, and was up 11.2% in the last 12 months. The DEX Universe Bond Index (DUBI) increased 1.3% over the quarter and increased 5.1% in the last 12 months.

Asset Mix

We increased our allocation to 'other income-oriented securities' again this quarter, moving the weighting from 17% to 19%. Effectively, we are at our 20% limit for allocation in this category. Should our equity selections continue to advance we will need to pare back our exposure to this area. Our cash position now stands at 2%. The allocation to bonds is at 79%, where it was to begin the quarter.

Fixed Income (79% of Assets)

Although bond returns were positive this quarter, interest rates actually rose for bonds below 10 years in maturity. This rise in short-term rates reflects the market's suspicion that the Bank of Canada's target level for the overnight rate will soon be returning to historically more normal levels. It was in April of 2009 that the Bank of Canada chose to lower rates to the current level of 0.25%, and, at that time, made a conditional commitment to keep the overnight rate at this level through to the mid-point of 2010. An open economy such as Canada's has definitely benefitted from easier domestic fiscal and monetary conditions. However, the effects are perhaps not as material as are the changes to economic conditions of our major trading partners. Despite the appreciation of the Canadian dollar in the last year, as global growth has recovered, there has been a boost to the volumes and value of Canada's exports. In addition, consumer spending in Canada has accelerated and consumer and business confidence are also improved. Most importantly, employment conditions have clearly shown signs of recovery; the unemployment rate has declined slightly to 8.2%, and a total of almost 60,000 new jobs have been created in the first two months of the year. With Canadian GDP now growing at almost a 5% annual rate, the bond market now expects monetary conditions to be tighter in the months ahead and short-term rates have moved higher in anticipation.



We have maintained our higher-quality emphasis, for now preferring the liquidity of Canadian government guaranteed bonds over the small extra yield that comes from holding corporates or even provincial bonds. We expect that adding value in the future will come from managing the maturity of the portfolio in a more active fashion than has been the case in the last two or three years. As such, we wish to hold more liquid investments to make trading as efficient as possible. Late in the quarter we shortened our duration, the measure of maturity in our bond portfolios, to 4.7 years from 5.2 years in anticipation of further increases in bond yields. By way of comparison, the DUBI has a duration of 5.9 years

As we look ahead to the end of 2010, we believe that Canadian interest rates will rise somewhat from their current levels. However, fears of a rapid escalation in interest rates that would move the overnight rate above 1% seem overblown. In our estimation, there are significant risks to the Canadian recovery that will result from overly aggressive tightening. Most obviously, there would certainly be an associated bout of currency strength that would undermine our international trade competitiveness. For now, as it has been for many years, the future performance of our economy is largely dependent on the policy choices and health of our major trading partners, particularly the United States.

¹ Fund returns are shown before the deduction of management fees but after the deduction of direct expenses.

The decision to de-emphasize the use of corporate and provincial bonds has affected the Fund's bond returns this quarter. The Fund's fixed income returns for the first quarter of 2010 were +1.1%, which trailed the DEX Universe Bond Index (DUBI) return of +1.3% for the same period. In the last 12 months, our fixed income return of +6.0% continues to run ahead of the DUBI, which was up only 5.1% for the same period.

Other Income-Oriented Securities (19% of Assets)

We are now just below our maximum permitted 20% allocation to this sector, having again increased our allocation over the quarter. We established a position in H&R REIT, Canada's second largest property REIT that owns and manages a portfolio of commercial, industrial and office properties in Canada and the United States. H&R is widely acknowledged to be the most conservatively managed operator in this area, with a stated corporate strategy to lease properties to credit-worthy tenants for long lease periods and with contractual rent escalations over the term of the lease. In almost all cases, properties are financed with debt maturities that match the length of the lease. Currently, H&R is constructing a large office development in Calgary (the Bow) that is fully leased to EnCana. Slated for completion in late 2011, the project is on time and on budget. H&R units currently yield 4.2%, but H&R has a conservative payout ratio that has been reduced while the Bow is under construction. With completion in sight, there is every chance that the distribution will increase substantially in the next 18 months.

Again this quarter, our allocation to 'other income-oriented' securities had a very positive impact on the Fund, rising 6.0%. Over the past 12 months these holdings were up 55.7%. We own 14 different securities spread across 7 industrial sectors and continue to believe that an allocation to these securities will enhance long-term returns to unit-holders.

