

Annual Report 2012

# Top 10 Split Trust



## Letter to Securityholders

We are pleased to present the 2012 annual report containing the management report of fund performance and the audited financial statements for Top 10 Split Trust.

During the year ended December 31, 2012, the Fund paid cash distributions of \$0.11 per Capital Unit and \$0.78 per Preferred Security. The annual total return per Combined Unit, including reinvestment of distributions, was 12.3 percent. The net asset value per Combined Unit increased from \$13.79 per Unit as at December 31, 2011 to \$14.55 per Unit as at December 31, 2012, primarily reflecting an overall increase in the market value of the portfolio shares, particularly the Canadian life insurers. The net realized loss on options attributable to Strathbridge Selective Overwriting strategy (see “The Fund”) amounted to \$0.29 per Combined Unit in 2012 as compared to a net realized gain on options of \$0.40 per Combined Unit in 2011. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

We thank all securityholders for their continued support and encourage securityholders to review the more detailed information contained within the annual report.



John P. Mulvihill  
Chairman & CEO  
Strathbridge Asset Management Inc.

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## The Fund

The Fund is a split share trust designed to provide Capital Unit holders with the benefit of any capital appreciation in the value of the portfolio combined with tax-efficient quarterly distributions and to provide holders of the Preferred Securities with fixed cumulative preferential quarterly distributions. These securities are listed on the Toronto Stock Exchange under the ticker symbols TXT.UN for the Capital Units and TXT.PR.A for the Preferred Securities. A Combined Unit of the Fund consists of one Capital Unit and one Preferred Security. To accomplish its objectives, the Fund invests exclusively in shares of the six largest Canadian banks and four largest Canadian life insurance companies generally investing not less than 5 percent and not more than 15 percent of the Fund's assets in each company.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by the portfolio and to reduce volatility. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the particular portfolio while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

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## Management Report of Fund Performance

This annual management report of fund performance contains the financial highlights for the year ended December 31, 2012 of Top 10 Split Trust (the “Fund”). The annual financial statements of the Fund are attached.

Copies of the Fund’s proxy voting policies and procedures, proxy voting disclosure record and quarterly portfolio disclosure may be obtained by calling 1-800-725-7172 toll free, by writing to the Fund at Investor Relations, 121 King Street West, Suite 2600, Standard Life Centre, P.O. Box 113, Toronto, Ontario, M5H 3T9, or by visiting our website at [www.strathbridge.com](http://www.strathbridge.com). You can also request semi-annual or annual reports at no cost by using one of the above methods.

## Investment Objectives and Strategies

The Fund’s investment objectives for Capital Units are to:

- (1) provide holders of Capital Units, upon redemption, with the benefit of any capital appreciation in the market price of the securities in the Financial Portfolio, and
- (2) pay quarterly distributions to holders of Capital Units in an amount targeted to be 7.5 percent per annum of the net asset value (the “NAV”) of the Capital Units; and

the Fund’s investment objectives for Preferred Securities are to:

- (1) pay holders of Preferred Securities fixed quarterly cash interest payments equal to 6.25 percent per annum on the \$12.50 principal amount of a Preferred Security, and
- (2) repay the principal amount of \$12.50 per Preferred Security on the termination date of the Fund on March 31, 2016.

The Fund invests in the six largest Canadian banks and the four largest Canadian life insurance companies by market capitalization.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by the portfolio and to reduce volatility. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the particular portfolio while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

## Risk

Risks associated with an investment in the securities of the Fund are discussed in the Fund’s 2012 annual information form, which is available on the Fund’s website at [www.strathbridge.com](http://www.strathbridge.com) or on SEDAR at [www.sedar.com](http://www.sedar.com). There were no changes to the Fund over the year that materially affected the risks associated with an investment in the securities of the Fund.

## Results of Operations

### Distributions

For the year ended December 31, 2012, cash distributions of \$0.11 per Capital Unit were paid compared to \$0.23 per Capital Unit in 2011. Interest payments of \$0.78 per Preferred Security remained unchanged from the prior year.

Since the reorganization of the Fund in November 2005 when the Fund adopted new objectives and a new investment strategy as the Top 10 Split Trust, the Fund has paid interest of \$5.53 per Preferred Security and cash distributions of \$3.68 per Capital Unit.

### Revenue and Expenses

For the year ended December 31, 2012, total revenue was \$0.64 per Unit, up from \$0.61 per Unit in the prior year. Total expenses for 2012 were \$0.31 per Unit compared to \$0.42 per Unit in 2011 which included a one-time expenditure of \$0.08 per Unit associated with the special resolution regarding the term extension of the Fund. The Fund had a net realized and unrealized gain of \$1.31 per Unit in 2012 as compared to a net realized and unrealized loss of \$1.25 per Unit a year ago.

### Net Asset Value

The net asset value per Unit of the Fund increased 5.5 percent from \$13.79 per Unit at December 31, 2011 to \$14.55 per Unit at December 31, 2012, primarily reflecting an overall increase in the market value of the portfolio shares, particularly the Canadian life insurers. The aggregate net asset value of the Fund increased \$0.6 million from \$21.6 million at December 31, 2011 to \$22.2 million at December 31, 2012, attributable to an increase from operations of \$2.6 million, partially offset by total distributions of \$1.4 million and annual redemptions of \$0.6 million.

During the year ended December 31, 2012, the annual total return of the Fund was 12.3 percent, reflecting a general advance in the price of the securities held within the portfolio. The S&P/TSX Capped Financials Index (the "Financials Index") total return during the same period was 17.1 percent. As a result of the Fund being limited to a specific universe of stocks and utilizing a covered call writing strategy to generate income, comparisons with a market index may not be appropriate. The Financials Index is calculated without the deduction of management fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

## Recent Developments

On January 19, 2012, the Fund filed a Notice of Intention to make a normal course issuer bid to purchase up to 156,732 Capital Units and 156,732 Preferred Securities representing approximately 10 percent of the Fund's public float of each class of securities as of January 10, 2012. The Fund may purchase up to 31,346 units of each respective class in any 30-day period which is 2 percent of the 1,567,325 units issued and outstanding of each respective class as of January 10, 2012. The Capital Units and Preferred Securities may be purchased for cancellation from January 23, 2012 to January 22, 2013 through the facilities of the Toronto Stock Exchange or other eligible alternative market and may only be purchased at a price per unit of each class not exceeding the last net asset value per unit of each class. As at December 31, 2012, nil units had been purchased by the Fund.

## Future Accounting Policy Changes

Strathbridge Asset Management Inc., as the Manager of the Fund, has developed a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants (“CICA”) for changeover to International Financial Reporting Standards (“IFRS”).

The changeover plan was prepared to address the requirements and includes disclosures of the qualitative and quantitative impact, if any, of the changeover to IFRS in the 2012 financial statements and the preparation of the 2013 financial statements in accordance with IFRS with comparatives. In January 2011, the Canadian Accounting Standards Board (“AcSB”) approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies (“AcG-18”). Subsequently, in December 2011, AcSB extended the deferral for another year to January 1, 2014. As a result, the Fund will adopt IFRS for its fiscal period beginning January 1, 2014 and will issue its first annual financial statements in accordance with IFRS, with comparative information, for the year ending December 31, 2014.

As at December 31, 2012, some anticipated changes to financial reporting include:

- Compliance with the full body of IFRS without industry specific exemptions. Unlike Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) where investment fund accounting was based upon guidance in AcG-18,
- Presentation of comparative information, and
- Additional financial statement note disclosures on the recognition and classification of financial instruments.

Based on the Manager’s current understanding and analysis of IFRS to the accounting policies under Canadian GAAP, the Manager does not anticipate the transition to IFRS will have a material impact on the Fund’s net assets per Unit, systems and processes, and it is expected that it will mainly result in additional note disclosure in the financial statements.

## Related Party Transactions

On October 3, 2011, Mulvihill Capital Management Inc. (“MCM”), the Manager and Investment Manager of the Fund, announced a name change to Strathbridge Asset Management Inc. (“Strathbridge”).

Strathbridge, as the Investment Manager of the Fund, manages the Fund’s investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and MCM dated January 22, 1997 and amended as of November 30, 2005.

Strathbridge is the Manager of the Fund pursuant to a Trust Agreement made between the Fund and MCM dated January 22, 1997 and amended as of November 30, 2005. As such, Strathbridge is responsible for providing or arranging for required administrative services to the Fund.

Strathbridge is paid the fees described under the Management Fees section of this report.

During the year, no recommendations or approvals were required to be sought from the Independent Review Committee (“IRC”) concerning related party transactions.

## Independent Review Committee

National Instrument 81-107 - Independent Review Committee for Investment Funds (“NI 81-107”) requires all publicly offered investment funds to establish an IRC to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions. The Chief Compliance Officer, designated by the Manager, is in charge of facilitating the fulfillment of these obligations.

The IRC will prepare, for each financial year, a report to securityholders that describes the IRC and its activities during such financial year and includes, if known, a description of each instance when the Manager acted in a conflict of interest matter for which the IRC did not give a positive recommendation or for which a condition, imposed by the IRC, was not met in its recommendation or approval. Members of the IRC are Robert W. Korthals, Michael M. Koerner and Robert G. Bertram.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years. This information is derived from the Fund's audited annual financial statements.

The net assets per Unit presented in the financial statements differs from the net asset value per Unit calculated weekly, primarily as a result of investments being valued at bid prices for financial statements purposes and at closing prices for weekly net asset value purposes.

Years ended December 31	2012	2011	2010	2009	2008
<b>THE FUND'S NET ASSETS PER UNIT</b>					
<b>Net Assets, beginning of year</b> (based on bid prices) <sup>(1)</sup>	<b>\$ 13.77</b>	\$ 16.57	\$ 16.86	\$ 14.78	\$ 21.79
<b>INCREASE (DECREASE) FROM OPERATIONS</b>					
Total revenue	<b>0.64</b>	0.61	0.61	0.61	0.70
Total expenses	<b>(0.31)</b>	(0.42)	(0.31)	(0.29)	(0.32)
Realized gain (loss) for the period	<b>(1.16)</b>	0.58	(0.42)	(2.50)	(1.31)
Unrealized gain (loss) for the period	<b>2.47</b>	(1.83)	0.89	5.26	(4.81)
<b>Total Increase (Decrease) from Operations</b> <sup>(2)</sup>	<b>1.64</b>	(1.06)	0.77	3.08	(5.74)
<b>DISTRIBUTIONS</b>					
From net investment income - Preferred Security	<b>(0.78)</b>	(0.78)	(0.78)	(0.78)	(0.78)
Non-taxable distributions - Capital Unit	<b>(0.11)</b>	(0.23)	(0.28)	(0.22)	(0.48)
<b>Total Annual Distributions</b> <sup>(3)</sup>	<b>(0.89)</b>	(1.01)	(1.06)	(1.00)	(1.26)
<b>Net Assets, as at December 31</b> (based on bid prices) <sup>(1)</sup>	<b>\$ 14.53</b>	\$ 13.77	\$ 16.57	\$ 16.86	\$ 14.78

(1) Net Assets per Unit is the difference between the aggregate value of the assets including the valuation of securities at bid prices and the aggregate value of the liabilities, excluding the Preferred Security liability, divided by the number of Units then outstanding.

(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized and unrealized gain (loss), less expenses and is calculated based on the weighted average number of Units outstanding during the year. The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of Units outstanding during the year.

(3) Distributions to securityholders are based on the number of securities outstanding on the record date for each distribution and were paid in cash.

Years ended December 31	2012	2011	2010	2009	2008
<b>RATIOS/SUPPLEMENTAL DATA</b>					
<b>Net Asset Value, excluding the Preferred Security liability</b> (\$millions) <sup>(1)</sup>	<b>\$ 22.22</b>	\$ 21.61	\$ 38.34	\$ 45.65	\$ 43.89
<b>Net Asset Value</b> (\$millions) <sup>(1)</sup>	<b>\$ 3.13</b>	\$ 2.02	\$ 9.47	\$ 11.86	\$ 6.86
<b>Number of Units outstanding</b> <sup>(1)</sup>	<b>1,526,948</b>	1,567,325	2,309,243	2,702,752	2,962,925
<b>Management expense ratio</b> <sup>(2)</sup>	<b>2.12%</b>	2.49%	1.73%	1.71%	1.64%
<b>Portfolio turnover rate</b> <sup>(3)</sup>	<b>73.48%</b>	111.16%	119.38%	66.25%	21.20%
<b>Trading expense ratio</b> <sup>(4)</sup>	<b>0.08%</b>	0.13%	0.14%	0.14%	0.06%
<b>Net Asset Value per Combined Unit</b> <sup>(5)</sup>	<b>\$ 14.55</b>	\$ 13.79	\$ 16.60	\$ 16.89	\$ 14.81
<b>Closing market price - Capital Unit</b>	<b>\$ 1.98</b>	\$ 1.89	\$ 3.57	\$ 3.70	\$ 2.00
<b>Closing market price - Preferred Security</b>	<b>\$ 12.64</b>	\$ 12.40	\$ 12.59	\$ 12.65	\$ 11.50

(1) This information is provided as at December 31. One Combined Unit consists of one Capital Unit and one Preferred Security.

(2) The management expense ratio ("MER") is the sum of all fees and expenses for the stated period, including federal and provincial sales taxes but excluding transaction fees, divided by the average net asset value. The MER for 2011 includes the special resolution expense. The MER for 2011 excluding the special resolution expense is 1.99%. The MER, including the Preferred Security interest, is 7.66%, 7.33%, 6.49%, 6.74 and 5.79%, for 2012, 2011, 2010, 2009 and 2008 respectively.

(3) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by the average value of the portfolio securities. The Fund employs an option overlay strategy which can result in higher portfolio turnover by virtue of option exercises, when compared to a conventional equity mutual fund.

(4) Trading expense ratio represents total commissions expressed as a percentage of the daily average net asset value during the year.

(5) Net Asset Value per Combined Unit is the difference between the aggregate value of the assets including the valuation of securities at closing prices and the aggregate value of the liabilities, excluding the Preferred Security liability, divided by the number of Units then outstanding.

### Management Fees

Strathbridge, as the Investment Manager of the Fund, is entitled to fees under the Investment Management Agreement calculated monthly as 1/12 of 1.00 percent of the net asset value of the Fund at each month end. Services received under the Investment Management Agreement include the making of all investment decisions and writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. Strathbridge also makes all decisions as to the purchase and sale of securities in the Fund’s portfolio and as to the execution of all portfolio and other transactions.

Strathbridge, as the Manager of the Fund, is entitled to fees under the Trust Agreement calculated monthly as 1/12 of 0.10 percent of the net asset value of the Fund at each month end. Services received under the Trust Agreement include providing or arranging for required administrative services to the Fund.

### Past Performance

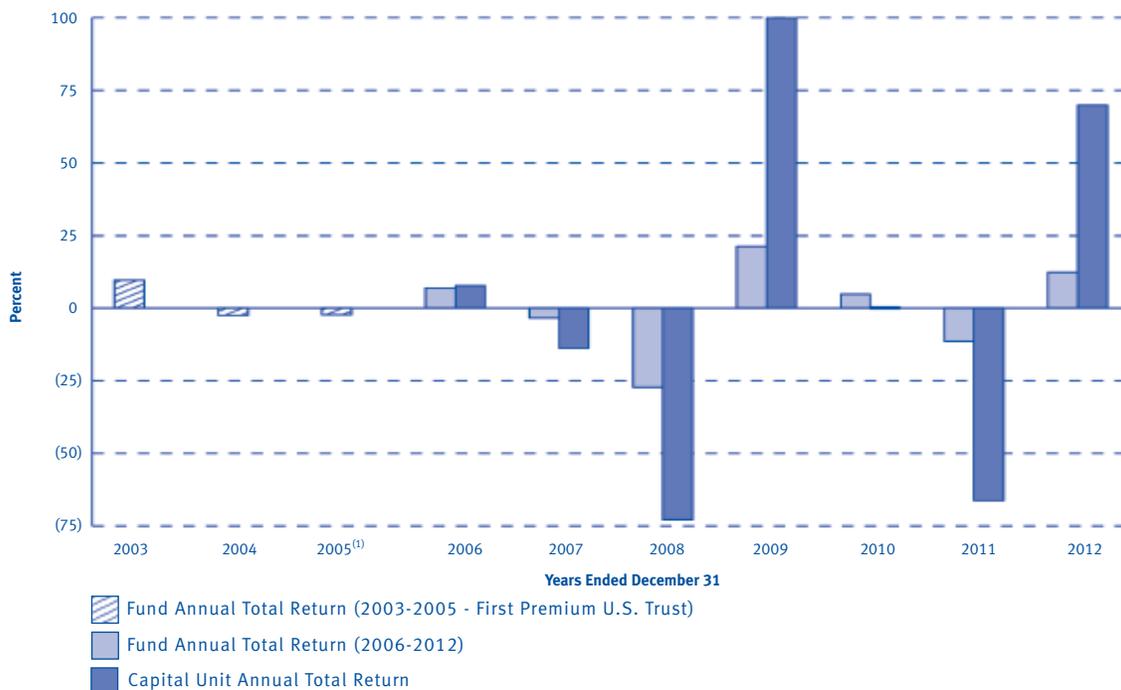
The following chart sets out the Fund’s year-by-year past performance. It is important to note that the:

- (1) information shown assumes that all distributions and interest payments made by the Fund during these periods shown were reinvested in securities of the Fund,
- (2) information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and
- (3) past performance of the Fund does not necessarily indicate how it will perform in the future.

### Year-By-Year Returns

The following bar chart illustrates how the Fund’s annual total return varied from year to year for each of the past ten years. The chart also shows, in percentage terms, how much an investment made on January 1 in each year would have increased or decreased by the end of the fiscal year.

### Annual Total Return



(1) Until November 30, 2005, the Fund invested in a diversified portfolio consisting primarily of common shares issued by corporations that rank in the top 50 of the S&P 100 Index on the basis of market capitalization. Since November 30, 2005, the Fund universe was changed to invest in the six largest Canadian banks and the four largest Canadian life insurance companies by market capitalization. The Fund was invested in cash and cash equivalents pending completion of an offering of additional securities that closed February 15, 2006.

## Annual Compound Returns

The following table shows the Fund's historical annual compound return (net of expenses) for the periods ended December 31, 2012 as compared to the performance of the S&P 100 Index and S&P/TSX Capped Financials Index.

(In Canadian Dollars)	One Year	Three Years	Five Years	Ten Years
Top 10 Split Trust	<b>12.29 %</b>	1.40 %	(1.66)%	(0.07)%
Top 10 Split Trust - Capital Unit	<b>69.83 %</b>	(16.88)%	(20.78)%	(10.09)%
Top 10 Split Trust - Preferred Security	<b>6.40 %</b>	6.40 %	6.40 %	n/a
S&P 100 Index <sup>(1)</sup>	<b>n/a</b>	n/a	n/a	1.35 %
S&P/TSX Capped Financials Index <sup>(2)</sup>	<b>17.14 %</b>	6.63 %	2.55 %	n/a

(1) The S&P 100 Index is a capitalization-weighted index based on 100 highly capitalized stocks for which options are listed.

(2) The S&P/TSX Capped Financials Index is a subset of the constituents of the S&P/TSX Composite Index that have been classified according to the Global Industry Classification Standard. The relative weight of any single index constituent is capped at 25 percent.

The performance of the Fund in the above table from the period of inception to November 21, 2005 was based on the investment objectives and strategy of the Fund as First Premium U.S. Trust investing in a diversified portfolio consisting primarily of common shares issued by corporations that rank in the top 50 of the S&P 100 Index on the basis of market capitalization. On November 21, 2005 unitholders approved a proposal resulting in a change in the investment objectives and strategy of the Fund. Since November 21, 2005 the Fund invests exclusively in the six largest Canadian banks and the four largest Canadian life insurance companies by market capitalization.

Commencing in 2011, the S&P/TSX Financials Index was superseded by the S&P/TSX Capped Financials Index as the performance benchmark of the Fund. Use of the S&P/TSX Capped Financials Index is deemed to be more appropriate as it excludes Real Estate companies and is therefore more representative of a broad-based index of Canadian Financial companies and more reflective of the portfolio universe of the Fund.

The equity performance benchmarks shown here provide an approximate indication of how the Fund's returns compare to a public market index for similar securities. It is important to note that the Fund is not managed in order to match or exceed these indices; rather, its objectives are to pay out quarterly dividends and return the original invested amount at the termination date. As a result, the Fund has, from time to time, maintained cash balances in an effort to provide greater net asset value stability and employs a covered option writing strategy to enhance the income generated by the portfolio and reduce volatility.

The Manager believes that in a flat or downward trending market, a portfolio that is subject to covered call option writing will generally provide higher relative returns and lower volatility than one on which no options are written. However, in a rising market, the use of options may have the effect of limiting or reducing the total returns of the Fund since the premiums associated with writing covered call options may be outweighed by the foregone opportunity of remaining fully invested in the securities comprising the portfolio.

## Portfolio Manager Report

The Canadian economy grew at a relatively modest pace in 2012 as compared to the prior year in the face of some headwinds. The European sovereign debt crisis, declining growth in China, hurricane Sandy and the Fiscal Cliff budgetary problems all led to concerns of a further slowdown in global growth. Full year Gross Domestic Product (GDP) in Canada expanded 1.8 percent, which is the smallest growth since the economic downturn in 2009. Unemployment in Canada improved, ending the year at 7.1 percent down from 7.5 percent a year ago. The housing market initially looked firm but softened after tighter mortgage rules were introduced in July 2012. Small signs of economic improvement were not enough to stimulate change to the easy monetary policy at the Bank of Canada. The key lending rate has remained unchanged at 1.0 percent since September 2010. The Canadian dollar maintained its position above the U.S. dollar for much of 2012 but closed the year below par.

The year 2012 was dominated by coverage of the pending U.S. presidential election, even in Canada. U.S. growth was weak in the first half of the year but picked up in the third quarter and beat consensus estimates. The Federal Reserve extended Operation Twist in June 2012 which morphed into quantitative easing by the end of the year with an intention to stay the course as long as the unemployment rate was above 6.5 percent. European sovereign debt concerns came to the forefront in the middle of the year and it took an implicit guarantee from the President of the European Central Bank, Mario Draghi, to gradually stabilize the Global financial markets. Continued easy monetary policy from central banks helped buoy markets into the year end.

Despite weakness in the late spring and early summer, the markets recovered quite well in 2012 with a small increase in volatility. Improving markets and lower volatility in the latter half of the year brought the S&P/TSX Composite Total Return Index up 7.2 percent. The Canadian banks and insurance companies in the portfolio outperformed the broader market with the Canadian life insurers surpassing the banks. Sun Life Financial Inc. led the insurers with a 48.5 percent return while Royal Bank of Canada led the banks with a yearly gain of 20.1 percent. The stocks in the Fund were driven by generally improving market tone as well as positive earnings surprises. The banks also increased dividends over the course of the year. S&P/TSX Capped Financials Index was up 17.1 percent. The annual total return of the Fund, including reinvestment of distributions, for the year ended December 31, 2012 was 12.3 percent. During the year, the Fund paid total cash distributions of \$0.11 per Capital Unit and \$0.78 per Preferred Security.

The cash position was fairly consistent averaging just over 4.2 percent throughout the year. Covered call writing averaged 23.3 percent over the year and ended the year with approximately 12 percent of the portfolio subject to covered calls. Protective puts were employed in the second and third quarters averaging 14.6 percent over that period. Protective put purchases were initiated due to concerns over market reactions to the U.S. presidential election, Fiscal Cliff budget negotiations and continuing problems with the European sovereign debt crisis. During 2012, the net realized loss on options attributable to Strathbridge Selective Overwriting strategy (“SSO”) amounted to \$0.29 per Combined Unit.

## Summary of Investment Portfolio

The composition of the portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly portfolio summary, which includes the percentage of net asset value for each holding, and a monthly portfolio list are available on our website at [www.strathbridge.com](http://www.strathbridge.com).

### Asset Mix

December 31, 2012

	<b>% OF NET ASSET VALUE*</b>
Financials	98 %
Cash and Short-Term Investments	4 %
Other Assets (Liabilities)	(2)%
	100 %

\*The Net Asset Value excludes the Preferred Security liability.

### Portfolio Holdings

December 31, 2012

	<b>% OF NET ASSET VALUE*</b>
Manulife Financial Corporation	12 %
Industrial Alliance Insurance and Financial Services Inc.	11 %
Sun Life Financial Inc.	11 %
Great-West Lifeco Inc.	11 %
Canadian Imperial Bank of Commerce	10 %
The Bank of Nova Scotia	10 %
Royal Bank of Canada	9 %
The Toronto-Dominion Bank	8 %
Bank of Montreal	8 %
National Bank of Canada	8 %
Cash and Short-Term Investments	4 %

\*The Net Asset Value excludes the Preferred Security liability.

#### Forward-Looking Statements

This report may contain forward-looking statements about the Fund. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also forward-looking. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

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

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

## Management's Responsibility for Financial Reporting

The accompanying financial statements of Top 10 Split Trust (the "Fund") and all the information in this annual report are the responsibility of the management of Strathbridge Asset Management Inc. (the "Manager"), and have been approved by the Fund's Board of Advisors (the "Board").

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 5 of the annual financial statements.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board meets periodically with management and the independent auditor to discuss internal controls, the financial reporting process, various auditing and financial reporting issues, and to review the annual report, the financial statements and the independent auditor's report. Deloitte LLP, the Fund's independent auditor, has full and unrestricted access to the Board.



John P. Mulvihill  
Director  
Strathbridge Asset Management Inc.  
March 5, 2013



John D. Germain  
Director  
Strathbridge Asset Management Inc.

## To the Unitholders of Top 10 Split Trust

We have audited the accompanying financial statements of Top 10 Split Trust, which comprise the statement of investments as at December 31, 2012, the statements of net assets as at December 31, 2012 and 2011, and the statements of financial operations, changes in net assets and cash flows for the years then ended, and 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 these 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 these 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 the 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 Top 10 Split Trust as at December 31, 2012 and 2011, and the result of its operations, its changes in net assets, and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte LLP*

Chartered Professional Accountants  
Chartered Accountants  
Licensed Public Accountants  
March 5, 2013  
Toronto, Ontario

## Statements of Net Assets

As at December 31

	2012	2011
<b>ASSETS</b>		
Investments at fair value (cost - \$21,704,657; 2011 - \$24,818,897)	\$ 21,674,997	\$ 20,910,837
Short-term investments at fair value (cost - \$669,566; 2011 - \$498,620)	699,566	498,620
Cash	269,243	163,140
Accrued interest	380	495
Dividends receivable	69,243	75,613
Due from brokers - investments	505,390	-
<b>TOTAL ASSETS</b>	<b>23,218,819</b>	<b>21,648,705</b>
<b>LIABILITIES</b>		
Preferred Securities (Note 7)	19,086,850	19,591,563
Redemptions payable	587,530	8,108
Due to brokers - investments	370,226	-
Accrued liabilities	67,722	52,745
<b>TOTAL LIABILITIES</b>	<b>20,112,328</b>	<b>19,652,416</b>
<b>NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY</b>	<b>\$ 3,106,491</b>	<b>\$ 1,996,289</b>
<b>Number of Units Outstanding (Note 7)</b>	<b>1,526,948</b>	<b>1,567,325</b>
<b>Net Assets per Capital Unit</b>	<b>\$ 2.0344</b>	<b>\$ 1.2737</b>
<b>Preferred Security Repayment Price (Note 7)</b>	<b>\$ 12.5000</b>	<b>\$ 12.5000</b>
<b>Combined Value (Note 6)</b>	<b>\$ 14.5344</b>	<b>\$ 13.7737</b>

On behalf of the Manager,  
Strathbridge Asset Management Inc.



John P. Mulvihill, Director



John D. Germain, Director

## Statements of Financial Operations

Years ended December 31

	2012	2011
<b>REVENUE</b>		
Dividends	\$ 1,004,138	\$ 1,073,617
Interest	4,176	12,894
<b>TOTAL REVENUE</b>	<b>1,008,314</b>	<b>1,086,511</b>
<b>EXPENSES (Note 8)</b>		
Management fees	245,246	308,138
Service fees	10,794	22,397
Administrative and other expenses	68,027	65,047
Transaction fees (Note 11)	17,683	37,595
Custodian fees	29,397	32,740
Audit fees	30,041	29,960
Advisory board fees	19,945	19,631
Independent review committee fees	7,976	7,787
Legal fees	3,315	2,036
Unitholder reporting costs	16,797	25,425
Harmonized sales tax	35,916	50,121
<b>Subtotal Expenses</b>	<b>485,137</b>	<b>600,877</b>
Special resolution expense (Note 6)	-	142,719
<b>TOTAL EXPENSES</b>	<b>485,137</b>	<b>743,596</b>
<b>Net Investment Income</b>	<b>523,177</b>	<b>342,915</b>
Net realized gain (loss) on sale of investments	(1,350,867)	319,568
Net realized gain (loss) on sale of derivatives	(459,559)	708,245
<b>Net Gain (Loss) on Sale of Investments</b>	<b>(1,810,426)</b>	<b>1,027,813</b>
Net change in unrealized appreciation/depreciation of investments	3,878,400	(3,259,550)
<b>Net Gain (Loss) on Investments</b>	<b>2,067,974</b>	<b>(2,231,737)</b>
<b>Preferred Security Interest (Note 9)</b>	<b>(1,224,457)</b>	<b>(1,369,706)</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>	<b>\$ 1,366,694</b>	<b>\$ (3,258,528)</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT</b>		
(based on the weighted average number of Units outstanding during the year of 1,567,215; 2011 - 1,776,537)	<b>\$ 0.8721</b>	<b>\$ (1.8342)</b>

## Statements of Changes in Net Assets

Years ended December 31

	2012	2011
NET ASSETS, BEGINNING OF YEAR	\$ 1,996,289	\$ 9,407,461
<b>Net Increase (Decrease) in Net Assets from Operations</b>	<b>1,366,694</b>	<b>(3,258,528)</b>
<b>Capital Unit Transactions (Note 7)</b>		
Value for Capital Units redeemed, excluding Preferred Securities	<b>(82,817)</b>	<b>(3,723,865)</b>
<b>Distributions to Capital Unit Holders (Note 9)</b>		
Non-taxable distributions	<b>(173,675)</b>	<b>(428,779)</b>
<b>Changes in Net Assets during the Year</b>	<b>1,110,202</b>	<b>(7,411,172)</b>
NET ASSETS, END OF YEAR	\$ 3,106,491	\$ 1,996,289

## Statements of Cash Flows

Years ended December 31

	2012	2011
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	\$ 661,760	\$ 8,305,560
<b>Cash Flows Provided by (Used In) Operating Activities</b>		
<b>Net Investment Income</b>	<b>523,177</b>	<b>342,915</b>
<b>Adjustments to Reconcile Net Cash Flows Provided by (Used In) Operating Activities</b>		
Purchase of investment securities	<b>(15,742,484)</b>	<b>(29,994,289)</b>
Proceeds from disposition of investment securities	<b>17,046,298</b>	<b>43,768,771</b>
(Increase)/decrease in dividends receivable, accrued interest and due from brokers - investments	<b>(498,905)</b>	<b>696,269</b>
(Decrease)/increase in accrued liabilities and due to brokers - investments	<b>385,203</b>	<b>(1,136,252)</b>
	<b>1,190,112</b>	<b>13,334,499</b>
<b>Cash Flows Provided by (Used In) Financing Activities</b>		
Capital Unit holder redemptions	<b>(758)</b>	<b>(5,337,241)</b>
Preferred Security redemptions	<b>(7,350)</b>	<b>(14,185,488)</b>
Distributions to Capital Unit holders	<b>(173,675)</b>	<b>(428,779)</b>
Distributions to Preferred Securities - interest	<b>(1,224,457)</b>	<b>(1,369,706)</b>
	<b>(1,406,240)</b>	<b>(21,321,214)</b>
<b>Net Increase/(Decrease) in Cash and Short-Term Investments During the Year</b>	<b>307,049</b>	<b>(7,643,800)</b>
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	\$ 968,809	\$ 661,760
<b>Cash and Short-Term Investments comprised of:</b>		
Cash	\$ 269,243	\$ 163,140
Short-Term Investments	<b>699,566</b>	<b>498,620</b>
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	\$ 968,809	\$ 661,760

## Statement of Investments

As at December 31, 2012

	Par Value/ Number of Shares/ Number of Contracts	Average Cost/ Proceeds	Fair Value	% of Net Assets
<b>SHORT-TERM INVESTMENTS</b>				
<b>Treasury Bills</b>				
Government of Canada, 0.94% - January 4, 2013	700,000	\$ 699,566	\$ 699,566	3.1 %
Accrued Interest			380	0.0 %
<b>TOTAL SHORT-TERM INVESTMENTS</b>		<b>\$ 699,566</b>	<b>\$ 699,946</b>	<b>3.1 %</b>
<b>INVESTMENTS</b>				
<b>Canadian Common Shares</b>				
<b>Financials</b>				
Bank of Montreal	29,100	\$ 1,745,838	\$ 1,769,571	
Canadian Imperial Bank of Commerce	28,300	2,162,850	2,263,151	
Great-West Lifeco Inc.	96,600	2,535,252	2,348,346	
Industrial Alliance Insurance and Financial Services Inc.	79,600	2,534,352	2,493,868	
Manulife Financial Corporation	201,300	2,835,986	2,713,524	
National Bank of Canada	21,530	1,582,980	1,661,039	
Royal Bank of Canada	35,000	2,093,620	2,094,050	
Sun Life Financial Inc.	91,900	2,459,477	2,420,646	
The Bank of Nova Scotia	37,500	2,082,651	2,153,250	
The Toronto-Dominion Bank	22,084	1,768,894	1,847,327	
<b>Total Financials</b>		<b>21,801,900</b>	<b>21,764,772</b>	<b>98.1 %</b>
<b>Total Canadian Common Shares</b>		<b>\$ 21,801,900</b>	<b>\$ 21,764,772</b>	<b>98.1 %</b>
<b>Options</b>				
<b>Written Covered Call Options (100 shares per contract)</b>				
Bank of Montreal - March 2013 @ \$58	(155)	\$ (27,435)	\$ (37,391)	
Canadian Imperial Bank of Commerce - March 2013 @ \$78	(157)	(40,035)	(27,269)	
The Bank of Nova Scotia - March 2013 @ \$54	(84)	(14,700)	(25,115)	
<b>Total Written Covered Call Options</b>		<b>(82,170)</b>	<b>(89,775)</b>	<b>(0.4)%</b>
<b>Total Options</b>		<b>\$ (82,170)</b>	<b>\$ (89,775)</b>	<b>(0.4)%</b>
Adjustment for transaction costs		(15,073)		
<b>TOTAL INVESTMENTS</b>		<b>\$ 21,704,657</b>	<b>\$ 21,674,997</b>	<b>97.7 %</b>
<b>OTHER NET ASSETS</b>			<b>(181,602)</b>	<b>(0.8)%</b>
<b>TOTAL NET ASSETS, excluding the Preferred Security liability</b>			<b>\$ 22,193,341</b>	<b>100.0 %</b>

## 1. Establishment of the Fund

Top 10 Split Trust (the “Fund”) was originally established as a closed-end investment trust under the laws of the Province of Ontario on January 22, 1997 under the name First Premium U.S. Income Trust (“FPU”) which began operations on February 4, 1997. On November 21, 2005, unitholders of FPU approved a proposal resulting in a change in the investment objectives and strategy of the Fund. In connection with the approval of the proposal, the Fund changed its name to Top 10 Split Trust to better reflect its new investment strategy and split trust capital structure.

Strathbridge Asset Management Inc. (“Strathbridge”) is the Manager as well as the Investment Manager of the Fund. On October 3, 2011, Mulvihill Capital Management Inc. announced a name change to Strathbridge. RBC Investor Services Trust is the Custodian of the Fund.

## 2. Reorganization

On March 21, 2011, holders of Capital Units and holders of Preferred Securities approved a proposal to extend the term of the Fund for five years beyond the scheduled termination date of March 31, 2011, and for automatic successive five-year terms after March 31, 2016. As part of the extension of the Fund, the Fund also made other changes including: (i) changing the monthly retraction prices for the Capital Units and Preferred Securities such that monthly retraction prices are calculated by reference to market price in addition to net asset value and changing the notice period as well as payment period for the exercise of such rights and the payment of the retraction amount relating thereto; and (ii) consolidating the Capital Units or redeeming the Preferred Securities on a pro rata basis, as the case may be, in order to maintain the same number of Capital Units and Preferred Securities outstanding.

## 3. Partial Redemption of Preferred Securities

Pursuant to the special retraction right granted to Securityholders in connection with the extension of the Fund in 2011, 284,227 Preferred Securities and 741,330 Capital Units were surrendered for retraction. In order to maintain an equal number of Preferred Securities and Capital Units, the Fund redeemed an additional of 457,103 Preferred Securities on a pro-rata basis from all holders of record of Preferred Securities on March 31, 2011, representing approximately 20 percent of the issued and outstanding Preferred Securities. Each Preferred Security was redeemed at a price equal to \$12.50, being the principal amount per Preferred Security, plus all accrued and unpaid interest thereon.

## 4. Investment Objectives of the Fund

The Fund’s investment objectives for Capital Units are to:

- (i) provide holders of Capital Units, upon redemption, with the benefit of any capital appreciation in the market price of the securities in the Financial Portfolio, and
- (ii) pay quarterly distributions to holders of Capital Units in an amount targeted to be 7.5 percent per annum of the net asset value (the “NAV”) of the Capital Units; and

the Fund’s investment objectives for Preferred Securities are to:

- (i) pay holders of Preferred Securities fixed quarterly cash interest payments equal to 6.25 percent per annum on the \$12.50 principal amount of a Preferred Security, and
- (ii) repay the principal amount of \$12.50 per Preferred Security on the termination date of the Fund on March 31, 2016.

The Fund invests in the six largest Canadian banks and the four largest Canadian life insurance companies by market capitalization.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by the portfolio and to reduce volatility. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the particular portfolio while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

## 5. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”), which include estimates and assumptions made by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Primary estimates include valuation of investments. While management believes that the estimates used in preparing its financial statements are reasonable and prudent, actual results could differ from these estimates.

### Financial Instruments – Disclosures

The Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund’s investments. See additional note disclosures in Note 13.

The significant accounting policies of the Fund are as follows:

### Valuation of Investments

Investments are recorded in the financial statements at their fair value which is determined by the closing bid price for long positions and by the closing ask price for short positions from the recognized stock exchange on which the securities are listed or principally traded. If no bid or ask prices are available, the securities are valued at the closing sale price or the Manager may estimate fair value using appropriate and accepted industry valuation techniques including valuation models. The fair value of an investment, determined using valuation models, requires the use of inputs and assumptions based on observable market data including volatility and other applicable rates or prices. In limited circumstances, the fair value of a security may be determined using valuation techniques that are not supported by observable market data. Over-the-counter options are valued using the Black-Scholes valuation model.

Short-term investments are included in the Statement of Investments at their cost. This value together with accrued interest approximates fair value at bid price.

### Transaction Fees

Transaction fees have been expensed as incurred and included in the transaction fees line in the Statement of Financial Operations. Transaction fees are costs that are directly attributable to portfolio transactions which include fees and commissions paid to brokers and dealers.

### Investment Transactions and Income

Investment transactions are accounted for on a trade date basis. Realized gains and losses on the sale of investments and change in unrealized appreciation/depreciation of investments are determined on an average cost basis. Realized gains and losses relating to written options may arise from:

- (i) Expiration of written options whereby realized gains are equivalent to the premium received;
- (ii) Exercise of written covered call options whereby realized gains or losses are equivalent to the premium received in addition to the realized gain or loss from disposition of the related investments at the exercise price of the option; and
- (iii) Closing of written options whereby realized gains or losses are equivalent to the cost of purchasing options to close the positions, net of any premium received.

Realized gains and losses related to options are included in net gain (loss) on sale of derivatives.

Realized gains and losses relating to purchased put options may arise from:

- (i) Expiration of purchased put options whereby realized losses are equivalent to the premium paid;
- (ii) Exercise of purchased put options whereby realized gains or losses are equivalent to the realized gain or loss from disposition of the related investments at the exercise price of the option less the premium paid; and
- (iii) Sale of purchased put options whereby realized gains or losses are equivalent to the sale proceeds, net of any premium paid.

Option premiums received are reflected as deferred credits in investments so long as the options are outstanding. Any difference resulting from revaluation is included in the net change in unrealized appreciation/depreciation of investments. Premiums received on written put options that are exercised are included in the cost of the security purchased.

Dividend income is recorded on the ex-dividend date. Interest income is recorded daily as it is earned.

### 6. Net Asset Value

The net asset value of the Fund is calculated using the fair value of investments at the close or last trade price. The net assets per Unit is calculated using the fair value of investments at the closing bid price. The net assets per Unit for financial reporting purposes and net asset value per Unit for pricing purposes will not be the same due to the use of different valuation techniques.

The difference between the net asset value per Unit for pricing purposes and the net assets per Unit reflected in the financial statements is as follows:

	2012	2011
Net Asset Value per Unit (for pricing purposes)	<b>\$14.5511</b>	\$13.7889
Difference	<b>(0.0167)</b>	(0.0152)
Net Assets per Unit (for financial statement purposes)	<b>\$14.5344</b>	\$13.7737

### 7. Unitholders' Equity

The Preferred Securities are direct unsecured debt obligations issued by the Fund that will mature on March 31, 2016. At such date, the Fund will repay the principal amount of \$12.50 per Preferred Security on termination of the Fund. A holder of Preferred Securities may surrender a Preferred Security for repayment together with a Capital Unit under a regular monthly retraction (other than December) or a special annual retraction in December.

The Fund is authorized to issue an unlimited number of transferable, redeemable units of one class representing an equal, undivided beneficial interest in the net assets of the Fund. All Capital Units have equal rights and privileges. Each whole Capital Unit is entitled to one vote at all meetings of holders and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains, and any distributions upon the termination of the Fund after payment of debts and liabilities, including, without limitation, the aggregate Repayment Price of the Preferred Securities, and liquidation expenses of the Fund.

Pursuant to the fund reorganization in March 2011, Capital Units surrendered for retraction (either alone or together with a Preferred Security) at least ten business days prior to the last day of a month (a "Valuation Date") will be retracted on such Valuation date and such security holder will receive payment on or before the tenth business day following such Valuation Date. A holder who concurrently redeems a Capital Unit with a Preferred Security (a "Combined Unit") for retraction on a monthly Valuation Date (other than December) will be entitled to receive an amount equal to 95 percent of the lesser of (i) the NAV of a Combined Unit (the "Combined Value") less \$0.50 and (ii) the Combined Unit market price. A holder retracting a Capital Unit alone on a monthly Valuation date (other than December) will receive a retraction price per Capital Unit equal to 95 percent of the lesser of (i) the Combined Value less the aggregate cost to purchase a Preferred Security in the market and \$0.50; and (ii) the Capital Unit market price. A holder who surrenders a Combined Unit for retraction on a December Valuation Date will receive an amount equal to the Combined Value. A holder retracting a Capital Unit alone on a December Valuation Date will receive an amount equal to the Combined Value minus the price paid by the Fund to purchase one Preferred Security in the market.

Unit transactions during the year are as follows:

	2012	2011
Units outstanding, beginning of year	<b>1,567,325</b>	2,309,243
Units redeemed	<b>(40,377)</b>	(741,918)
Units outstanding, end of year	<b>1,526,948</b>	1,567,325

On January 19, 2012, the Fund filed a Notice of Intention to make a normal course issuer bid to purchase up to 156,732 Capital Units and 156,732 Preferred Securities representing approximately 10 percent of the Fund's public float of 1,567,325 units of each class as of January 10, 2012. The Fund may purchase up to 31,346 units of each class in any 30-day period which is 2 percent of the 1,567,325 units issued and outstanding of each class as at January 10, 2012. The Capital Units and Preferred Securities may be purchased for cancellation from January 23, 2012 to January 22, 2013 through the facilities of the Toronto Stock Exchange or other eligible alternative market and may only be purchased at a price per unit of each class not exceeding the last net asset value per unit of each class. As at December 31, 2012, nil units had been purchased by the Fund.

## 8. Management Fees and Expenses

Strathbridge, as Manager under the terms of the Trust Agreement and as Investment Manager under terms of the Investment Management Agreement, receives fees payable at annual rates of 0.10 percent and 1.00 percent respectively of the Fund's net asset value, calculated and payable monthly, plus applicable taxes.

The Fund is responsible for all ongoing trustee, manager, legal, accounting and audit fees as well as all other expenses incurred by the Trustee and Manager in the ordinary course of business relating to the Fund's operations. The Fund is also responsible for commissions and other costs of portfolio transactions and any extraordinary expenses of the Fund which may be incurred from time to time.

The Fund pays a service fee to each dealer whose clients hold Capital Units. The service fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.40 percent annually of the net asset value of the Capital Units held by clients of the dealer.

In 2011, special resolution expenses pertaining to the fund extension amounted to \$142,719 of which \$60,403 were solicitation fees.

## 9. Distributions

The Fund will endeavour (i) to make quarterly distributions to holders of Capital Units in an amount targeted to be 7.5 percent per annum on the Fund's net asset value and (ii) to pay holders of Preferred Securities fixed quarterly cash interest payments of 6.25 percent per annum on the \$12.50 principal amount of a Preferred Security.

If after such distributions there would otherwise remain in the Fund additional net investment income or net realized capital gains, the Fund intends to make a special distribution to holders of Capital Units of such portion of the remaining net investment income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax under the Income Tax Act (Canada) (the "Act").

The non-taxable distributions received by Capital Unit holders reduce the adjusted cost base of the Capital Unit for tax purposes.

## 10. Income Taxes

The Fund is a "mutual fund trust" as defined in the Act. The Fund is subject to tax in each taxation year under Part I of the Act on the amount of its income for the year, including net realized taxable capital

gains, less the portion thereof that it claims in respect of the amount paid or payable to unitholders in the year. Income tax paid by the Fund on any net realized capital gains not paid or payable to unitholders is recoverable by the Fund to the extent and in the circumstances provided in the Act.

Given the investment and distribution policies of the Fund and taking into account expenses, the Fund does not expect to bear any appreciable non-refundable income tax.

No amount is payable on account of income taxes in 2012 or 2011.

Accumulated non-capital losses of approximately \$13.3M (2011 - \$13.0M) and capital losses of approximately \$69.1M (2011 - \$67.9M) are available for utilization against net investment income and realized gains on sale of investments, respectively, in future years. The capital losses can be carried forward indefinitely. The non-capital losses expire as follows:

Expiration Date	Amount (in \$M)
2014	\$3.9
2015	1.2
2026	4.7
2028	1.0
2029	1.4
2030	0.8
2032	0.3
<b>Total</b>	<b>\$13.3</b>

## 11. Transaction Fees

Total transaction fees for the year ended December 31, 2012 in connection with portfolio transactions were \$17,683 (2011 - \$37,595). Of this amount \$8,243 (2011 - \$7,859) was directed to cover payment of research services provided to the Investment Manager.

## 12. Capital Disclosures

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "Capital Disclosures" requires the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Fund's objectives, policies and processes are described in Note 4, information on the Fund's unitholders' equity is described in Note 7 and Note 9 and the Fund does not have any externally imposed capital requirements.

## 13. Financial Instruments and Risk Management

The Fund's financial instruments consist of cash, investments, receivables, Preferred Securities, payables and certain derivative contracts. In accordance with CICA Handbook Section 3862, "Financial Instruments - Disclosures", the Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

- (i) Level 1 - for unadjusted quoted prices in active markets for identical assets or liabilities,

(ii) Level 2 - for inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

(iii) Level 3 - for inputs that are based on unobservable market data.

The following is a summary of the inputs used as of December 31, 2012 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Term Investments	\$ -	\$ 699,946	\$ -	\$ 699,946
Canadian Common Shares	21,764,772	-	-	21,764,772
Options	-	(89,775)	-	(89,775)
Total Investments	\$ 21,764,772	\$ 610,171	\$ -	\$ 22,374,943

The following is a summary of the inputs used as of December 31, 2011 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Term Investments	\$ -	\$ 499,115	\$ -	\$ 499,115
Canadian Common Shares	21,021,298	-	-	21,021,298
Options	-	(110,461)	-	(110,461)
Total Investments	\$ 21,021,298	\$ 388,654	\$ -	\$ 21,409,952

There were no transfers between Level 1 and Level 2 during 2012 and 2011.

The Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include other price risk, liquidity risk, interest rate risk and credit risk.

These risks and related risk management practices employed by the Fund are discussed below:

#### Other Price Risk

Other 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), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or segment. The Fund's most significant exposure to other price risk arises from its investments in equity securities. Net assets per Unit varies as the value of the securities in the Fund varies. The Fund has no control over the factors that affect the value of the securities in the Fund including factors that affect all of the companies in the banks and life insurance industries. The Fund's market risk is managed by taking a long-term perspective and utilizing an option writing program, as well as by the use of purchased put options.

Approximately 98 percent (2011 - 97 percent) of the Fund's net assets, excluding the Preferred Security liability, held at December 31, 2012 were publicly traded equities. If equity prices on the exchange increased or decreased by 10 percent as at December 31, 2012, the net assets, excluding the Preferred Security liability, of the Fund would have increased or decreased by \$2.2M (2011 - \$2.1M) respectively or 9.8 percent (2011 - 9.7 percent) of the net assets, excluding the Preferred Security liability, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

#### Liquidity Risk

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required. To manage this risk, the Fund invests the majority of its assets in investments that are traded in an active market and which can be easily disposed. In addition, the Fund aims to retain sufficient cash and short-term investments to maintain liquidity and to meet its obligations when due. Liabilities are payable within one year, except the Preferred Security liability which matures on March 31, 2016 (see Note 7).

Cash is required to fund redemptions. Unitholders must surrender Units at least 10 business days prior to the last day of the month and receive payment on or before 10 business days following the month end valuation date. Therefore the Fund has a maximum of 20 business days to generate sufficient cash to fund redemptions mitigating liquidity issues.

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. The financial instruments which potentially expose the Fund to interest rate risk are the short-term fixed income securities. The Fund has minimal sensitivity to change in rates since securities are usually held to maturity and are short-term in nature.

#### Credit Risk

The Fund is subject to the credit risk that its counterparty (whether a clearing corporation, in the case of exchange traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its obligations. The Fund manages these risks through the use of various risk limits and trading strategies.

The credit risk is mitigated by dealing with counterparties that have a credit rating that is not below the level of approved credit ratings as set out in National Instrument 81-102.

The following are the credit ratings for the counterparties to derivative financial instruments that were authorized for trading with the Fund during the year based on Standard & Poor's credit ratings as of December 31, 2012:

Dealer	Long-Term Local Currency Rating	Short-Term Local Currency Rating
Bank of Montreal	A+	A-1
Canadian Imperial Bank of Commerce	A+	A-1
Citigroup Inc.	A-	A-2
Deutsche Bank	A+	A-1
National Bank of Canada	A-	A-2
Royal Bank of Canada	AA-	A-1+
The Bank of Nova Scotia	A+	A-1
The Toronto-Dominion Bank	AA-	A-1+
UBS AG	A	A-1

The following are the credit ratings for the counterparties to derivative financial instruments that were authorized for trading with the Fund during the prior year based on Standard & Poor's credit ratings as of December 31, 2011:

Dealer	Long-Term Local Currency Rating	Short-Term Local Currency Rating
Bank of Montreal	A+	A-1
Canadian Imperial Bank of Commerce	A+	A-1
Citigroup Inc.	A-	A-2
National Bank of Canada	A	A-1
Royal Bank of Canada	AA-	A-1+
The Toronto-Dominion Bank	AA-	A-1+
UBS AG	A+	A-1

The following is the credit rating for short-term investments held by the Fund based on Standard & Poor's credit ratings as of December 31, 2012:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Treasury Bills	A-1+	100%
<b>Total</b>		100%

The following is the credit rating for short-term investments held by the Fund based on Standard & Poor's credit ratings as of December 31, 2011:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Bankers' Acceptances	A-1	100%
<b>Total</b>		100%

The carrying amount of these investments represents their maximum credit risk exposure, as they will be settled in the short-term.

#### 14. Future Accounting Policy Changes

The Fund was required to adopt International Financial Reporting Standards ("IFRS") for the year beginning on January 1, 2011. In January 2011, the Canadian Accounting Standards Board ("AcSB") approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 – Investment Companies. Subsequently, in December 2011, AcSB extended the deferral for another year to January 1, 2014. As a result, the Fund will adopt IFRS for the year beginning on January 1, 2014 and will issue its first annual statements, with comparative information, for the year ending December 31, 2014.

## Board of Advisors

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**John P. Mulvihill**

Chairman & CEO  
Strathbridge Asset Management Inc.

**John D. Germain**

Senior Vice-President & Chief Financial Officer  
Strathbridge Asset Management Inc.

**Michael M. Koerner<sup>1</sup>**

Corporate Director

**Robert W. Korthals<sup>1</sup>**

Corporate Director

**Robert G. Bertram<sup>1</sup>**

Corporate Director

<sup>1</sup>Independent Review Committee Member

## Information

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**Independent Auditors:**

Deloitte LLP  
Brookfield Place  
181 Bay Street, Suite 1400  
Toronto, Ontario  
M5J 2V1

**Transfer Agent:**

Computershare Investor Services Inc.  
100 University Avenue, 8th Floor  
Toronto, Ontario  
M5J 2Y1

**Securities Listed:**

Toronto Stock Exchange  
trading under  
TXT.UN/TXT.PR.A

**Custodian:**

RBC Investor Services Trust  
RBC Centre  
155 Wellington Street West, 2nd Floor  
Toronto, Ontario  
M5V 3L3

Visit our website at [www.strathbridge.com](http://www.strathbridge.com) for additional information on all Strathbridge Investment Funds.

## Investment Funds Managed by Strathbridge Asset Management Inc.

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### UNIT TRUSTS

Canadian Utilities & Telecom Income Fund  
Core Canadian Dividend Trust  
Gold Participation and Income Fund  
Low Volatility U.S. Equity Income Fund  
Premier Canadian Income Fund  
Top 10 Canadian Financial Trust

### SPLIT SHARES

Premium Income Corporation  
S Split Corp.  
Top 10 Split Trust  
World Financial Split Corp.

## Head Office:

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M5H 3T9

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Toll Free: 1-800-725-7172  
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Email: [info@strathbridge.com](mailto:info@strathbridge.com)

Contact your broker directly for address changes.



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