

ANNUAL REPORT 2011

## Top 10 Canadian Financial Trust



  
**strathbridge**  
ASSET MANAGEMENT

## Letter to Unitholders

We are pleased to present the 2011 annual report containing the management report of fund performance and the audited financial statements for Top 10 Canadian Financial Trust.

During the year ended December 31, 2011, the Fund paid distributions of \$0.75 per unit. The annual total return of the Fund, including reinvestment of distributions, was negative 11.2 percent. The net asset value decreased from \$10.57 per unit as at December 31, 2010 to \$8.71 per unit as at December 31, 2011, primarily reflecting a decline in the market value of the shares of the four major Canadian life insurance companies held within the portfolio due to weak equity markets and continued low interest rates. However, the decline in the net asset value during the year was mitigated by the Strathbridge Selective Overwriting strategy (see “The Fund”) which generated net realized gain on options of \$0.30 per unit. 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 unitholders for their continued support and encourage unitholders 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 closed-end investment trust designed to provide unitholders with a stable stream of tax-efficient quarterly cash distributions in an amount targeted to be 7.5 percent per annum on the net asset value of the Fund and to return \$15.60 per unit to unitholders upon termination of the Fund. The units are listed on the Toronto Stock Exchange under the ticker symbol TCT.UN. 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 continuously writing 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, 2011 of Top 10 Canadian Financial 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 or 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, 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 are to provide unitholders with a stable stream of quarterly cash distributions in an amount targeted to be 7.5 percent of the net asset value per unit and to return the net asset value per unit as of August 2, 2005 of \$15.60 to unitholders upon termination of the Fund.

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

From time to time, the Fund may hold a portion of its assets in cash and short-term investments.

## Risk

Risks associated with an investment in the securities of the Fund are discussed in the Fund’s 2011 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**

The policy of the Fund is to pay quarterly distributions calculated as 7.5 percent per annum of the net asset value, which are generally classified as a return of capital for tax purposes. For the year ended December 31, 2011, cash distributions were \$0.75 per unit, down \$0.04 per unit from a year ago.

Since the reorganization of the Fund in August 2005 when the Fund adopted new objectives and a new investment strategy as the Top 10 Canadian Financial Trust, the Fund has paid total cash distributions of \$6.17 per unit.

### **Revenue and Expenses**

The Fund's total revenue was \$0.41 per unit for the year ended December 31, 2011, down \$0.03 per unit compared to the prior year. The difference in income per unit was mainly due to lower dividend income earned on a per average-unit basis. Total expenses in 2011 were \$0.21 per unit, down \$0.05 per unit from a year ago, primarily attributable to non-recurring costs of \$0.05 per unit associated with the fund reorganization in 2010. The Fund had a net realized and unrealized loss of \$1.27 per unit in 2011 as compared to a net realized and unrealized gain of \$0.30 per unit in 2010.

### **Net Asset Value**

The net asset value per unit of the Fund decreased 17.6 percent from \$10.57 per unit at December 31, 2010 to \$8.71 per unit at December 31, 2011, primarily as a result of a decline in the market value of the shares of the four major life insurance companies held within the portfolio due to weak equity markets and continued low interest rates. The total net asset value of the Fund declined from \$34.0 million at December 31, 2010 to \$24.7 million at December 31, 2011 reflecting cash distributions and redemptions of \$5.8 million and a net decrease in net assets from operations of \$3.5 million.

During the year ended December 31, 2011, the annual total return of the Fund was negative 11.2 percent reflecting a decline in value of the securities in the portfolio. The S&P/TSX Capped Financials Index (the "Financials Index") total return during the same period was negative 3.8 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, comparison 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 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") reflecting a revitalized focus and commitment to the closed-end fund business.

## Future Accounting Policy Changes

The Manager 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 2011 financial statements and the preparation of the 2012 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 initial financial statements in accordance with IFRS, with comparative information, for the semi-annual period ending June 30, 2014.

As at December 31, 2011, 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,
- Implementation of cash flow statements,
- 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

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 February 15, 2000 and amended as of August 2, 2005.

Strathbridge is the Manager of the Fund pursuant to a Trust Agreement made between the Fund and MCM dated February 15, 2000 and amended as of August 2, 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.

## 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 independent review committee (“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. Members of the IRC are Robert W. Korthals, Michael M. Koerner and Robert G. Bertram.

We confirm the Fund did not rely on any approvals or recommendations of the IRC concerning related party transactions during the year.

## 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

	2011	2010	2009	2008	2007
<b>THE FUND'S NET ASSETS PER UNIT</b>					
Net Assets, beginning of year (based on bid prices) <sup>(1)</sup>	\$ 10.52	\$ 10.90	\$ 9.58	\$ 14.28	\$ 15.95 <sup>(4)</sup>
INCREASE (DECREASE) FROM OPERATIONS					
Total revenue	0.41	0.44	0.40	0.46	0.49
Total expenses	(0.21)	(0.26)	(0.22)	(0.21)	(0.26)
Realized gain (loss) for the period	(0.11)	(0.58)	(1.88)	(0.89)	0.85
Unrealized gain (loss) for the period	(1.16)	0.88	3.75	(3.13)	(1.57)
<b>Total Increase (Decrease) from Operations<sup>(2)</sup></b>	<b>(1.07)</b>	0.48	2.05	(3.77)	(0.49)
DISTRIBUTIONS					
Non-taxable distributions	(0.75)	(0.79)	(0.76)	(0.93)	(1.17)
<b>Total Annual Distributions<sup>(3)</sup></b>	<b>(0.75)</b>	(0.79)	(0.76)	(0.93)	(1.17)
<b>Net Assets, as at December 31 (based on bid prices)<sup>(1)</sup></b>	<b>\$ 8.70</b>	\$ 10.52	\$ 10.90	\$ 9.58	\$ 14.28

(1) Net assets per unit is the difference between the aggregate value of the assets and the aggregate value of the liabilities on that date and including the valuation of securities at bid prices 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 unitholders are based on the number of units outstanding on the record date for each distribution and were paid in cash.

(4) Net assets per unit has been adjusted for the change in accounting policy relating to the calculation of net asset value based on bid prices versus closing prices prior to 2007.

Years ended December 31

	2011	2010	2009	2008	2007
<b>RATIOS/SUPPLEMENTAL DATA</b>					
Net Asset Value (\$millions) <sup>(1)</sup>	\$ 24.70	\$ 33.99	\$ 53.48	\$ 59.60	\$ 107.65
Number of units outstanding <sup>(1)</sup>	2,835,356	3,224,405	4,896,746	6,201,992	7,524,019
Management expense ratio <sup>(2)</sup>	1.98%	2.55%	2.06%	1.67%	1.64%
Portfolio turnover rate <sup>(3)</sup>	93.65%	113.97%	70.70%	19.72%	75.28%
Trading expense ratio <sup>(4)</sup>	0.11%	0.15%	0.13%	0.06%	0.07%
Net Asset Value per Unit <sup>(5)</sup>	\$ 8.71	\$ 10.57	\$ 10.92	\$ 9.61	\$ 14.31
Closing market price	\$ 8.40	\$ 10.25	\$ 10.87	\$ 9.00	\$ 14.00

(1) This information is provided as at December 31.

(2) The management expense ratio ("MER") is the sum of all fees and expenses, including federal and provincial sales taxes but excluding transaction fees, charged to the Fund divided by the average net asset value. The MER for 2011 includes special resolution recovery. The MER for 2011 excluding special resolution recovery is 2.13%. The MER for 2010 includes special resolution expense and warrant exercise fees. The MER for 2010 excluding special resolution expense and warrant exercise fees is 1.86%. The MER for 2009 includes the warrant offering costs. The MER for 2009 excluding the warrant offering costs is 1.78%.

(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 unit is the difference between the aggregate value of the assets and the aggregate value of the liabilities and including the valuation of securities at closing prices 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.

Mulvihill Fund Services Inc. (the predecessor Manager or “Mulvihill”) amalgamated with Mulvihill Capital Management Inc. (the predecessor Investment Manager or “MCM”) on September 1, 2010. As successor, MCM became the Manager as well as the Investment Manager of the Fund. On October 3, 2011, MCM announced a name change to Strathbridge Asset Management Inc. (“Strathbridge”).

### Past Performance

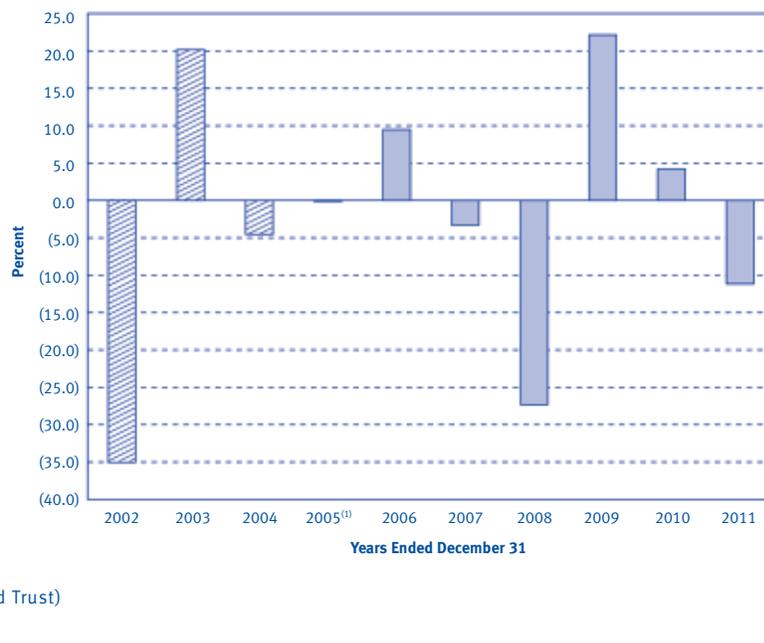
The following chart sets out the Fund’s year-by-year past performance. It is important to note that the:

- (1) information shown assumes that all distributions made by the Fund during these periods were reinvested in units 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) As at August 2, 2005, the Fund amended its investment strategy and changed its name to Top 10 Canadian Financial Trust and consolidated the units on a 5 to 1 basis.

## Annual Compound Returns

The following table shows the Fund's historical annual compound return (net of expenses) for the periods ended December 31, 2011 as compared to the performance of the NASDAQ, S&P/TSX Financials Index and S&P/TSX Capped Financials Index.

(In Canadian Dollars)	One Year	Three Years	Five Years	Ten Years
Top 10 Canadian Financial Trust	<b>(11.15)%</b>	4.19%	(4.49)%	(4.24)%
NASDAQ <sup>(1)</sup>	n/a	n/a	n/a	(1.53)%
S&P/TSX Financials Index <sup>(2)</sup>	<b>(2.86)%</b>	16.05%	(0.46)%	n/a
S&P/TSX Capped Financials Index <sup>(3)</sup>	<b>(3.84)%</b>	15.00%	(0.64)%	n/a

(1) The NASDAQ is a broad-based capitalization-weighted index of all NASDAQ National Market & Small Cap Stocks.

(2) The S&P/TSX 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.

(3) 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 August 1, 2005 was based on the investment objectives and strategy of the Fund as Digital World Trust investing in common shares issued by leading "digitally based" companies listed on a major North American stock exchange or quoted on NASDAQ with a market capitalization in excess of US\$5 billion and which operate within the sectors of telecommunication services, telecommunications equipment suppliers, enabling hardware and software and related digital commerce, services and products. On August 2, 2005 unitholders of the Fund approved a special resolution resulting in a change in the investment objectives and strategy of the Fund. Since August 2, 2005, the Fund invests in the six largest Canadian banks and the four largest Canadian life insurance companies by market capitalization.

Commencing in 2011, the S&P/TSX Capped Financials Index was added to the performance benchmarks 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

2011 was a very tumultuous year for stock markets as numerous geopolitical events occurred that provided headwinds to Global economies. With the horrendous tsunami and near major nuclear catastrophe in Japan in March; pro-democracy uprising in the Arab world; Standard & Poor's downgrade of the U.S. Government debt in August; continued concern regarding European sovereign default risk, 2011 was a year in which many external and macroeconomic events affected the markets. The S&P/TSX Composite Total Return Index was down 8.7 percent during 2011, with the banks outperforming and the insurance companies underperforming the broader market during the year. The Canadian economy meanwhile has remained relatively strong with employment and housing conditions much stronger than most developed countries and the government enjoying a much stronger fiscal position. The Bank of Canada remained on hold during the period due to slower than expected growth and a relatively stable Canadian dollar which decreased by 2.3 percent relative to the U.S. dollar.

The Canadian banks reported mixed earnings growth during 2011 on solid retail banking and better than expected loan loss provisions offset by weaker than expected trading revenues. Capital ratios continued to remain strong with Tier 1 ratios up slightly from the previous year. The Canadian banks continued to return capital to shareholders during the period as every bank increased its dividend in 2011, with the exception of the Bank of Montreal. The Canadian life insurance companies reported lower earnings in 2011 as weak and volatile Global equity markets and a considerable decline in 10-year bond yields in both Canada and the U.S. negatively impacted the group. Record low interest rates are likely to remain for the foreseeable future until economic growth is believed to be sustainable. In light of current low interest rates, the valuations of the Canadian banks and life insurance companies remain at attractive levels when measured by price to earnings ratios and current dividend yields and this should continue to act as major support for the share prices. As regulatory requirements become clearer in 2012, some of the Canadian Financial Services companies are likely to return capital to shareholders in the form of increased dividends.

The total return for the S&P/TSX Capped Financials Index for the year was negative 3.8 percent, which outperformed the broader S&P/TSX Composite Total Return Index which declined 8.7 percent. The total return of an equal-weighted basket of the ten Financial Services stocks that make up the portfolio was negative 10.8 percent. The Canadian banks once again strongly outperformed the Canadian life insurers during the year up 0.9 percent and down 20.9 percent respectively. Four of the ten Financial Services equities that make up the portfolio experienced positive total returns during the period with the National Bank of Canada posting the strongest return of 9.4 percent. All four Canadian life insurance companies lagged the group during 2011 with Manulife Financial Corporation and Sun Life Financial Inc. down 34.5 percent and 33.6 percent respectively, due to their greater sensitivity to equity market volatility and low interest rates.

The annual total return of the Fund, including reinvestment of distributions, for the year ended December 31, 2011 was negative 11.2 percent. The Fund underperformed the benchmark for the year due to some covered call writing in February, when the returns of ten Financial Services companies within the portfolio increased by 6.6 percent on average. The Fund maintained its invested position during the majority of the year and ended 2011 with a cash position of 2 percent compared to 42 percent at the end of 2010 that was raised in order to finance the special redemption right offered in conjunction with the fund extension.

Volatility was subdued in the first half of 2011 but picked up considerably in July as the deadline for the U.S. Congress vote on the debt ceiling in early August was approaching and remained elevated after Standard & Poor's downgraded the rating of the U.S. Government debt. With the increase in volatility for the Canadian Financial Services stocks in the second half of the year, the level of covered call writing was increased as the higher level of volatility compensated the Fund sufficiently to justify this activity. The Fund ended 2011 with approximately 11 percent of the portfolio subject to covered calls. The Fund also opportunistically purchased some put protection on the iShares S&P/TSX Capped Financials Index Fund and individual holdings in the May to September period due to concerns of European sovereign default risk increasing as well as the U.S. debt ceiling controversy impacting the Canadian Financials. During 2011, the net realized gain on options attributable to the Strathbridge Selective Overwriting ("SSO") strategy was \$0.30 per unit.

The Canadian banks and life insurance companies are expected to improve profitability and capital ratios in 2012 due to improving credit, good expense control and leverage to an economic recovery. Consequently, Canadian banks are expected to resume dividend growth, share buybacks and pursue acquisitions before life insurance companies. Hence, the Fund has a greater weighting towards the banks in the portfolio.

## 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, 2011

	<b>% OF NET ASSET VALUE</b>
Financials	105 %
Cash and Short-Term Investments	2 %
Other Assets (Liabilities)	(7)%
	100 %

### Portfolio Holdings

December 31, 2011

	<b>% OF NET ASSET VALUE</b>
The Toronto-Dominion Bank	13 %
Royal Bank of Canada	12 %
National Bank of Canada	12 %
Canadian Imperial Bank of Commerce	12 %
The Bank of Nova Scotia	12 %
Bank of Montreal	10 %
Great-West Lifeco Inc.	9 %
Industrial Alliance Insurance and Financial Services Inc.	9 %
Manulife Financial Corporation	8 %
Sun Life Financial Inc.	8 %
Cash and Short-Term Investments	2 %

#### 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 Canadian Financial 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 3 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 & Touche LLP, the Fund's independent auditor, has full and unrestricted access to the Board.



John P. Mulvihill  
Director  
Strathbridge Asset Management Inc.  
February 27, 2012



John D. Germain  
Director  
Strathbridge Asset Management Inc.

## To the Unitholders of Top 10 Canadian Financial Trust

We have audited the accompanying financial statements of Top 10 Canadian Financial Trust, which comprise the statement of investments as at December 31, 2011, the statements of net assets as at December 31, 2011 and 2010, and the statements of financial operations, changes in net assets, and net loss on sale of investments 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 Canadian Financial Trust as at December 31, 2011 and 2010, and the results of its operations and its changes in the net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

*Oelbittle & Touche LLP*

Chartered Accountants  
Licensed Public Accountants  
February 27, 2012  
Toronto, Ontario

## Statements of Net Assets

As at December 31

	2011	2010
<b>ASSETS</b>		
Investments at fair value (cost \$30,687,206; 2010 - \$37,586,648)	\$ 25,837,413	\$ 36,476,443
Short-term investments at fair value (cost - \$349,034; 2010 - \$14,394,111)	349,034	14,394,111
Cash	212,248	53,788
Accrued interest	347	1,915
Dividends receivable	99,558	121,353
Due from brokers - Investments	1,636,011	1,104,287
<b>TOTAL ASSETS</b>	<b>28,134,611</b>	<b>52,151,897</b>
<b>LIABILITIES</b>		
Redemptions payable	3,386,112	17,457,810
Accrued liabilities	77,653	355,144
Due to brokers - investments	-	408,659
<b>TOTAL LIABILITIES</b>	<b>3,463,765</b>	<b>18,221,613</b>
<b>NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY</b>	<b>\$ 24,670,846</b>	<b>\$ 33,930,284</b>
<b>Number of Units Outstanding (Note 5)</b>	<b>2,835,356</b>	<b>3,224,405</b>
<b>Net Assets per Unit (Note 4)</b>	<b>\$ 8.7011</b>	<b>\$ 10.5230</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

	2011	2010
<b>REVENUE</b>		
Dividends	\$ 1,294,768	\$ 2,122,183
Interest	13,556	16,491
<b>TOTAL REVENUE</b>	<b>1,308,324</b>	2,138,674
<b>EXPENSES (Note 6)</b>		
Management fees	357,156	571,517
Service fees	94,160	152,956
Administrative and other expenses	73,075	71,670
Transaction fees (Note 9)	37,098	77,332
Custodian fees	32,903	33,413
Audit fees	26,750	26,025
Advisory board fees	19,631	19,631
Independent review committee fees	7,787	7,546
Legal fees	3,393	7,462
Unitholder reporting costs	24,312	26,747
Federal and provincial sales taxes	52,321	53,722
<b>Subtotal Expenses</b>	<b>728,586</b>	1,048,021
Special resolution expense/(recovery) (Note 6)	(48,237)	236,411
<b>TOTAL EXPENSES</b>	<b>680,349</b>	1,284,432
<b>Net Investment Income</b>	<b>627,975</b>	854,242
Net loss on sale of investments	(1,333,843)	(2,944,894)
Net gain on sale of derivatives	986,051	79,764
<b>Net Loss on Sale of Investments</b>	<b>(347,792)</b>	(2,865,130)
Net change in unrealized appreciation/depreciation of investments	(3,739,588)	4,296,273
<b>Net Gain (Loss) on Investments</b>	<b>(4,087,380)</b>	1,431,143
<b>NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS</b>	<b>\$ (3,459,405)</b>	\$ 2,285,385
<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 3,223,071; 2010 - 4,907,371)	\$ (1.0733)	\$ 0.4657

## Statements of Changes in Net Assets

Years ended December 31

	2011	2010
NET ASSETS, BEGINNING OF YEAR	\$ 33,930,284	\$ 53,380,162
<b>Net Increase (Decrease) in Net Assets from Operations</b>	<b>(3,459,405)</b>	2,285,385
<b>Unit Transactions (Note 5)</b>		
Value for units redeemed	(3,389,842)	(24,911,009)
Proceeds from issuance of units, net of warrant exercise fees	-	7,020,920
	<b>(3,389,842)</b>	(17,890,089)
<b>Distributions to Unitholders (Note 7)</b>		
Non-taxable distributions	(2,410,191)	(3,845,174)
<b>Changes in Net Assets during the Year</b>	<b>(9,259,438)</b>	(19,449,878)
NET ASSETS, END OF YEAR	\$ 24,670,846	\$ 33,930,284

## Statements of Net Loss on Sale of Investments

Years ended December 31

	2011	2010
<b>Proceeds from Sale of Investments</b>	<b>\$ 36,163,209</b>	\$ 77,724,297
<b>Cost of Investments</b>		
Cost of investments, beginning of year	37,586,648	63,272,352
Cost of investments purchased	29,611,559	54,903,723
	<b>67,198,207</b>	118,176,075
<b>Cost of Investments, End of Year</b>	<b>(30,687,206)</b>	(37,586,648)
	<b>36,511,001</b>	80,589,427
NET LOSS ON SALE OF INVESTMENTS	\$ (347,792)	\$ (2,865,130)

## Statement of Investments

As at December 31, 2011

	Par Value/ Number of Shares/ Number of Contracts	Average Cost/ Proceeds	Fair Value	% of Net Assets
<b>SHORT-TERM INVESTMENTS</b>				
<b>Bankers' Acceptances</b>				
National Bank of Canada, 1.10% - February 29, 2012	350,000	\$ 349,034	\$ 349,034	
Accrued Interest			347	
<b>TOTAL SHORT-TERM INVESTMENTS</b>		<b>\$ 349,034</b>	<b>\$ 349,381</b>	<b>1.4 %</b>
<b>INVESTMENTS</b>				
<b>Canadian Common Shares</b>				
<b>Financials</b>				
Bank of Montreal	45,000	\$ 2,766,448	\$ 2,513,250	
Canadian Imperial Bank of Commerce	40,000	3,136,969	2,950,000	
Great-West Lifeco Inc.	113,900	3,151,988	2,317,865	
Industrial Alliance Insurance and Financial Services Inc.	79,900	2,704,789	2,094,179	
Manulife Financial Corporation	190,200	3,012,845	2,059,866	
National Bank of Canada	41,100	3,020,147	2,964,954	
Royal Bank of Canada	58,900	3,271,170	3,058,677	
Sun Life Financial Inc.	99,300	3,244,401	1,874,784	
The Bank of Nova Scotia	57,900	3,179,941	2,939,583	
The Toronto-Dominion Bank	42,100	3,273,248	3,210,125	
<b>Total Financials</b>		<b>30,761,946</b>	<b>25,983,283</b>	<b>105.3 %</b>
<b>Total Canadian Common Shares</b>		<b>\$ 30,761,946</b>	<b>\$ 25,983,283</b>	<b>105.3 %</b>
<b>Options</b>				
<b>Purchased Put Options</b> (100 shares per contract)				
Manulife Financial Corporation - January 2012 @ \$10	260	\$ 13,520	\$ 3,448	0.0 %
<b>Written Covered Put Options</b> (100 shares per contract)				
Canadian Imperial Bank of Commerce - January 2012 @ \$71	(100)	(13,000)	(28,271)	
Sun Life Financial Inc. - January 2012 @ \$19	(183)	(9,150)	(19,287)	
Sun Life Financial Inc. - February 2012 @ \$19	(367)	(19,451)	(32,625)	
The Bank of Nova Scotia - January 2012 @ \$49	(100)	(11,800)	(21,698)	
The Toronto-Dominion Bank - January 2012 @ \$72	(105)	(17,692)	(47,437)	
<b>Total Written Covered Call Options</b>		<b>(71,093)</b>	<b>(149,318)</b>	<b>(0.6)%</b>
<b>Total Options</b>		<b>\$ (57,573)</b>	<b>\$ (145,870)</b>	<b>(0.6)%</b>
Adjustment for transaction costs		(17,167)		
<b>TOTAL INVESTMENTS</b>		<b>\$ 30,687,206</b>	<b>\$ 25,837,413</b>	<b>104.7 %</b>
<b>OTHER NET LIABILITIES</b>			<b>(1,515,948)</b>	<b>(6.1)%</b>
<b>TOTAL NET ASSETS</b>			<b>\$ 24,670,846</b>	<b>100.0 %</b>

## 1. Establishment of the Fund

Top 10 Canadian Financial Trust (the "Fund") was originally established as a closed-end investment trust under the laws of the Province of Ontario on February 15, 2000 under the name Digital World Trust. The Fund began operations on February 23, 2000.

On September 1, 2010, Mulvihill Capital Management Inc. ("MCM") amalgamated with Mulvihill Fund Services Inc. As successor, MCM became the Manager as well as the Investment Manager of the Fund. On October 3, 2011, MCM announced a name change to Strathbridge Asset Management Inc. ("Strathbridge"). RBC Dexia Investor Services Trust is the Custodian of the assets of the Fund.

## 2. Investment Objectives and Strategy

On December 3, 2010, the unitholders of the Fund approved a proposal to extend the Fund beyond its scheduled termination date of December 31, 2010 for an indefinite period. The Fund's investment objectives are to provide unitholders with a stable stream of quarterly cash distributions in an amount targeted to be 7.5 percent of the net asset value per unit and to return the net asset value per unit as of August 2, 2005 of \$15.60 to unitholders upon termination of the Fund.

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

From time to time, the Fund may hold a portion of its assets in cash and short-term investments.

## 3. 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 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 11.

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.

#### 4. 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:

	2011	2010
Net Asset Value per unit (for pricing purposes)	<b>\$8.7113</b>	\$10.5675
Difference	<b>(0.0102)</b>	(0.0445)
Net Assets per unit (for financial statement purposes)	<b>\$8.7011</b>	\$10.5230

#### 5. Unitholders' Equity

Units may be surrendered at any time for redemption but will be redeemed only on a monthly valuation date. Unitholders whose units are redeemed on a December valuation date will be entitled to receive a redemption price per unit equal to the net asset value per unit. Unitholders whose units are redeemed on any other valuation date will be entitled to receive a redemption price per unit equal to the net asset value per unit less the lesser of (i) 4 percent of such net asset value per unit and (ii) \$0.60, except units held by a Related Trust, Counterparty or a Designated Party, which may be redeemed at the net asset value per unit on any valuation date.

On December 3, 2010, the unitholders of the Fund approved a proposal to extend the Fund beyond its scheduled termination date of December 31, 2010 for an indefinite period. As part of the extension of the term of the Fund, to preserve the rights that were originally provided to unitholders, the Fund permitted unitholders to redeem units on December 31, 2010 ("Special Redemption Right") for proceeds equal to the amount unitholders would have received had the December 31, 2010 termination date not been extended. The redemption price per unit payable to a unitholder under the Special Redemption Right was equal to NAV per unit on December 31, 2010 and 1,644,481 units were redeemed for total proceeds of \$17,457,810.

After December 31, 2010, the December annual redemption right will continue to be available to unitholders who wish to redeem their units annually for a price based on 100 percent of the NAV per unit.

Following the extension of the term of the Fund, the monthly redemption prices for the units will be changed and unitholders whose units are redeemed on a Valuation Date will be entitled to receive a redemption price per unit equal to the lesser of:

- (i) 95 percent of the Market Price. For such purposes, "Market Price" means the weighted average trading price of the units on the principal stock exchange on which the units are listed for the ten trading days immediately preceding the applicable Redemption Date; and
- (ii) 100 percent of the Closing Market Price of the units on the applicable Redemption Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs

incurred by the Fund in connection with such payment, including but not limited to, costs incurred in liquidating securities held in the Fund's Financial Portfolio. For such purposes, the "Closing Market Price" means the closing price of the units on the principal stock exchange on which the units are listed or, if there was no trade on the relevant date, the average of the last bid and the last asking prices of the units on the principal stock exchange on which the units are listed.

Any declared and unpaid distributions payable on or before a Valuation Date in respect of units tendered for redemption on such Valuation Date will also be paid on the redemption payment date.

In June 2010, the Toronto Stock Exchange ("TSX") accepted a normal course issuer bid filed by the Fund. Under the terms of the normal course issuer bid, the Fund proposed to purchase, if considered advisable, up to a maximum of 469,702 or 10 percent of its public float as determined in accordance with the rules of the TSX. The Fund could not purchase more than 94,020 of its units (representing approximately 2 percent of the Fund's issued and outstanding units as of May 31, 2010) in any 30-day period under the bid. The purchases would be made in the open market through facilities of the TSX. The normal course issuer bid remained in effect until June 9, 2011. As at June 9, 2011, nil units (2010 - nil) had been purchased by the Fund.

In July 2011, the TSX accepted a normal course issuer bid filed by the Fund. Under the terms of the normal course issuer bid, the Fund proposes to purchase, if considered advisable, up to a maximum of 183,129 or approximately 10 percent of the Fund's public float as of June 30, 2011 as determined in accordance with the rules of the TSX commencing July 15, 2011. The Fund may not purchase more than 36,625 of its units (representing approximately 2 percent of the Fund's issued and outstanding units as of June 30, 2011) in any 30-day period under the bid. The purchases made pursuant to the normal course issuer bid will be made in the open market through the facilities of the TSX. The normal course issuer bid will remain in effect until the earlier of July 14, 2012, the termination of the bid by the Fund or the Fund purchasing the maximum number of units permitted under the bid. As at December 31, 2011, nil units have been purchased by the Fund.

Unit transactions during the year are as follows:

	2011	2010
Units outstanding, beginning of year	<b>3,224,405</b>	4,896,746
Units redeemed	<b>(389,049)</b>	(2,346,781)
Units issued upon exercise of warrants	-	674,440
Units outstanding, end of year	<b>2,835,356</b>	3,224,405

#### Warrants

The Fund issued 6,001,492 warrants to unitholders of record at the close of business on November 19, 2009 at a cost of \$171,186. Each warrant entitled the unitholder thereof to acquire one unit upon payment of \$10.59 on or before June 15, 2010. During 2010, 674,440 warrants were exercised.

Upon exercise of a warrant, the Fund paid a fee of \$0.18 per warrant to the dealer whose client had exercised the warrant. During 2010, warrant exercise fees paid amounted to \$121,399 and were charged to unitholders' equity.

## 6. 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 Units. The service fee will be calculated and paid at the end of each calendar quarter and will be equal to 0.30 percent annually of the net asset value of the Units held by clients of the dealer.

Restructuring costs consisted of costs incurred for the special meeting of unitholders held in December 2010 to consider and vote upon a special resolution to extend the term of the Fund. In 2010, special resolution expenses amounting to \$236,411 were accrued or paid pertaining to the special meeting of which \$48,237 in unclaimed solicitation fees were recovered in 2011.

## 7. Distributions

The Fund will endeavour to make quarterly cash distributions to unitholders of 7.5 percent per annum on the Fund's net asset value.

Unitholders may elect to reinvest distributions received from the Fund in additional units.

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 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 the unitholders reduce the adjusted cost base of the unit for tax purposes.

## 8. 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 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 2011 or 2010.

Accumulated non-capital losses of approximately \$2.3M (2010 - \$2.6M) and capital losses of approximately \$73.6M (2010 - \$73.6M) 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	\$1.8
2015	0.5
<b>Total</b>	<b>\$2.3</b>

Issue costs of \$0.1M (2010 - \$0.1M) remain undeducted for tax purposes at year-end.

## 9. Transaction Fees

Total transaction fees paid for the year ended December 31, 2011 in connection with portfolio transactions were \$37,098 (2010 - \$77,332). Of this amount \$7,559 (2010 - \$24,914) was directed to cover payment of research services provided to the Investment Manager.

## 10. 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 2, information on the Fund's unitholders' equity is described in Note 5 and Note 7 and the Fund does not have any externally imposed capital requirements.

## 11. Financial Instruments and Risk Management

The Fund's financial instruments consist of cash, receivables, payables, investments 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, 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	\$ -	\$ 349,381	\$ -	\$ 349,381
Canadian Common Shares	25,983,283	-	-	\$ 25,983,283
Options	-	(145,870)	-	\$ (145,870)
<b>Total Investments</b>	<b>\$ 25,983,283</b>	<b>\$ 203,511</b>	<b>\$ -</b>	<b>\$ 26,186,794</b>

The following is a summary of the inputs used as of December 31, 2010 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	\$ -	\$ 14,396,026	\$ -	\$ 14,396,026
Canadian Common Shares	36,502,106	-	-	\$ 36,502,106
Options	-	(25,663)	-	\$ (25,663)
Total Investments	\$ 36,502,106	\$ 14,370,363	\$ -	\$ 50,872,469

There were no transfers between Level 1 and Level 2 during 2011 and 2010.

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 or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or 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 105 percent (2010 - 108 percent) of the Fund's net assets held at December 31, 2011 were publicly traded equities. If equity prices on the exchange increased or decreased by 10 percent as at December 31, 2011, the net assets of the Fund would have increased or decreased by \$2.6M (2010 - \$3.7M) respectively or 10.5 percent (2010 - 10.8 percent) of the net assets, 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.

Cash is required to fund redemptions. Unitholders must surrender units at least 5 business days prior to the last day of the month and receive payment on or before 15 calendar days following the month end valuation date. Therefore the Fund has a maximum of 16 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 the Fund dealt with during the year based on Standard & Poor's credit ratings as of December 31, 2011:

Dealer	Long-Term Local Currency Rating	Short-Term Local Currency Rating
<b>Canadian Dollar</b>		
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+

The following are the credit ratings for the counterparties to derivative financial instruments that the Fund dealt with during the prior year based on Standard & Poor's credit ratings as of December 31, 2010:

Dealer	Long-Term Local Currency Rating	Short-Term Local Currency Rating
<b>Canadian Dollar</b>		
Bank of Montreal	A+	A-1
Canadian Imperial Bank of Commerce	A+	A-1
Citigroup Inc.	A	A-1
National Bank of Canada	A	A-1
Royal Bank of Canada	AA-	A-1+
The Toronto-Dominion Bank	AA-	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, 2011:

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

The following are the credit ratings for short-term investments held by the Fund based on Standard & Poor's credit ratings as of December 31, 2010:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Term Deposits	A-1	74%
Government of Canada Treasury Bills	AAA	26%
<b>Total</b>		<b>100%</b>

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

## 12. Future Accounting Policy Changes

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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 initial statements on a comparative basis for the semi-annual period ending June 30, 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 Auditor:**  
Deloitte & Touche LLP  
Brookfield Place  
181 Bay Street, Suite 1400  
Toronto, Ontario  
M5J 2V1

**Transfer Agent:**  
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M5J 2Y1

**Units Listed:**  
Toronto Stock Exchange  
trading under  
TCT.UN

**Custodian:**  
RBC Dexia 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  
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.

#### PRINCIPAL PROTECTED FUNDS

Government Strip Bond Trust

#### Head Office:

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