SEMI-ANNUAL REPORT

# 2014

## TOP 10 SPLIT TRUST

strathbridge
ASSET MANAGEMENT

## Letter to Securityholders

We are pleased to present the 2014 semi-annual report containing the management report of fund performance and the unaudited financial statements for Top 10 Split Trust.

After generating mixed returns in the first quarter of 2014 amid concerns surrounding geopolitical tension between Ukraine and Russia as well as comments from the U.S. Federal Reserve that it would consider raising interest rates, most Global equity markets advanced in the second quarter. The rally was fueled by economic data out of the U.S. which started to rebound from the weakness driven by harsh weather experienced this past winter. Europe, meanwhile, continued to improve economically as indicated by the regional purchasing managers indexes. The European Central Bank kept monetary policy accommodative by reducing its key benchmark rate to an unprecedented rate of negative 0.10 percent with an eye on the possible negative economic effects from geopolitical tensions in Ukraine and the Middle East. Although the Canadian economy posted subdued growth during the six month period, the S&P/TSX Composite Index outperformed most other markets in the first half of 2014 due to strength in the Energy and Materials sectors.

During the six months ended June 30, 2014, the Fund paid cash distributions of $0.18 per Capital Unit and $0.39 per Preferred Security. The net asset value per Combined Unit increased from $17.52 at December 31, 2013 to $17.78 at June 30, 2014 primarily from realized gains on sale of investments. The total return of the Fund per Combined Unit and per Capital Unit (ticker symbol “TXT.UN”), including the reinvestment of distributions, were 4.9 percent and 9.1 percent respectively for the period. The net realized loss on options attributable to Strathbridge Selective Overwriting strategy (see “The Fund”) amounted to $0.03 per Combined Unit as compared to a net realized loss on options of $0.06 per Combined Unit a year ago. 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 semi-annual report.

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

## 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.

## Management Report of Fund Performance

This semi-annual management report of fund performance contains the financial highlights for the six months ended June 30, 2014 of Top 10 Split Trust (the "Fund"). The unaudited semi-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. You can also request semi-annual or annual reports at no cost by using one of the above methods.

## Results of Operations

### Distributions

For the six months ended June 30, 2014, cash distributions of $0.18 per Capital Unit were paid, compared to $0.11 per Capital Unit a year ago. Interest payments of $0.39 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 $6.70 per Preferred Security and cash distributions of $4.15 per Capital Unit.

### Revenue and Expenses

For the six months ended June 30, 2014, the Fund's dividend and interest income was $0.32 per Unit compared to $0.31 per Unit in the prior year. Total expenses were $0.20 per Unit for the first six months of fiscal 2014, up $0.01 per Unit from a year ago. Higher management fees contributed to the increase over the period. The Fund had a net realized and unrealized gain of $0.72 per Unit in the first half of 2014 as compared to a net realized and unrealized gain of $1.21 per Unit a year earlier.

### Net Asset Value

The net asset value per Combined Unit of the Fund increased 1.5 percent from $17.52 at December 31, 2013 to $17.78 at June 30, 2014. The aggregate net asset value of the Fund increased $0.4 million, from $25.3 million at December 31, 2013 to $25.7 million at June 30, 2014, reflecting an increase in net assets attributable to holders of capital units of $0.6 million, partially offset by total cash distributions of $0.2 million.

## Recent Developments

There were no recent developments pertaining to the Fund during the six months ended June 30, 2014.

### Transition to International Financial Reporting Standards Accounting Policies

The Fund has adopted International Financial Reporting Standards ("IFRS") accounting policies for the year beginning January 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Section 3855, Financial Instruments -

Recognition and Measurement, 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. Under IFRS 13, Fair Value Measurement, the fair value of investments is to be based on a price within the bid-ask spread. It also allows the use of certain pricing conventions such as last traded prices as a practical expedient for fair value measurements within a bid-ask spread. Note 5 to the financial statements for the six months ended June 30, 2014 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

## Related Party Transactions

Strathbridge, as the Investment Manager of the Fund , manages the 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 Strathbridge 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 Strathbridge 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 period, 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.

## Management Report of Fund Performance

### 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.

The information for the years ended December 31 is derived from the Fund's audited annual financial statements.

Information for the period ended June 30, 2014 is derived from the Fund's unaudited semi-annual financial statements.

| | | Six months ended June 30, 2014 |
|---|---|---|
| **NET ASSETS PER COMBINED UNIT** | | |
| **Net Assets, beginning of period**(1) | **$** | **17.52**(4) |
| INCREASE (DECREASE) FROM OPERATIONS | | |
| Total revenue | | **0.32** |
| Total expenses | | **(0.20)** |
| Realized gain (loss) for the period | | **1.48** |
| Unrealized gain (loss) for the period | | **(0.76)** |
| **Total Increase (Decrease) from Operations**(2) | | **0.84** |
| DISTRIBUTIONS | | |
| From net investment income - Preferred Security | | **(0.39)** |
| Non-taxable distributions - Capital Unit | | **(0.18)** |
| **Total Distributions**(3) | | **(0.57)** |
| **Net Assets, end of period**(1) | **$** | **17.78** |

(1) Net Assets per Unit is the difference between the aggregate value of the assets including the valuation of securities at closing prices for the six months ended June 30, 2014 and for all years ended December 31 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 excluding Preferred Security interest and is calculated based on the weighted average number of Units outstanding during the period.

| | | Six months ended June 30, 2014 |
|---|---|---|
| **RATIOS/SUPPLEMENTAL DATA** | | |
| Net Asset Value, excluding the Preferred Security liability ($millions) | **$** | **25.73** |
| Net Asset Value ($millions) | **$** | **7.64** |
| Number of Units outstanding | | **1,446,599** |
| Management expense ratio(1) | | **2.24%**(4) |
| Portfolio turnover rate(2) | | **51.09%** |
| Trading expense ratio(3) | | **0.08%**(4) |
| Net Asset Value per Combined Unit(5) | **$** | **17.78** |
| Closing market price - Preferred Security | **$** | **12.71** |
| Closing market price - Capital Unit | **$** | **4.74** |

(1) 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 Preferred Security interest payments, is 6.75%, 7.04%, 7.66%, 7.33%, 6.49% and 6.74% for 2014, 2013, 2012, 2011, 2010 and 2009 respectively.
(2) 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.

As a result of the adoption of IFRS, for June 30, 2014, the net assets per Combined Unit presented in the financial statements and the net asset value per Combined Unit calculated weekly are both valued at closing prices. For all years ended December 31, 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 | | | | |
|---|---|---|---|---|
| 2013 | 2012 | 2011 | 2010 | 2009 |
| $ 14.53 | $ 13.77 | $ 16.57 | $ 16.86 | $ 14.78 |
| 0.61 | 0.64 | 0.61 | 0.61 | 0.61 |
| (0.35) | (0.31) | (0.42) | (0.31) | (0.29) |
| 0.84 | (1.16) | 0.58 | (0.42) | (2.50) |
| 2.95 | 2.47 | (1.83) | 0.89 | 5.26 |
| 4.05 | 1.64 | (1.06) | 0.77 | 3.08 |
| (0.78) | (0.78) | (0.78) | (0.78) | (0.78) |
| (0.28) | (0.11) | (0.23) | (0.28) | (0.22) |
| (1.06) | (0.89) | (1.01) | (1.06) | (1.00) |
| $ 17.51 | $ 14.53 | $ 13.77 | $ 16.57 | $ 16.86 |

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 period.

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

(4) Net Assets has been adjusted for the adoption of IFRS. (See Note 5 to the financial statements for the six months ended June 30, 2014).

| Years ended December 311 | | | | |
|---|---|---|---|---|
| 2013 | 2012 | 2011 | 2010 | 2009 |
| $ 25.34 | $ 22.22 | $ 21.61 | $ 38.34 | $ 45.65 |
| $ 7.26 | $ 3.13 | $ 2.02 | $ 9.47 | $ 11.86 |
| 1,446,599 | 1,526,948 | 1,567,325 | 2,309,243 | 2,702,752 |
| 2.11% | 2.12% | 2.49% | 1.73% | 1.71% |
| 63.41% | 73.48% | 111.16% | 119.38% | 66.25% |
| 0.08% | 0.08% | 0.13% | 0.14% | 0.14% |
| $ 17.52 | $ 14.55 | $ 13.79 | $ 16.60 | $ 16.89 |
| $ 12.68 | $ 12.64 | $ 12.40 | $ 12.59 | $ 12.65 |
| $ 4.42 | $ 1.98 | $ 1.89 | $ 3.57 | $ 3.70 |

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

(4) Annualized.

(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 Report of Fund Performance

### 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 were reinvested in securities of the Fund,

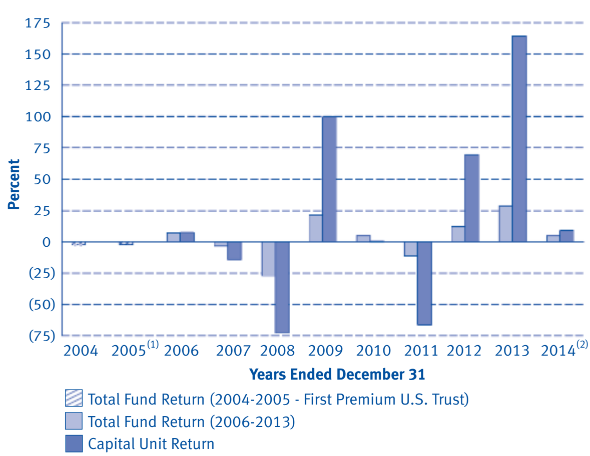
(2) information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

(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 total return varied from year to year for each of the past ten years and for the six months ended June 30, 2014. 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 that fiscal year or June 30, 2014 for the six months ended.

### 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&P100 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.

(2) For the six months ended June 30, 2014.

## Portfolio Manager Report

After generating mixed returns in the first quarter of 2014 amid concerns surrounding geopolitical tension between Ukraine and Russia as well as comments from the U.S. Federal Reserve that it would consider raising interest rates, most Global equity markets advanced in the second quarter. The rally was fueled by economic data out of the U.S. which started to rebound from the weakness driven by harsh weather experienced this past winter. Europe, meanwhile, continued to improve economically as indicated by the regional purchasing managers indexes. The European Central Bank kept monetary policy accommodative by reducing its key benchmark rate to an unprecedented rate of negative 0.10 percent with an eye on the possible negative economic effects from geopolitical tensions in Ukraine and the Middle East. Although the Canadian economy posted subdued growth during the six month period, the S&P/TSX Composite Index outperformed most other markets in the first half of 2014 due to strength in the Energy and Materials sectors.

For the six months ended June 30, 2014, the total return per Combined Unit and per Capital Unit (ticker symbol “TXT.UN”), including the reinvestment of distributions, were 4.9 percent and 9.1 percent respectively. In comparison, the S&P/TSX Composite Index return was 12.9 percent and the S&P/TSX Capped Financials Index return was 8.3 percent over the first half of 2014. The equal weighted benchmark of the 10 stocks held by the Fund had a return of 6.2 percent over the same period. Stock selection added positive value to the Fund as its portfolio moved to an overweight position in banks near the end of February to the end of June. At the half year point, the Fund’s portfolio is only modestly overweight bank stocks. Net premiums marginally reduced performance as some options were bought back in a rising market to avoid the opportunity cost of selling underlying stocks at exercise prices below current market.

Reversing a recent trend, the Canadian banks outperformed the Canadian insurance companies in the portfolio. The S&P TSX Banks Index returned 10.3 percent for the first half of the year while the S&P/TSX Insurance Index returned 3.1 percent over the same period. The strongest performers in the portfolio over the period were the Bank of Montreal and The Toronto Dominion Bank at 11.0 percent and 9.7 percent respectively. The weakest holdings were Great-West Lifeco Inc. and Industrial Alliance Insurance and Financial Services Inc. posting negative returns of 7.9 percent and 0.4 percent respectively. The Canadian banks held by the Fund have either increased or have announced increases to dividends this year continuing a trend from last year. Industrial Alliance Insurance and Financial Services Inc. increased its dividend marginally (1.5 cents per share) over last year; however; the other insurance companies in the portfolio have opted to maintain their dividends at current levels. The Canadian bank holdings reported first and second quarter earnings over the first half of the calendar year which generally exceeded analysts’ consensus expectations. However, the performance of Canadian Insurers in the portfolio over the same period was a mixed bag of results. Sun Life Financial Inc. was the only bright spot beating earnings estimates.

Low volatility levels in Canadian financial stocks prevailed in the second quarter. Covered call writing decreased from around 5.8 percent on average in the first quarter to about 3.7 percent on average in the second quarter as the declining volatility levels reduced option premiums. While the overwritten positions were as high as 20.4 percent during the first quarter, the Fund held no option positions at the end of June. In addition, there were no put transactions executed for the portfolio over the six month period. The net realized loss on options attributable to Strathbridge Selective Overwriting (“SSO”) strategy amounted to $0.03 per Combined Unit as compared to a net realized loss on options of $0.06 per Combined Unit a year ago. The cash position averaged 1.9 percent of the portfolio during the six month period and closed at 1.6 percent as at June 30, 2014.

## 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.

### Asset Mix

June 30, 2014

| | % of Net Asset Value[1] |
|---|---|
| Financials | 98.4 % |
| Cash | 1.6 % |
| | 100.0 % |

[1] The Net Asset Value excludes the Preferred Security liability.

## Portfolio Holdings

June 30, 2014

| | % of Net Asset Value[1] |
|---|---|
| Bank of Montreal | 14.1 % |
| The Bank of Nova Scotia | 13.6 % |
| Royal Bank of Canada | 10.8 % |
| The Toronto-Dominion Bank | 10.6 % |
| Industrial Alliance Insurance and Financial Services Inc. | 10.2 % |
| Sun Life Financial Inc. | 10.2 % |
| Manulife Financial Corporation | 10.1 % |
| Great-West Lifeco Inc. | 7.1 % |
| Canadian Imperial Bank of Commerce | 6.4 % |
| National Bank of Canada | 5.3 % |
| Cash | 1.6 % |

[1] 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 semi-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 International Financial Reporting Standards ("IFRS") and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this semi-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 financial statements for the six months ended June 30, 2014.

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.

John D. Germain
Director
Strathbridge Asset Management Inc.

August 11, 2014

## Notice to Securityholders

The Fund's independent auditor has not performed a review of these Semi-Annual Financial Statements in accordance with standards established by the Chartered Professional Accountants of Canada.

## Financial Statements

### Statements of Financial Position

As at June 30, 2014, December 31, 2013 and January 1, 2013 (Unaudited)

| | Note | **June 30, 2014** | Dec. 31, 2013 | Jan. 1, 2013 |
|---|---|---|---|---|
| | | | Restated | Restated |
| ASSETS | | | | |
| Financial assets at fair value through profit or loss | 3,5 | **$ 25,334,398** | $ 26,609,083 | $ 21,700,488 |
| Dividends receivable | | **65,749** | 51,180 | 69,243 |
| Due from brokers - investments | | **516,385** | – | 505,390 |
| Accrued interest | | **–** | – | 380 |
| Short-term investments | 3 | **–** | – | 699,566 |
| Cash | | **403,009** | 167,194 | 269,243 |
| TOTAL ASSETS | | **26,319,541** | 26,827,457 | 23,244,310 |
| LIABILITIES | | | | |
| Accrued liabilities | | **57,148** | 77,640 | 67,722 |
| Due to brokers - investments | | **535,169** | – | 370,226 |
| Redemptions payable | | **–** | 1,407,594 | 587,530 |
| Preferred securities | | **18,082,487** | 18,082,487 | 19,086,850 |
| TOTAL LIABILITIES | | **18,674,804** | 19,567,721 | 20,112,328 |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CAPITAL UNITS | 5 | **$ 7,644,737** | $ 7,259,736 | $ 3,131,982 |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CAPITAL UNITS PER CAPITAL UNIT | | **$ 5.2846** | $ 5.0185 | $ 2.0511 |

The notes are an integral part of the Financial Statements.

## Statements of Comprehensive Income

Six months ended June 30 (Unaudited)

| | Note | 2014 | 2013 Restated |
|---|---|---|---|
| INCOME | | | |
| Dividend income | | $ 456,469 | $ 475,317 |
| Interest income | | – | 54 |
| Net realized gain on investments at fair value through profit or loss | | 2,184,341 | 305,268 |
| Net realized loss on options at fair value through profit or loss | | (37,254) | (98,370) |
| Net change in unrealized appreciation/depreciation of investments at fair value through profit or loss | 5 | (1,100,240) | 1,643,855 |
| TOTAL INCOME | | 1,503,316 | 2,326,124 |
| EXPENSES | | | |
| Management fees | 10 | 137,386 | 128,479 |
| Service fees | | 14,357 | 8,383 |
| Administrative and other expenses | | 54,007 | 58,522 |
| Transaction fees | 11 | 10,153 | 10,490 |
| Custodian fees | | 13,231 | 13,624 |
| Audit fees | | 14,857 | 14,857 |
| Advisory board fees | 10 | 10,200 | 9,815 |
| Independent review committee fees | 10 | 3,491 | 4,224 |
| Legal fees | | 2,178 | 2,597 |
| Securityholder reporting costs | | 10,257 | 11,452 |
| Harmonized sales tax | | 21,105 | 23,718 |
| TOTAL EXPENSES | | 291,222 | 286,161 |
| OPERATING PROFIT | | 1,212,094 | 2,039,963 |
| Preferred security interest | | (565,071) | (596,456) |
| INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CAPITAL UNITS | 5,12 | $ 647,023 | $ 1,443,507 |
| INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CAPITAL UNITS PER CAPITAL UNIT | 12 | $ 0.4473 | $ 0.9454 |

The notes are an integral part of the Financial Statements.

## Financial Statements

### Statements of Changes in Net Assets Attributable to Holders of Capital Units

Six months ended June 30 (Unaudited)

| | Note | **2014** | 2013 |
|---|---|---|---|
| | | | Restated |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CAPITAL UNITS, BEGINNING OF PERIOD | 5 | **$ 7,259,736** | $ 3,131,982 |
| **Increase in Net Assets Attributable to Holders of Capital Units** | | **647,023** | 1,443,507 |
| **Distributions** | | | |
| Non-taxable distributions | | **(262,022)** | (175,217) |
| **Changes in Net Assets Attributable to Holders of Capital Units during the Period** | | **385,001** | 1,268,290 |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CAPITAL UNITS, END OF PERIOD | 5 | **$ 7,644,737** | $ 4,400,272 |

The notes are an integral part of the Financial Statements.

## Statements of Cash Flows

Six months ended June 30 (Unaudited)

| | Note | 2014 | 2013 |
|---|---|---|---|
| | | | Restated |
| CASH, BEGINNING OF PERIOD | | **$ 167,194** | $ 968,809 |
| **Cash Flows Provided by (Used In) Operating Activities** | | | |
| **Operating Profit** | | **1,212,094** | 2,039,963 |
| **Adjustments to Reconcile Increase/Decrease in Net Assets Attributable to Holders of Capital Units from Operations to Net Cash Provided by (Used In) Operating Activities** | | | |
| Purchase of investment securities | | **(12,720,963)** | (6,972,354) |
| Proceeds from disposition of investment securities | | **15,042,495** | 7,256,779 |
| Net realized (gain)/loss on investments at fair value through profit or loss | | **(2,184,341)** | (305,268) |
| Net realized (gain)/loss on options at fair value through profit or loss | | **37,254** | 98,370 |
| Net change in unrealized appreciation/depreciation of investments at fair value through profit or loss | 5 | **1,100,240** | (1,643,855) |
| (Increase)/ decrease in dividends receivable, due from brokers - investments and accrued interest | | **(530,954)** | 326,139 |
| (Decrease)/increase in accrued liabilities and due to brokers - investments | | **514,677** | (143,905) |
| | | **1,258,408** | (1,384,094) |
| **Cash Flows Provided by (Used In) Financing Activities** | | | |
| Capital Unit holder redemptions | | **(403,231)** | (82,817) |
| Preferred Security redemptions | | **(1,004,363)** | (504,713) |
| Capital Unit holder distributions | | **(262,022)** | (175,217) |
| Preferred Securities - interest | | **(565,071)** | (596,456) |
| | | **(2,234,687)** | (1,359,203) |
| **Net Increase/(Decrease) in Cash During the Period** | | **235,815** | (703,334) |
| CASH, END OF PERIOD | | **$ 403,009** | $ 265,475 |

| | | | |
|---|---|---|---|
| Interest received | | **$ –** | $ 54 |
| Dividends received | | **$ 441,900** | $ 483,073 |

The notes are an integral part of the Financial Statements.

## Financial Statements

### Schedule of Investments

As at June 30, 2014 (Unaudited)

| | Number of Shares | Average Cost | Fair Value | % of Net Assets Attributable to Holders of Capital Units |
|---|---|---|---|---|
| **Canadian Common Shares** | | | | |
| **Financials** | | | | |
| Bank of Montreal | 46,000 | $ 3,209,410 | $ 3,614,680 | |
| Canadian Imperial Bank of Commerce | 17,000 | 1,422,530 | 1,650,700 | |
| Great-West Lifeco Inc. | 60,820 | 1,737,857 | 1,835,547 | |
| Industrial Alliance Insurance and Financial Services Inc. | 56,200 | 2,276,184 | 2,627,912 | |
| Manulife Financial Corporation | 123,000 | 2,116,096 | 2,608,830 | |
| National Bank of Canada | 30,260 | 1,216,266 | 1,369,568 | |
| Royal Bank of Canada | 36,500 | 2,518,503 | 2,784,220 | |
| Sun Life Financial Inc. | 66,900 | 2,159,059 | 2,623,818 | |
| The Bank of Nova Scotia | 49,200 | 3,009,533 | 3,500,088 | |
| The Toronto-Dominion Bank | 49,500 | 2,305,920 | 2,719,035 | |
| **Total Financials** | | 21,971,358 | 25,334,398 | 98.5 % |
| **Total Canadian Common Shares** | | $ 21,971,358 | $ 25,334,398 | 98.5 % |
| Adjustment for transaction fees | | (11,457) | | |
| TOTAL INVESTMENTS | | $ 21,959,901 | $ 25,334,398 | 98.5 % |
| OTHER NET ASSETS | | | 392,827 | 1.5 % |
| NET ASSETS ATTRIBUTABLE TO HOLDERS OF CAPITAL UNITS, excluding the Preferred Security liability | | | $ 25,727,225 | 100.0 % |

The notes are an integral part of the Financial Statements.

## 1. Fund Information

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. The address of the Fund’s registered office is 121 King Street West, Suite 2600, Toronto, Ontario.

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.

These financial statements were approved by the Board of Advisors on August 11, 2014.

## 2. Basis of Presentation and Adoption of International Financial Reporting Standards

The semi-annual financial statements for the Fund have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standard (“IAS”) 34 Interim Financial Reporting.

The Fund has adopted IFRS accounting policies for the year beginning January 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these accounting policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Fund’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund’s financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

**Notes to Financial Statements**

June 30, 2014

## 3. Summary of Significant Accounting Policies

### Functional and Presentation Currency

Items included in the financial statements of the Fund are measured in the currency of the primary economic environment in which the Fund operates (the “functional currency”). The Fund’s portfolio is predominately Canadian securities and the functional currency is Canadian dollars. The financial statements of the Fund are presented in Canadian dollars which is the Fund’s presentation currency.

### Financial Instruments

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The Fund’s investments and derivatives within the portfolio are held for trading and measured at fair value through profit or loss (“FVTPL”).

### Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the reporting date. On adoption of IFRS, the Fund uses the last traded market price as its valuation input for financial assets and liabilities if the last traded price falls within the bid-ask spread. In other circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value for financial reporting purposes.

The fair value of financial assets and liabilities that are not traded in an active market is determined by valuation techniques as described in Note 4.

### Investment Transactions and Income

Investment transactions are accounted for on a trade date basis. Net realized gain/loss on investments at fair value through profit or loss and change in unrealized appreciation/depreciation of investments at fair value through profit or loss 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 realized gain/ (loss) on options at fair value through profit or loss. 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 change in unrealized appreciation/depreciation of investments at fair value through profit or loss. The 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 measured using the effective interest method and recorded on a daily basis.

### Short-Term Investments

Short-term investments are held for investment purposes and primarily consist of money market instruments with original maturities of one year or less.

### Increase/(Decrease) in Net Assets Attributable to Holders of Capital Units

The increase/(decrease) in net assets attributable to holders of capital units per capital unit is calculated by dividing the increase/(decrease) in net assets attributable to holders of capital units by the weighted average number of capital units outstanding during the period. Please refer to Note 12 for the calculation.

### Taxation

The Fund is a "mutual fund trust" as defined in the Income Tax Act (Canada) (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.

## 4. Critical Accounting Estimates and Judgments

The preparation of financial statements requires management to use judgement in applying accounting policies and to make estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements.

In classifying and measuring the financial instruments held by the Fund, the Manager determined that the Fund invests on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, Financial Instruments - Recognition and Measurement.  The portfolio investments are held for trading and valued at FVTPL accordingly.

The Fund may, from time to time, hold financial instruments that are not quoted in active markets. Fair values of such instruments are determined by using valuation models and techniques generally recognized as standard within the investment industry. These valuation methods use observable data as practicable as possible. Observable market data are readily available and supplied by independent sources actively involved in the relevant market. However, areas such as credit risk (both own and counterparty) and its correlations require the Manager to make estimates. Significant changes in assumptions about these factors could adversely affect the reported fair values of financial instruments. Please refer to Note 7 for a further analysis of risks associated with financial instruments.

## 5. Transition to IFRS

The effect of the Fund's transition to IFRS is summarized as follows:

### Transition Elections

No financial asset or liability at FVTPL was designated at inception by way of voluntary exemption. Based on the investment strategies adopted by the Fund, securities in the portfolio are classified as held for trading and therefore required to be at FVTPL.

### Reconciliation of Net Assets and Comprehensive Income as previously reported under Canadian GAAP to IFRS

| Net Assets | Dec. 31, 2013 | June 30, 2013 | Jan. 1, 2013 |
|---|---|---|---|
| Net Assets as reported under Canadian GAAP | $ 7,253,058 | $ 4,388,486 | $ 3,106,491 |
| Revaluation of investments at FVTPL | 6,678 | 11,786 | 25,491 |
| Net Assets Attributable to Holders of Capital Units | $ 7,259,736 | $ 4,400,272 | $ 3,131,982 |

| Comprehensive Income | June 30, 2013 |
|---|---|
| Comprehensive Income as reported under Canadian GAAP | $ 1,457,212 |
| Revaluation of investments at FVTPL | (13,705) |
| Increase in Net Assets Attributable to Holders of Capital Units | $ 1,443,507 |

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Section 3855, Financial Instruments - Recognition and Measurement, 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. Under IFRS 13, Fair Value Measurement, the fair value of investments is to be based on a price within the bid-ask spread. It also allows the use of certain pricing conventions such as last traded prices as a practical expedient for fair value measurements within a bid-ask spread. As a result of the use of last traded prices upon IFRS transition, adjustments were recognized to increase the carrying amount of the Fund's investments by $6,678 as at January 1, 2013 and $25,491 as at December 31, 2013. Another impact of fair value adjustments was to decrease the Fund's increase/(decrease) in net assets attributable to holders of capital units by $13,705 for the six months ended June 30, 2013.

### Reclassification Adjustments

Under Canadian GAAP, the Fund classified capital units as equity. Under IFRS, capital units will be classified as liabilities.

## 6. Capital Disclosures

IAS 1, Presentation of Financial Statements, 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 1, information on the Fund's captial units is described in Note 9 and the trust indenture does not have any externally imposed capital requirements.

## 7. Risks Associated with Financial Instruments

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 credit risk, liquidity risk, market risk (including interest rate risk and price risk), concentration risk and capital risk management.

Tables are based on restatements of values of financial assets at fair value through profit and loss and unrealized appreciation/depreciation of investments as at December 31, 2013 and January 1, 2013 to comply with IFRS. Note 5 discloses the transition adjustments.

### 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 analysis below summarizes the credit quality of the Fund's short-term investments as at June 30, 2014, December 31, 2013 and January 1, 2013.

| | Percentage of Short-Term Investments | | |
|---|---|---|---|
| Credit Rating | June 30, 2014 | Dec. 31, 2013 | Jan. 1, 2013 |
| A- | – | – | 100% |

The Fund is also exposed to counterparty credit risk on derivative financial instruments. The counterparty credit risk for derivative financial instruments is managed 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. During the periods ended June 30, 2014, December 31, 2013 and January 1, 2013, the counterparties to the Fund's derivative financial instruments had a credit rating of A-1 or higher from Standard & Poor's Ratings Services.

### 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.

Cash is required to fund redemptions. Unitholders must surrender Capital Units at least 10 business days prior to the last day of the month and receive payment on or before 10 calendar 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.

## Notes to Financial Statements

June 30, 2014

The amounts in the table are the contractual undiscounted cash flows:

| June 30, 2014 Financial Liabilities | On Demand | < 3 months | Total |
|---|---|---|---|
| Accrued liabilities | $ – | $ 57,148 | $ 57,148 |
| Due to brokers - investments | – | 535,169 | 535,169 |
| Preferred Securities | 18,082,487 | – | 18,082,487 |
| | $ 18,082,487 | $ 592,317 | $ 18,674,804 |

| December 31, 2013 Financial Liabilities | On Demand | < 3 months | Total |
|---|---|---|---|
| Accrued liabilities | $ – | $ 77,640 | $ 77,640 |
| Redemptions payable | – | 1,407,594 | 1,407,594 |
| Preferred Securities | 18,082,487 | – | 18,082,487 |
| | $ 18,082,487 | $ 1,485,234 | $ 19,567,721 |

| January 1, 2013 Financial Liabilities | On Demand | < 3 months | Total |
|---|---|---|---|
| Accrued liabilities | $ – | $ 67,722 | $ 67,722 |
| Due to brokers - investments | – | 370,226 | 370,226 |
| Redemptions payable | – | 587,530 | 587,530 |
| Preferred Securities | 19,086,850 | – | 19,086,850 |
| | $ 19,086,850 | $ 1,025,478 | $ 20,112,328 |

The Preferred Securities are direct unsecured debt obligations issued by the Fund that will mature on March 31, 2016. As such date, the Fund will repay the principal amount of $12.50 per Preferred Security on termination of the Fund.

### Market Risk

The Fund's investments are subject to market risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices. The following include sensitivity analyses that show how the net assets attributable to holders of capital units would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the differences could be material.

### (a) 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 changes in rates since securities are usually held to maturity and are short-term in nature.

### (b) Price Risk

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 price risk arises from its investments in equity securities. Net assets attributable to holders of Units 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 the companies in the financial services industry.

The Fund's price 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 (December 31, 2013 - 105 percent and January 1, 2013 - 98 percent) of the Fund's net assets attributable to holders of Capital Units, excluding the Preferred Securities liability, held at June 30, 2014 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at June 30, 2014, the net assets attributable to holders of Capital Units, excluding the Preferred Securities liability, would have increased or decreased by $1.3M (December 31, 2013 - $1.3M and January 1, 2013 - $1.1M) respectively or 4.9 percent (December 31, 2013 - 5.2 percent and January 1, 2013 - 4.9 percent) of the net assets attributable to holders of Capital Units, excluding the Preferred Securities liability, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

### Concentration Risk

Concentration risk arises as a result of the concentration of exposures with the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

| | June 30, 2014 | Dec. 31, 2013 | Jan. 1, 2013 |
|---|---|---|---|
| Financials | 100.0% | 100.0% | 100.0% |

### Capital Risk Management

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 net asset value ("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.

### Fair Value Measurement

The Fund classifies fair value of measurement within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

## Notes to Financial Statements

June 30, 2014

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs, other than quoted prices 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

Level 3: Inputs that are based on unobservable market data.

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur. The following table illustrates the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at June 30, 2014, December 31, 2013 and January 1, 2013.

As at June 30, 2014

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Canadian Common Shares | $ 25,334,398 | $ – | $ – | $ 25,334,398 |
| | $ 25,334,398 | $ – | $ – | $ 25,334,398 |

As at December 31, 2013

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Canadian Common Shares | $ 26,609,083 | $ – | $ – | $ 26,609,083 |
| | $ 26,609,083 | $ – | $ – | $ 26,609,083 |

As at January 1, 2013

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Short-Term Investments | $ – | $ 699,946 | $ – | $ 699,946 |
| Canadian Common Shares | 21,790,263 | – | – | 21,790,263 |
| Options | – | (89,775) | – | (89,775) |
| | $ 21,790,263 | $ 610,171 | $ – | $ 22,400,434 |

The carrying values of cash, dividends receivable, interest receivable, due to brokers - investments, accrued liabilities, due from brokers - investments, redemptions payable, and Preferred Securities, and the Fund's obligation for net assets attributable to holders of capital units approximate their fair values due to their short-term nature.

### (a) Equities

The Fund's equity positions are classified as Level 1 as equity securities are actively traded and a reliable quoted price is observable.

### (b) Short-Term Investments

Short-term investments are valued at cost plus accrued interest which approximates fair value. The inputs are generally observable and therefore short-term investments have been classified as Level 2.

### (c) Derivative Assets and Liabilities

Derivative assets and liabilities consist of option contracts.

Listed options are classified as Level 1 as the security is traded in a recognized exchange and a reliable price is readily observable.

Fair value of over-the-counter options is determined using the Black-Scholes Model with observable market data as inputs. Over-the-counter option contracts, for which the credit risks are determined not to be significant to fair value, have been classified as Level 2.

There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2014 and the year ended December 31, 2013.

## 8. Financial Instruments by Category

The following tables present the carrying amounts of the Fund's financial instruments by category as at June 30, 2014, December 31, 2013 and January 1, 2013. All the Fund's financial liabilities, other than its net assets attributable to holders of capital units, were carried at amortized cost.

Tables are based on restatements of values of financial assets at fair value through profit and loss and unrealized appreciation/depreciation of investments as at December 31, 2013 and January 1, 2013 to comply with IFRS. Note 5 discloses the transition adjustments.

As at June 30, 2014

| Assets | Held for Trading | Financial Assets at Amortized Cost | Total |
|---|---|---|---|
| Non-derivative financial assets | $ 25,334,398 | $ – | $ 25,334,398 |
| Cash | – | 403,009 | 403,009 |
| Dividends receivable | – | 65,749 | 65,749 |
| Due from brokers - investments | – | 516,385 | 516,385 |
| | $ 25,334,398 | $ 985,143 | $ 26,319,541 |

As at December 31, 2013

| Assets | Held for Trading | Financial Assets at Amortized Cost | Total |
|---|---|---|---|
| Non-derivative financial assets | $ 26,609,083 | $ – | $ 26,609,083 |
| Cash | – | 167,194 | 167,194 |
| Dividends receivable | – | 51,180 | 51,180 |
| | $ 26,609,083 | $ 218,374 | $ 26,827,457 |

As at January 1, 2013

| Assets | Held for Trading | Financial Assets at Amortized Cost | Total |
|---|---|---|---|
| Non-derivative financial assets | $ 21,790,263 | $ – | $ 21,790,263 |
| Derivative assets | (89,775) | – | (89,775) |
| Short-term investments | – | 699,946 | 699,946 |
| Cash | – | 269,243 | 269,243 |
| Dividends receivable | – | 69,243 | 69,243 |
| Due from brokers - investments | – | 505,390 | 505,390 |
| | $ 21,700,488 | $ 1,543,822 | $ 23,244,310 |

The following table presents the net realized gains/(losses) on financial instruments at FVTPL by category for the six months ended June 30, 2014 and 2013.

## Notes to Financial Statements

June 30, 2014

| | Net Realized Gains/(Losses) | |
|---|---|---|
| Financial Assets at FVTPL | June 30, 2014 | June 30, 2013 |
| Held for Trading | $ 2,147,087 | $ 206,898 |
| Total Financial Assets at FVTPL | $ 2,147,087 | $ 206,898 |

## 9. Capital Units

The Fund is authorized to issue an unlimited number of Capital Units and Preferred Securities. 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.

The Fund will endeavour 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 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.

During the six months ended June 30, 2014 and year ended December 31, 2013, unit transactions are as follows:

| | June 30, 2014 | Dec. 31, 2013 |
|---|---|---|
| Units outstanding, beginning of year | 1,446,599 | 1,526,948 |
| Units redeemed | – | (80,349) |
| Units outstanding, end of period | 1,446,599 | 1,446,599 |

## 10. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

### (a) Management Fees

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 custodian, manager, legal, accounting and audit fees as well as all other expenses incurred by the Custodian and Manager in the ordinary course of business relating to the Fund's operations. Total management fees for the six months ended June 30, 2014 were $137,386 (June 30, 2013 - $128,479).

### (b) Board of Advisors' Remuneration

Total remuneration paid to the external members of the Board of Advisors for the six months ended June 30, 2014 were $10,200 (June 30, 2013 - $9,815).

### (c) Independent Review Committee Fees

Total remuneration paid to the external members of the Independent Review Committee for the six months ended June 30, 2014 were $3,491 (June 30, 2013 - $4,224).

## 11. Brokerage Commissions and Soft Dollars

The Manager may select brokerages who charge a commission in soft dollars if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. The ascertainable soft dollar value received as a percentage of total transaction fees paid during the six months ended June 30, 2014 and 2013 is disclosed below:

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Soft Dollars | $ 3,435 | $ 5,426 |
| Percentage of Total Transaction Fees | 33.8% | 51.7% |

## 12. Increase/(Decrease) in Net Assets Attributable to Holders of Capital Units per Capital Unit

The Increase/(Decrease) in Net Assets Attributable to Holders of Capital Units per Capital Unit for the six months ended June 30, 2014 and 2013 is calculated as follows:

| | June 30, 2014 | June 30, 2013 |
|---|---|---|
| Increase in Net Assets Attributable to Holders of Capital Units | $ 647,023 | $1,443,507 |
| Weighted Average Number of Capital Units Outstanding during the Period | 1,446,599 | 1,526,948 |
| Increase in Net Assets Attributable to Holders of Capital Units per Capital Unit | $ 0.4473 | $ 0.9454 |

## 13. Future Accounting Policy Changes

IFRS 9: Financial Instruments ("IFRS 9"), which is intended to replace IAS 39 Financial Instruments: Recognition and Measurement, sets forth new requirements for financial instrument classification and measurement, impairment and hedge accounting. The mandatory effective date of IFRS 9 has been tentatively set for January 1, 2018. Although entities may still choose to apply IFRS 9 immediately, the Fund has chosen not to early adopt IFRS 9. Based on the Manager’s current understanding and analysis of IFRS 9, the transition to IFRS 9 will change the manner in which investments are disclosed with no impact to value.

## Investment Funds Managed by Strathbridge Asset Management Inc.

### UNIT TRUSTS

Canadian Utilities & Telecom Income Fund (UTE.UN)
Core Canadian Dividend Trust (CDD.UN)
Gold Participation and Income Fund (GPF.UN)
Low Volatility U.S. Equity Income Fund (LVU.UN)
NDX Growth & Income Fund (NGI.UN)
Premier Canadian Income Fund (PCU.UN)
Top 10 Canadian Financial Trust (TCT.UN)

### SPLIT SHARES

Premium Income Corporation (PIC.PR.A/PIC.A)
S Split Corp. (SBN.PR.A/SBN)
Top 10 Split Trust (TXT.PR.A/TXT.UN)
World Financial Split Corp. (WFS.PR.A/WFS)

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Visit our website at www.strathbridge.com for additional information on all Strathbridge Investment Funds.

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