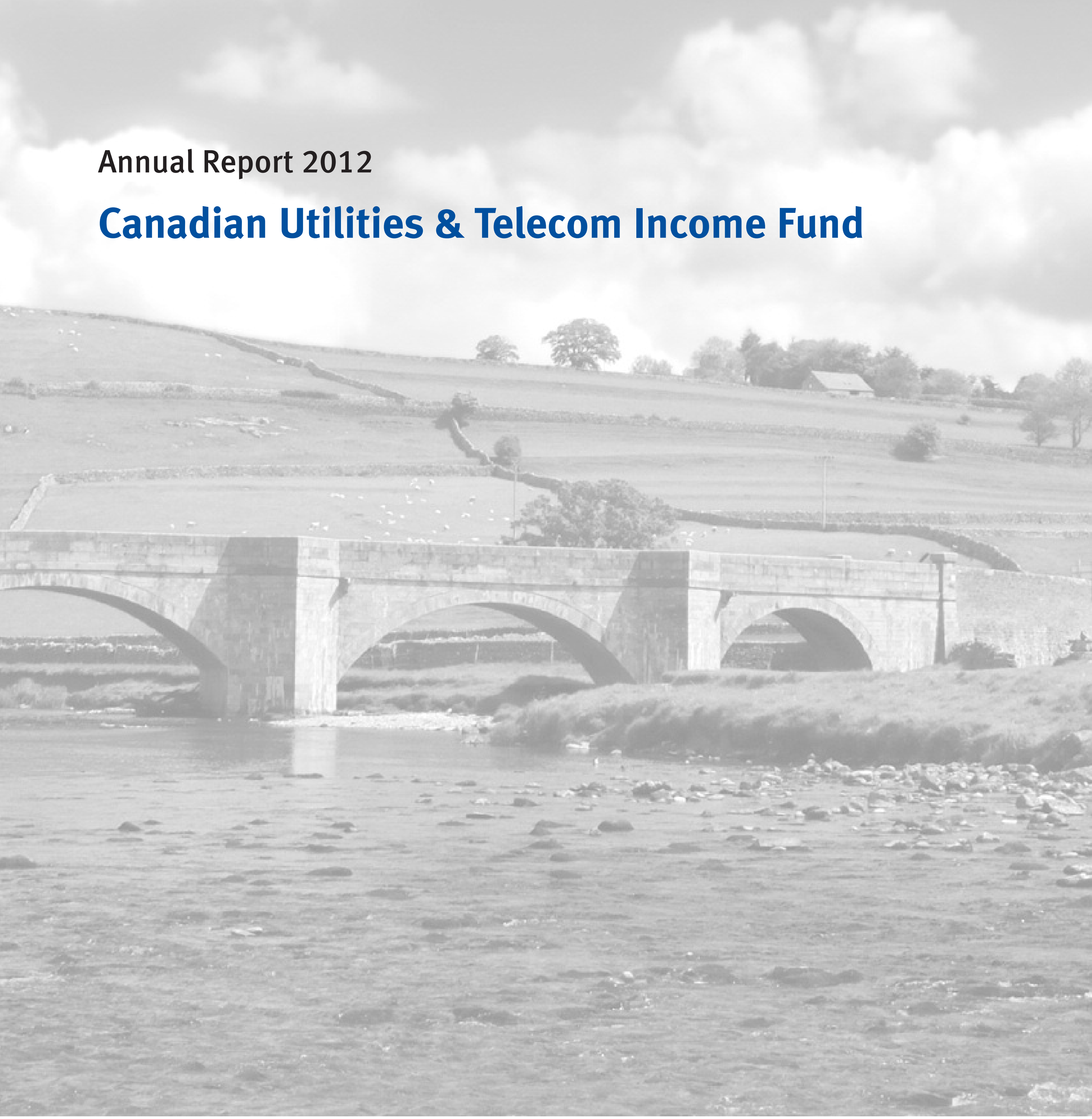
Annual Report 2012

Canadian Utilities & Telecom Income Fund



strathbridge
ASSET MANAGEMENT

Letter to Unitholders

We are pleased to present the 2012 annual report containing the management report of fund performance and the audited financial statements for Canadian Utilities & Telecom Income Fund.

For the fiscal year ended December 31, 2012, the Fund earned an annual total return, including reinvestment of distributions, of 4.9 percent. Total cash distributions of $0.85 per unit were paid during the year. The net asset value decreased slightly from $12.42 per unit as at December 31, 2011 to $12.15 per unit as at December 31, 2012 as cash distributions were in excess of the increase in net assets from operations. Due to the low level of volatility in the Canadian Utilities and Telecommunication Services companies for the majority of the period, the Strathbridge Selective Overwriting (see "The Fund") activity, which generated a net realized gain on options of $0.02 per unit, was limited to select holdings as the lower volatility did not compensate the Fund enough to justify this activity. 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.

The Fund

The Fund is a closed-end investment trust designed to maximize total returns for unitholders including long-term appreciation in net asset value ("NAV") per unit and to pay unitholders monthly distributions in an amount targeted to be 7.0 percent per annum on the NAV of the Fund. The units are listed on the Toronto Stock Exchange ("TSX") under the ticker symbol UTE.UN. To accomplish its objectives, the Fund invests in a portfolio principally consisting of equity securities of large capitalization (over $1 billion) Utilities and, to a lesser degree, Telecommunication Services issuers listed on the TSX. Issuers selected for inclusion in the portfolio must have a minimum distribution yield in excess of 2 percent per annum.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting ("SSO"), to enhance the income generated by the portfolio and to reduce volatility. The Fund may, from time to time, selectively write covered call options in respect of up to a maximum of 25 percent of the securities in the portfolio. 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.

TABLE OF CONTENTS

Management Report of Fund Performance

This annual management report of fund performance contains the financial highlights for the year ended December 31, 2012 of Canadian Utilities & Telecom Income Fund (the "Fund"). The annual financial statements of the Fund are attached.

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

Investment Objectives and Strategies

The Fund's investment objectives are to:

(1) pay unitholders monthly distributions in an amount targeted to be 7.0 percent per annum on the net asset value (''NAV'') of the Fund, and

(2) preserve and enhance the Fund's NAV while reducing portfolio volatility.

The Fund achieves its investment objectives by investing in a portfolio consisting principally of equity securities of large capitalization (over $1 billion) Utilities and, to a lesser degree, Telecommunication Services issuers listed on the Toronto Stock Exchange. Issuers selected for inclusion in the portfolio must have a minimum distribution yield in excess of 2 percent per annum.

The Fund may also invest up to 20 percent of its NAV in equity securities of other Utilities and Telecommunication Services issuers listed on a stock exchange in North America, subject to a minimum market capitalization of $250 million and a minimum distribution yield of 2 percent per annum.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting ("SSO"), to enhance the income generated by the portfolio and to reduce volatility. The Fund may, from time to time, selectively write covered call options in respect of up to a maximum of 25 percent of the securities in the portfolio. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

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

Risk

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

Results of Operations

Distributions

For the year ended December 31, 2012, cash distributions of $0.85 per unit were paid to unitholders.

Since the inception of the Fund in December 2010, the Fund has paid total distributions of $1.69 per unit, which included an initial distribution of $0.10 covering the period from the closing of the initial public offering on December 17, 2010 to January 31, 2011.

Revenue and Expenses

For the year ended December 31, 2012, the Fund's total revenue was $0.48 per unit, down $0.07 per unit from last year, largely due to lower dividend income. Total expenses per unit were $0.28 per unit, up from $0.26 per unit in 2011, primarily reflecting higher administration costs in the current year. The Fund had a net realized and unrealized gain of $0.29 per unit in 2012 as compared to a net realized and unrealized gain of $1.72 per unit a year ago.

Net Asset Value

The net asset value per unit of the Fund decreased 2.2 percent from $12.42 per unit at December 31, 2011 to $12.15 per unit at December 31, 2012. The total net asset value of the Fund decreased $10.8 million from $62.8 million at December 31, 2011 to $52.0 million at December 31, 2012, primarily reflecting the annual redemption of $9.2 million and cash distributions of $3.9 million and partially offset by a net increase from operations of $2.3 million.

For the year ended December 31, 2012, the annual total return of the Fund was 4.9 percent reflecting a general advance in the price of the securities held within the portfolio. The S&P/TSX Capped Utilities Index (the "Utilities Index") total return during the same period was 4.0 percent while the S&P/TSX Capped Telecommunication Services Index (the "Telecommunication Index") was up 11.5 percent. As a result of the Fund being limited to a specific universe of stocks and utilizing a covered call writing strategy to generate income, comparisons with market indices may not be appropriate. The Utilities and the Telecommunication Indices are calculated without the deduction of management fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

Recent Developments

On January 19, 2012, the Fund filed a Notice of Intention to make a normal course issuer bid to purchase up to 505,900 units representing approximately 10 percent of the Fund's public float of 5,059,000 units as of January 10, 2012. The Fund may purchase up to 101,200 units in any 30-day period which is 2 percent of the 5,060,000 units issued and outstanding as at January 10, 2012. The units may be purchased for cancellation from January 23, 2012 to January 22, 2013 through the facilities of the Toronto Stock Exchange or other eligible alternative market and may only be purchased at a price per unit not exceeding the last net asset value per unit. As at December 31, 2012, nil units had been purchased by the Fund.

Future Accounting Policy Changes

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

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

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

- Compliance with the full body of IFRS without industry specific exemptions. Unlike Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) where investment fund accounting was based upon guidance in “AcG-18”,
- 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

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

Strathbridge, as the Investment Manager of the Fund, manages the Fund’s investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and MCM dated November 26, 2010.

Strathbridge is the Manager of the Fund pursuant to a Trust Agreement made between the Fund and MCM dated November 26, 2010. As such, Strathbridge is responsible for providing or arranging for required administrative services to the Fund.

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

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

Independent Review Committee

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

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

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance from its inception on December 17, 2010. 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 daily, primarily as a result of investments being valued at bid prices for financial statements purposes and at closing prices for daily net asset value purposes.

Periods ended December 31	2012	2011	2010[4]
THE FUND'S NET ASSETS PER UNIT			
Net Assets, beginning of period (based on bid prices)[1]	**$ 12.40**	$ 11.23	$ 11.25[5]
INCREASE (DECREASE) FROM OPERATIONS			
Total revenue	**0.48**	0.55	0.01
Total expenses	**(0.28)**	(0.26)	(0.01)
Realized gain (loss) for the period	**1.00**	0.20	–
Unrealized gain (loss) for the period	**(0.71)**	1.52	(0.01)
Total Increase (Decrease) from Operations[2]	**0.49**	2.01	(0.01)
DISTRIBUTIONS			
From net investment income	**(0.46)**	(0.06)	–
From capital gains	**(0.26)**	–	–
Non-taxable Distributions	**(0.13)**	(0.78)	–
Total Annual Distributions[3]	**(0.85)**	(0.84)	–
Net Assets, as at December 31 (based on bid prices)[1]	**$ 12.13**	$ 12.40	$ 11.23

(1) Net Assets per unit is the difference between the aggregate value of the assets including the valuation of securities at bid prices and the aggregate value of the liabilities 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 period. 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 unitholders are based on the number of units outstanding on the record date for each distribution.
(4) For the period from inception on December 17, 2010 to December 31, 2010.
(5) Initial issue price, net of agent fees and initial issue costs.

Periods ended December 31	2012	2011	2010[7]
RATIOS/SUPPLEMENTAL DATA			
Net Asset Value ($millions)[1]	**$ 52.02**	$ 62.83	$ 55.04
Number of units outstanding[1]	**4,281,300**	5,060,000	4,900,000
Management expense ratio[2]	**2.01%**	1.96%	2.46%[5]
Portfolio turnover rate[3]	**169.22%**	168.08%	0.31%
Trading expense ratio[4]	**0.30%**	0.32%	0.30%[5]
Net Asset Value per unit[6]	**$ 12.15**	$ 12.42	$ 11.23
Closing market price	**$ 11.75**	$ 12.00	$ 11.94

(1) This information is provided as at December 31.
(2) The management expense ratio 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.
(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 period.
(5) Annualized.
(6) Net Asset Value per 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 divided by the number of units then outstanding.
(7) For the period from inception on December 17, 2010 to December 31, 2010.

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 made by the Fund during these periods were reinvested in units of the Fund,

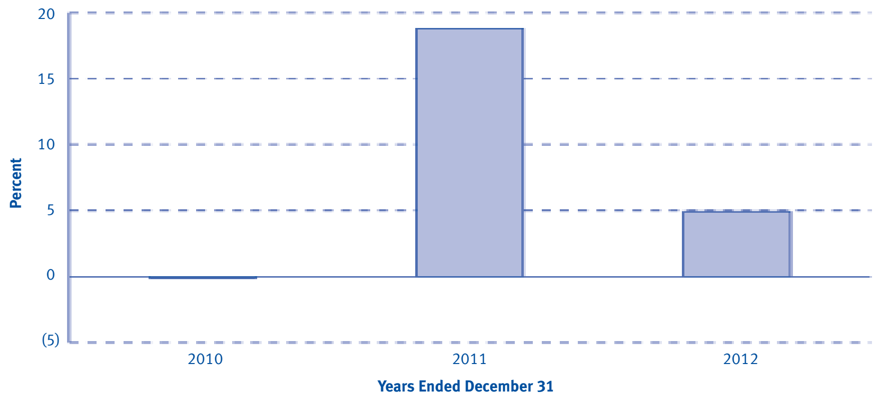
(2) information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

(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 return varied from year to year for each of the past three years. The chart also shows, in percentage terms, how much an investment made on January 1 or the date of inception in 2010 would have increased or decreased by the end of the fiscal year.

Annual Total Return



Annual Compound Returns

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

(In Canadian Dollars)	One Year	Since Inception(1)
Canadian Utilities & Telecom Income Fund	**4.94%**	11.34%
S&P/TSX Capped Utilities Index(2)	**3.98%**	4.97%
S&P/TSX Capped Telecommunication Services Index(3)	**11.50%**	19.89%

(1) From date of inception on December 17, 2010.
(2) The S&P/TSX Capped Utilities Index is a cap-weighted sector index whose equity weights are capped at 25 percent. The index constituents are derived from a subset stock pool of the S&P/TSX Composite Index whose sector classification is based on the Global Industry Classification Standard ("GICS").
(3) The S&P/TSX Capped Telecommunication Services Index is a cap-weighted sector index whose equity weights are capped at 25 percent. The index constituents are derived from a subset stock pool of the S&P/TSX Composite Index whose sector classification is based on the GICS.

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 monthly dividends and return the original invested amount at the termination date. As a result, the Fund has, from time to time, maintained cash balances in an effort to provide greater net asset value stability and employs a covered option writing strategy to enhance the income generated by the portfolio and reduce volatility.

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

Portfolio Manager Report

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

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

The total return for the S&P/TSX Capped Utilities Index for 2012 was 4.0 percent, to a large extent helped by dividend income which cushioned the slightly negative price performance. Performance within the Index varied with ATCO Ltd. being the best performer up 36.4 percent while TransAlta Corp. led the decliners and was down by 22.9 percent for the year. The total return for the S&P/TSX Capped Telecommunication Services Index for 2012 was 11.5 percent, led by Rogers Communications Inc. and TELUS Corporation with total returns of 19.7 percent and 17.5 percent respectively. While only the Telecommunication Services sector outperformed the broad-based S&P/TSX Composite Index during the year, which increased 7.2 percent on an annual basis, both sectors continued to generate high free cash flow and pay high and growing dividends in a low interest rate environment. Investor sentiment turned more bearish in March through May 2012 as European sovereign debt concerns in Spain and Greece were in the forefront again. However, the full backing of central banks worldwide led to a larger risk appetite and, as a result, investors moved money into higher growth sectors versus the defensive sectors.

The annual total return of the Fund, including reinvestment of distributions, for the year ended December 31, 2012 was 4.9 percent. The Fund was led by the strong performance of the Energy Infrastructure stocks such as Inter Pipeline Fund L.P. and Gibson Energy Inc., which increased 32.8 percent and 32.3 percent respectively. During the year, the Fund also benefitted from its holdings in Canadian Utilities Ltd., Provident Energy Ltd. and the Telecommunication Services companies, particularly, TELUS Corporation and Rogers Communications Inc.

Many stocks within the portfolio continued to increase their dividends during the year. Notable examples of companies with dividend increases in 2012 are: Enbridge Inc., which increased its dividends by 17.7 percent, and BCE Inc., which increased its dividends by 10.9 percent. The Fund maintained its invested position during the majority of the year and ended 2012 with a cash position of 1 percent compared to 3 percent at the end of 2011.

The Manager remains positive on both the Utilities and Telecommunication Services sectors due to their ability to generate strong free cash flows as well as their track record of paying high and growing dividends over time. Due to the current low interest rate environment, the dividend yields relative to the bond yields provide attractive valuations for both the Utilities and Telecommunication Services shares.

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

December 31, 2012

	% OF NET ASSET VALUE
Utilities	68%
Telecommunication Services	31%
Cash	1%
	100%

Portfolio Holdings

December 31, 2012

	% OF NET ASSET VALUE
Rogers Communications Inc. - Class B	8%
Inter Pipeline Fund L.P.	7%
AltaGas Ltd.	7%
Gibson Energy Inc.	7%
Shaw Communications Inc. - Class B	6%
TELUS Corporation	6%
Northland Power Inc.	6%
Bell Aliant Inc	6%
Canadian Utilities Ltd.	6%
Enbridge Inc.	5%
Keyera Corp.	5%
TransCanada Corp.	5%
Enbridge Income Fund Holdings Inc.	4%
Algonquin Power & Utilities Corp.	4%
BCE Inc.	4%
Pembina Pipeline Corporation	3%
Fortis Inc.	2%
Sempra Energy	2%
Emera Inc.	2%
DTE Energy Company	2%
Verizon Communications Inc.	1%
CMS Energy Corporation	1%
Cash	1%

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 Canadian Utilities & Telecom Income Fund (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 LLP, the Fund's independent auditor, has full and unrestricted access to the Board.

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

John D. Germain
Director
Strathbridge Asset Management Inc.

To the Unitholders of Canadian Utilities & Telecom Income Fund

We have audited the accompanying financial statements of Canadian Utilities & Telecom Income Fund, which comprise the statement of investments as at December 31, 2012, the statements of net assets as at December 31, 2012 and 2011 and the statements of financial operations, changes in net assets and net gain 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 Canadian Utilities & Telecom Income Fund as at December 31, 2012 and 2011, and the results of its operations and its changes in net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte LLP

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

Statements of Net Assets

As at December 31

		2012		2011
ASSETS				
Investments at fair value (cost $47,064,254; 2011 - $52,995,623)	$	**51,320,434**	$	60,602,252
Short-term investments at fair value (cost nil; 2011 - $1,546,691)		**–**		1,546,691
Cash		**503,368**		489,808
Dividends receivable		**262,928**		338,218
Accrued interest		**–**		510
TOTAL ASSETS		**52,086,730**		62,977,479
LIABILITIES				
Accrued liabilities		**96,918**		88,333
Accrued management fees		**47,892**		55,539
Issue expenses payable (Note 5)		**–**		78,959
TOTAL LIABILITIES		**144,810**		222,831
NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY	$	**51,941,920**	$	62,754,648
Number of Units Outstanding (Note 5)		**4,281,300**		5,060,000
Net Assets per Unit (Note 4)	$	**12.1323**	$	12.4021

On behalf of the Manager,
Strathbridge Asset Management Inc.

John P. Mulvihill, Director

John D. Germain, Director

The notes are an integral part of the Financial Statements.

Statements of Financial Operations

Years ended December 31

	2012	2011
REVENUE		
Dividends	**$ 2,276,291**	$ 2,663,883
Interest and other income	**14,168**	129,087
Withholding taxes	**(33,730)**	(24,232)
TOTAL REVENUE	**2,256,729**	2,768,738
EXPENSES (Note 6)		
Management fees	**623,611**	645,465
Service fees	**227,172**	231,595
Administrative and other expenses	**90,042**	60,121
Transaction fees (Note 9)	**170,710**	183,051
Custodian fees	**55,186**	53,638
Audit fees	**26,897**	27,577
Advisory board fees	**19,945**	20,575
Independent review committee fees	**7,976**	7,787
Legal fees	**3,315**	–
Unitholder reporting costs	**14,430**	21,121
Harmonized sales tax	**67,509**	69,660
TOTAL EXPENSES	**1,306,793**	1,320,590
Net Investment Income	**949,936**	1,448,148
Net realized gain on sale of investments	**4,255,998**	415,544
Net realized gain on sale of derivatives	**453,036**	613,148
Net Gain on Sale of Investments	**4,709,034**	1,028,692
Net change in unrealized appreciation/depreciation of investments	**(3,349,249)**	7,673,207
Net Gain on Investments	**1,359,785**	8,701,899
NET INCREASE IN NET ASSETS FROM OPERATIONS	**$ 2,309,721**	$ 10,150,047
NET INCREASE IN NET ASSETS FROM OPERATIONS PER UNIT (based on the weighted average number of units outstanding during the year of 4,694,054; 2011 - 5,057,363)	**$ 0.4921**	$ 2.0070

The notes are an integral part of the Financial Statements.

Statements of Changes in Net Assets

Years ended December 31

	2012	2011
NET ASSETS, BEGINNING OF YEAR	**$ 62,754,648**	$ 55,030,943
Net Increase in Net Assets from Operations	**2,309,721**	10,150,047
Unit Transactions (Note 5)		
Recovery of issue costs	**78,959**	–
Amount paid for units redeemed	**(9,247,608)**	–
Proceeds from units issued, net of issue costs	**–**	1,819,200
	(9,168,649)	1,819,200
Distributions to Unitholders (Note 7)		
From net investment income	**(2,139,722)**	(294,508)
From net investment gain on sale of investments	**(1,177,381)**	–
Non-taxable distributions	**(636,697)**	(3,951,034)
	(3,953,800)	(4,245,542)
Change in Net Assets during the Year	**(10,812,728)**	7,723,705
NET ASSETS, END OF YEAR	**$ 51,941,920**	$ 62,754,648

Statements of Net Gain on Sale of Investments

Years ended December 31

	2012	2011
Proceeds from Sale of Investments	**$ 103,419,736**	$ 92,601,173
Cost of Investments Sold		
Cost of investments, beginning of year	**52,995,623**	13,623,781
Cost of investments purchased	**92,779,333**	130,944,323
	145,774,956	144,568,104
Cost of Investments, End of Year	**(47,064,254)**	(52,995,623)
	98,710,702	91,572,481
NET GAIN ON SALE OF INVESTMENTS	**$ 4,709,034**	$ 1,028,692

The notes are an integral part of the Financial Statements.

Statement of Investments

As at December 31, 2012

	Number of Shares	Average Cost	Fair Value	% of Net Assets
INVESTMENTS				
Canadian Common Shares				
Telecommunication Services				
BCE Inc.	48,100	$ 1,999,247	$ 2,049,060	
Bell Aliant Inc.	111,400	3,042,685	2,932,048	
Rogers Communications Inc. - Class B	87,500	3,337,253	3,949,750	
Shaw Communications Inc. - Class B	149,000	3,099,713	3,398,690	
TELUS Corporation	46,600	2,628,229	3,030,864	
Total Telecommunication Services		14,107,127	15,360,412	29.6 %
Utilities				
Algonquin Power & Utilities Corp.	300,000	2,021,509	2,049,000	
AltaGas Ltd.	106,800	3,368,325	3,577,800	
Canadian Utilities Ltd.	40,100	2,620,010	2,876,774	
Emera Inc.	30,000	1,024,872	1,039,800	
Enbridge Inc.	66,000	2,669,255	2,838,000	
Enbridge Income Fund Holdings Inc.	87,000	2,043,403	2,087,130	
Fortis Inc.	31,000	1,028,119	1,058,030	
Gibson Energy Inc.	145,200	2,944,601	3,480,444	
Inter Pipeline Fund L.P.	161,300	2,913,068	3,787,324	
Keyera Corp.	54,700	2,198,828	2,683,035	
Northland Power Inc.	160,900	2,800,516	3,002,394	
Pembina Pipeline Corporation	55,000	1,512,606	1,564,200	
TransCanada Corp.	56,000	2,509,104	2,630,320	
Total Utilities		29,654,216	32,674,251	62.9 %
Total Canadian Common Shares		$ 43,761,343	$ 48,034,663	92.5 %
United States Common Shares				
Telecommunication Services				
Verizon Communications Inc.	17,000	$ 760,786	$ 732,257	1.4 %
Utilities				
CMS Energy Corporation	21,500	516,206	521,701	
DTE Energy Company	17,000	1,039,731	1,016,289	
Sempra Energy	14,800	1,025,388	1,044,954	
Total Utilities		2,581,325	2,582,944	5.0 %
Total United States Common Shares		$ 3,342 ,111	$ 3,315,201	6.4 %
Forward Exchange Contracts				
Sold USD $600,000, Bought CAD $596,250 @ 1.00629 - January 16, 2013			$ (1,377)	
Sold USD $2,345,000, Bought CAD $2,309,825 @ 1.01523 - February 13, 2013			(27,230)	
Bought USD $970,000, Sold CAD $963,986 @ 1.00624 - February 13, 2013			2,741	
Bought USD $225,000, Sold CAD $222,660 @ 1.01051 - February 13, 2013			1,579	
Sold USD $1,800,000, Bought CAD $1,789,560 @ 1.00583 - March 6, 2013			(5,143)	
Total Forward Exchange Contracts			$ (29,430)	(0.1)%
Adjustment for transaction fees		(39,200)		
TOTAL INVESTMENTS		$ 47,064,254	$ 51,320,434	98.8 %
OTHER NET ASSETS			621,486	1.2 %
TOTAL NET ASSETS			$ 51,941,920	100.0 %

1. Establishment of the Fund

Canadian Utilities & Telecom Income Fund (the "Fund') is a closed-end investment trust established under the laws of the Province of Ontario on November 26, 2010. The Fund began operations on December 17, 2010.

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

2. Investment Objectives of the Fund

The Fund's investment objectives are to:

(i) pay unitholders monthly distributions in an amount targeted to be 7.0 percent per annum on the net asset value ("NAV") of the Fund, and

(ii) preserve and enhance the Fund's NAV while reducing portfolio volatility.

The Fund achieves its investment objectives by investing in a portfolio consisting principally of equity securities of large capitalization (over $1 billion) Utilities and, to a lesser degree, Telecommunication Services issuers listed on the Toronto Stock Exchange ("TSX"). Issuers selected for inclusion in the portfolio must have a minimum distribution yield in excess of 2 percent per annum.

The Fund may also invest up to 20 percent of its NAV in equity securities of other Utilities and Telecommunication Services issuers listed on a stock exchange in North America, subject to a minimum market capitalization of $250 million and a minimum distribution yield of 2 percent per annum.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting ("SSO"), to enhance the income generated by the portfolio and to reduce volatility. The Fund may, from time to time, selectively write covered call options in respect of up to a maximum of 25 percent of the securities in the portfolio. 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.

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 made by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Primary estimates include valuation of investments. While management believes that the estimates used in preparing its financial statements are reasonable and prudent, actual results could differ from these estimates.

Financial Instruments – Disclosures

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

The value of a forward exchange contract shall be the gain or loss that would be realized if, on the valuation date, the position in the forward exchange contract, as the case may be, was to be closed out.

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. 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 recorded daily as it is earned.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of investments, and income derived from investments, are translated at the rate of exchange prevailing on the respective dates of such transactions.

Foreign exchange gains (losses) on short-term investments are reflected as interest income (loss). Realized gains (losses) relating to forward exchange contracts are included in net gain (loss) on sale of derivatives. Other foreign exchange gains (losses) are recorded as net gain (loss) on sale of investments, as appropriate.

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:

	2012	2011
Net Asset Value per unit (for pricing purposes)	**$12.1507**	$12.4167
Difference	**(0.0184)**	(0.0146)
Net Assets per unit (for financial statement purposes)	**$12.1323**	$12.4021

5. Unitholders' Equity

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Fund.

On December 17, 2010, the Fund issued 4,900,000 units at a price of $12.00 per unit for gross proceeds of $58,800,000. On January 7, 2011, an additional 160,000 units were issued for gross proceeds of $1,819,200. Costs of $3,787,800 were incurred in connection with these offerings and the establishment of the Fund and have been charged to equity. During the year, $78,959 of these costs were recovered.

Units may be surrendered at any time for redemption to Computershare Investor Services Inc., the Fund's registrar and transfer agent, but will be redeemed only on a Redemption Date (as defined below). Units surrendered for redemption by a unitholder at least twenty business days prior to the last day in June 2012 or any year thereafter (the "June Redemption Date") will be redeemed on such June Redemption Date. Units surrendered for redemption by a unitholder at least ten business days prior to the last day of any other month (a "Monthly Redemption Date" and, together with the June Redemption Date, a "Redemption Date"), will be redeemed on such Monthly Redemption Date. If a day that would otherwise be a Redemption Date is not a business day, the Redemption Date shall be the preceding business day. Unitholders will receive payment for the units on or before the 15th day following such Redemption Date (the "Redemption Payment Date").

Commencing in 2012, unitholders whose units are redeemed on a June Redemption Date will be entitled to receive a redemption price per unit equal to the NAV per unit determined as of such date.

For unitholders whose units are redeemed on any other Redemption Date, the redemption price per unit will be 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 (or, if the units are not listed on any stock exchange, on the principal market on which the units are quoted for trading) 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 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 the units are not listed on any stock exchange, on the principal market on which the units are quoted for trading) 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 (or, if the units are not listed on any stock exchange, on the principal market on which the units are quoted for trading).

Any unpaid distribution payable on or before the applicable Redemption Date in respect of units tendered for redemption on such Redemption Date will also be paid on the applicable Redemption Payment Date.

Unit transactions during the year are as follows:

	2012	2011
Units outstanding, beginning of year	**5,060,000**	4,900,000
Units issued	**–**	160,000
Units redeemed	**(778,700)**	–
Units outstanding, end of year	**4,281,300**	5,060,000

On January 19, 2012, the Fund filed a Notice of Intention to make a normal course issuer bid to purchase up to 505,900 units representing approximately 10 percent of the Fund's public float of 5,059,000 units as of January 10, 2012. The Fund may purchase up to 101,200 units in any 30-day period which is 2 percent of the 5,060,000 units issued and outstanding as at January 10, 2012. The units may be purchased for cancellation from January 23, 2012 to January 22, 2013 through the facilities of the TSX or other eligible alternative market and may only be purchased at a price per unit not exceeding the last net asset value per unit. During the year, nil units had been purchased by the Fund.

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 the 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 equal to 0.40 percent annually of the net asset value of the Fund which it pays to dealers in connection with amounts held by clients of the sales representatives of such dealers, plus applicable taxes. This service fee is payable quarterly.

7. Distributions

The Fund intends to pay monthly cash distributions on the last day of each month in an amount targeted to be 7.0 percent per annum on the NAV of the Fund.

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 is not liable for income tax under the Income Tax Act (Canada) (the "Act").

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 to unitholders is recoverable by the Fund to the extent and in the circumstances provided in the Act.

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

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

Accumulated non-capital losses of approximately $0.1M (2011 - $0.1M) are available for utilization against net investment income and expire in 2030.

Issue costs of approximately $2.2M (2011 - $3.0M) remain undeducted for tax purposes at year-end.

9. Transaction Fees

Total transaction fees for the year ended December 31, 2012 in connection with portfolio transactions were $170,710 (2011 - $183,051). Of this amount $89,147 (2011 - $47,689) was directed for payment of 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, investments, receivables and payables. In accordance with CICA Handbook Section 3862, "Financial Instruments - Disclosures" the Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

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

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

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

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

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Canadian Common Shares	$ 48,034,663	$ –	$ –	$ 48,034,663
United States Common Shares	3,315,201	–	–	3,315,201
Forward Exchange Contracts	–	(29,430)	–	(29,430)
Total Investments	$ 51,349,864	$ (29,430)	$ –	$ 51,320,434

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	$ –	$ 1,547,201	$ –	$ 1,547,201
Canadian Common Shares	60,015,725	–	–	60,015,725
United States Common Shares	596,179	–	–	596,179
Forward Exchange Contracts	–	(4,497)	–	(4,497)
Options	(5,155)	–	–	(5,155)
Total Investments	$ 60,606,749	$ 1,542,704	$ –	$ 62,149,453

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

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

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

Concentration Risk

The Fund was created to invest in the securities of Utilities and Telecommunication Services related issuers and is not expected to have significant exposure to any other investments or assets. The Fund's holdings are concentrated in Utilities and Telecommunication Services related securities and they are not diversified.

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 Canadian securities. 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 99 percent (2011 - 97 percent) of the Fund's net assets held at December 31, 2012 were publicly traded equities. If equity prices on the exchange increased or decreased by 10 percent as at December 31, 2012, the net assets of the Fund would have increased or decreased by $5.1M (2011 - $6.1M) respectively or 9.9 percent (2011 - 9.7 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 positions 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 10 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 21 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.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The portfolio includes securities and options denominated in foreign currencies. The net asset value of the Fund and the value of the dividends and option premiums received by the Fund will be affected by fluctuations in the value of the foreign currencies relative to the Canadian dollar. The Fund uses foreign exchange contracts to actively hedge the majority of its foreign currency exposure.

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of investments, and income derived from investments, are translated at the rate of exchange prevailing on the respective dates of such transactions. Approximately 7 percent (2011 - 2 percent) of the Fund's net assets held at December 31, 2012 were held in securities denominated in U.S. currency. Currency risk is mitigated by the Fund through the use of forward contracts. At December 31, 2012 and 2011, the Fund had no currency risk as a result of its investment in foreign currency contracts.

Credit Risk

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

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

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

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

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

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

The Fund held no short-term investments at December 31, 2012.

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%
Total		100%

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

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

Board of Advisors

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Chairman & CEO
Strathbridge Asset Management Inc.

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

Michael M. Koerner[1]
Corporate Director

Robert W. Korthals[1]
Corporate Director

Robert G. Bertram[1]
Corporate Director

[1] *Independent Review Committee Member*

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

Investment Funds Managed by Strathbridge Asset Management Inc.

UNIT TRUSTS

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

SPLIT SHARES

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

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