VIP.UN

Actively managed, broadly diversified portfolio of income-producing securities.

Management Responsibility Statement

The accompanying financial statements of Aston Hill VIP Income Fund (the “Fund”) have been prepared by Aston Hill Asset Management Inc. (the “Manager”) and approved by the Board of Directors of the Manager. The Manager is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

The Manager maintains appropriate procedures to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in note 2 to the financial statements.

The Board of Directors of the Manager is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements.

The Manager, with the approval of its Board of Directors, has appointed the external firm of PricewaterhouseCoopers LLP as the auditors of the Fund. They have audited the financial statements of the Fund in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements.

Michael J. Killeen
President
Aston Hill Asset Management Inc.

Larry W. Titley
Chief Financial Officer
Aston Hill Asset Management Inc.

March 25, 2013

Independent Auditor's Report

To the Unitholders of Aston Hill VIP Income Fund (the Fund)

We have audited the accompanying financial statements of the Fund, which comprise the statement of investment portfolio as at December 31, 2012, the statements of net assets as at December 31, 2012 and 2011 and the statements of operations and deficit, cash flows, and changes in net assets for the years then ended, and the related notes, which comprise 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 the 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 the 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 an 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 the Fund as at December 31, 2012 and 2011 and the results of its operations, its cash flows and the changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Calgary, Alberta

March 25, 2013

Statements of Net Assets

As at December 31	2012	2011
Assets		
Investments, at fair value[1]	**$ 308,412,953**	$ 280,390,816
Cash and short-term investments	**5,982,118**	46,362,462
Unrealized gain on foreign currency forward contracts (note 10)	**416,935**	—
Income receivable	**2,939,958**	1,980,996
Amounts receivable for investments sold	**454,767**	1,129,349
Amounts receivable for units sold	**79,186**	—
Other assets	**—**	28,764
Total assets	**318,285,917**	329,892,387
Liabilities		
Unrealized loss on foreign currency forward contracts (note 10)	**—**	236,376
Accounts payable and accrued liabilities	**772,261**	1,030,650
Distributions payable to unitholders (note 7)	**1,532,039**	2,534,389
Amounts payable for investments purchased	**817,662**	73,780
Redemptions payable to unitholders	**209,514**	—
Total liabilities	**3,331,476**	3,875,195
Unitholders' equity		
Unitholders' capital (note 4)	**298,549,711**	340,099,811
Contributed surplus (note 4)	**124,593,645**	121,297,330
Deficit	**(108,188,915)**	(135,379,949)
Net Assets representing unitholders' equity	**$ 314,954,441**	$ 326,017,192
Units outstanding (note 4)	**34,045,322**	36,205,552
Net Assets per unit (note 3)	**$ 9.25**	$ 9.00

[1] Investments, at fair value, exclude the value of derivative contracts which are disclosed separately on the Statements of Net Assets.

Approved on behalf of the Manager, Aston Hill Asset Management Inc.

Michael J. Killeen
Director

Larry W. Titley
Director

The accompanying notes are an integral part of these financial statements.

Statements of Operations and Deficit

For the years ended December 31	2012	2011
Income		
Distribution and dividend income	**$ 7,979,803**	$ 8,808,817
Securities lending income (note 11)	**42,011**	64,653
Interest income	**6,100,749**	6,028,014
Other income	**8,837**	—
	14,131,400	14,901,484
Expenses		
Management fees (note 8)	**3,007,222**	3,277,776
Service fees (note 8)	**1,259,065**	1,349,929
Audit fees	**45,466**	39,871
Independent review committee fees	**5,668**	30,524
Trustee fees	**13,147**	12,290
Custodial fees	**26,446**	42,636
Legal fees	**24,137**	9,310
Unitholder reporting costs	**67,499**	65,780
Other administrative expenses	**300,574**	239,226
Interest expenses and bank charges (note 12)	**171,100**	210,785
	4,920,324	5,278,127
Net investment income	**9,211,076**	9,623,357
Net realized gain on sale of investments (note 9)	**11,649,490**	19,822,398
Net realized loss on foreign currency transactions (note 9)	**(217,833)**	(30,079)
Transaction costs	**(377,743)**	(562,265)
Net realized gain on foreign currency forward contracts	**1,904,992**	1,324,538
Net change in unrealized gain (loss) on foreign currency forward contracts (note 10)	**653,311**	(2,630,910)
Net change in unrealized gain (loss) on investments, short-term investments and foreign currency transactions	**12,594,553**	(26,164,487)
Increase in Net Assets from operations	**35,417,846**	1,382,552
Deficit, beginning of year	**(135,379,949)**	(128,341,859)
Issuance of warrants, net (note 5)	**—**	(10,551)
Distributions to unitholders	**(8,226,812)**	(8,410,091)
Deficit, end of year	**$(108,188,915)**	$(135,379,949)
Increase in Net Assets from operations per unit – basic (note 4)[(1)]	**$ 1.00**	$ 0.04

(1) Based on the weighted average number of units outstanding for the year (note 4).

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

For the years ended December 31	2012	2011
Cash flows from operating activities:		
Increase in Net Assets from operations	$ 35,417,846	$1,382,552
Adjustments to reconcile net cash provided by operations:		
Net realized gain on sale of investments (note 9)	(11,649,490)	(19,822,398)
Net change in unrealized (gain) loss on investments	(13,436,368)	27,086,494
Net change in unrealized (gain) loss on foreign currency forward contracts	(653,311)	2,630,910
Decrease in other assets	28,764	91,486
(Increase) decrease in income receivable	(958,962)	1,158,433
(Decrease) increase in accounts payable and accrued liabilities	(258,389)	117,134
Purchase of investments (note 9)	(292,171,454)	(213,781,973)
Proceeds from sale of investments (note 9)	290,653,639	266,750,139
Cash provided by operating activities	6,972,275	65,612,777
Cash flows from financing activities:		
Issuance costs on warrants (note 5)	—	(195,628)
Proceeds from issuance of units upon exercise of warrants (note 5)	—	1,282,712
Warrant cost adjustment (note 5)	258,235	—
Proceeds from distribution reinvestment plan	—	247,378
Distributions paid to unitholders	(28,073,585)	(31,291,798)
Repurchase of units	(2,718,288)	(2,816,836)
Amounts paid for redemption of units	(16,818,981)	(12,239,008)
Cash used in financing activities	(47,352,619)	(45,013,180)
(Decrease) increase in cash and short-term investments	(40,380,344)	20,599,597
Cash and short-term investments, beginning of year	46,362,462	25,762,865
Cash and short-term investments, end of year	$ 5,982,118	$ 46,362,462
Supplemental information:		
Interest paid	$ 10,954	$ 2,501

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Net Assets

For the years ended December 31	**2012**	2011
Net Assets, beginning of year	**$ 326,017,192**	$ 369,542,090
Operations:		
Increase in Net Assets from operations	**35,417,846**	1,382,552
Unitholder distributions:		
From income (excluding dividends)	**(8,226,812)**	(8,410,091)
Return of capital (note 4)	**(18,844,423)**	(22,775,977)
	(27,071,235)	(31,186,068)
Unitholder transactions:		
Issuance costs on warrants (note 5)	**—**	(195,628)
Proceeds from distribution reinvestment plan (note 7)	**79,186**	247,378
Proceeds from issuance of units upon exercise of warrants (note 5)	**—**	1,282,712
Repurchase of units (note 4)	**(2,718,288)**	(2,816,836)
Redemption of units (note 4)	**(17,028,495)**	(12,239,008)
Warrant cost adjustment (note 5)	**258,235**	—
	(46,480,597)	(44,907,450)
Net decrease in Net Assets	**(11,062,751)**	(43,524,898)
Net Assets, end of year	**$ 314,954,441**	$ 326,017,192

The accompanying notes are an integral part of these financial statements.

Statement of Investment Portfolio

As at December 31, 2012		Cost (CAD)	Fair Value (CAD)	% of Portfolio
	Equities			
No. of Shares	**Financials**			
83,058	Bank of Nova Scotia	$ 4,473,941	$ 4,769,190	
61,948	Berkshire Hathaway Inc., Cl B	4,878,842	5,537,768	
180,731	Brookfield Office Properties Inc.	3,002,856	3,050,739	
81,479	Canadian Imperial Bank of Commerce	5,970,295	6,515,876	
35,330	Gluskin Sheff & Associate Inc.	481,195	524,651	
196,053	Great West Lifeco Inc.	4,171,225	4,766,048	
117,087	IGM Financial Inc.	4,497,420	4,869,648	
53,000	Intact Financial Corp.	3,140,070	3,428,570	
88,144	Royal Bank of Canada	4,485,252	5,273,656	
	Total Financials	**35,101,096**	**38,736,146**	**12.6%**
	Energy			
48,800	Altagas Ltd.	1,621,809	1,634,800	
718,555	Argent Energy Trust, Unit	7,019,674	6,617,892	
90,900	Cenovus Energy Inc.	3,072,179	3,026,061	
149,000	Crescent Point Energy Corp.	6,123,851	5,587,500	
148,012	Freehold Royalty Ltd.	2,771,919	3,296,227	
191,681	Gibson Energy Inc.	4,293,330	4,594,594	
80,000	Shawcor Ltd., Cl A sub-voting	3,131,488	3,112,800	
95,002	Suncor Energy Inc.	3,106,301	3,107,515	
107,528	TransCanada Corporation	4,030,863	5,050,590	
147,068	Trilogy Energy Corp.	3,680,461	4,270,855	
	Total Energy	**38,851,875**	**40,298,834**	**13.1%**
	Consumer discretionary			
163,100	Dorel Industries Inc.	5,416,387	5,855,290	
109,000	Hudson Bay Co.	1,853,000	1,822,480	
98,000	Shaw Communications Inc.	1,988,463	2,235,380	
50,000	Target Corp.	3,131,283	2,945,276	
160,589	Thomson Reuters	4,604,343	4,621,751	
49,886	Tim Horton Inc. CAD	2,511,826	2,433,938	
490,083	Whistler Blackcomb Holdings	5,893,541	5,998,616	
	Total Consumer discretionary	**25,398,843**	**25,912,731**	**8.3%**
	Consumer staples			
67,848	George Weston Limited	4,603,344	4,790,747	
68,530	Procter & Gamble Co.	4,466,635	4,633,854	
108,475	Shoppers Drug Mart Corporation	4,036,831	4,632,967	
	Total Consumer staples	**13,106,810**	**14,057,568**	**4.6%**
	Industrials			
56,277	Canadian Pacific Railway Ltd.	4,150,723	5,674,973	
121,000	Black Diamond Group Ltd.	2,405,480	2,420,000	
64,722	Canadian National Railway Co.	4,439,774	5,846,338	
770,000	Horizon North Logistics Inc.	5,581,193	5,282,200	
225,000	Newalta TA Inc.	3,150,000	3,483,000	
	Total Industrials	**19,727,170**	**22,706,511**	**7.4%**
	Information technology			
86,275	MacDonald, Dettwiler and Associates Ltd.	4,810,292	4,827,086	
	Total Information technology	**4,810,292**	**4,827,086**	**1.6%**

The accompanying notes are an integral part of these financial statements.

Statement of Investment Portfolio (continued)

As at December 31, 2012		Cost (CAD)	Fair Value (CAD)	% of Portfolio
	Equities (continued)			
No. of Units	**Materials**			
496,800	Canexus Corp.	$ 3,924,720	$ 4,197,960	
127,600	Richards Packaging Income Fund	902,389	1,085,876	
	Total Materials	**4,827,109**	**5,283,836**	**1.7%**
No. of Shares	**Real estate**			
43,100	Allied Properties Real Estate Investment Trust	1,318,454	1,420,145	
310,846	Chartwell Seniors Real Estate Investment Trust	3,109,558	3,378,896	
45,200	Cominar Real Estate Investment Trust, Class U	987,833	1,019,260	
290,000	Dundee Industrial Real Estate	3,065,018	3,233,500	
315,000	Regal Lifestyle Communities Inc.	3,150,000	2,891,700	
170,960	RioCan Real Estate Investment Trust	4,614,754	4,701,400	
410,000	Tricon Capital Group Inc.	2,344,700	2,599,400	
	Total Real estate	**18,590,317**	**19,244,301**	**6.2%**
	Telecommunications			
134,278	BCE Inc.	4,090,345	5,720,243	
19,000	Iridium, *7% Series PFD*[(1)]	1,877,099	1,924,934	
125,051	Rogers Communications Inc.	4,400,835	5,644,802	
98,000	TELUS Communication	6,273,613	6,373,920	
5,124	TELUS Communication, Non-Voting	316,602	330,959	
	Total Telecommunications	**16,958,494**	**19,994,858**	**6.5%**
	Utilities			
34,780	ATCO Ltd.	1,989,722	2,792,138	
383,434	Innergex Renewable Energy Inc.	3,212,458	3,953,205	
	Total Utilities	**5,202,180**	**6,745,343**	**2.2%**
	Total Equities	**$ 182,574,186**	**$ 197,807,214**	**64.2%**

(1) Level 3 financial asset (note 14).

The accompanying notes are an integral part of these financial statements.

Statement of Investment Portfolio (continued)

As at December 31, 2012		Cost (CAD)	Fair Value (CAD)	% of Portfolio
	Fixed income investments			
Par Value ($)	**Financials**			
5,000,000	Ace Cash Express Inc., *11.000%, due February 1, 2019*	$ 4,705,605	$ 4,692,230	
1,825,000	Atkore International, *9.875%, due January 1, 2018*	1,807,628	1,930,722	
3,675,000	Ipayment Inc., *10.250%, due May 15, 2018*	3,174,397	2,936,502	
4,500,000	Mattamy Group Corp., *6.875%, due November 15, 2020*	4,500,000	4,516,875	
	Total Financials	**14,187,630**	**14,076,329**	**4.6%**
	Energy			
4,700,000	Athabasca Oil, *7.500%, due November 19, 2017*	4,700,000	4,708,813	
4,400,000	Essar Energy Investment Ltd., *4.250%, due February 1, 2016*[(1)]	3,049,965	3,143,420	
2,990,000	Legacy Reserves/Finance, *8.000%, due December 1, 2020*	2,920,096	3,036,682	
3,000,000	Magnum Hunter Investment Ltd., *9.75%, due May 15, 2020*	3,021,138	3,099,112	
4,500,000	Shelf Drilling Holding Ltd., *8.625%, due November 1, 2018*	4,465,474	4,592,660	
3,400,000	Trilogy Energy Trust, *7.250%, due December 13, 2019*	3,435,000	3,466,938	
	Total Energy	**21,591,673**	**22,047,625**	**7.1%**
	Consumer discretionary			
4,800,000	Algeco Scotsman Global Financial, *10.750%, due October 15, 2019*	4,656,019	4,707,663	
2,500,000	Citycenter Holdings, *10.750%, due January 15, 2017*	2,626,179	2,700,832	
4,500,000	Claires Store Inc., *9.000%, due March 15, 2019*	4,651,001	4,805,490	
4,388,000	Landrys Holdings II Inc., *10.250%, due January 1, 2018*	4,321,096	4,347,280	
2,790,000	Logo Merger Sub Corp., *8.375%, due October 15, 2020*	2,766,262	2,791,889	
2,800,000	Mohegan Tribal Gaming, *10.500%, due December 15, 2016*	2,514,995	2,732,197	
4,390,000	Mood Media Corp., *9.250%, due October 15, 2020*	4,463,012	4,606,064	
3,990,000	Wok Acquisition Corp., *10.250%, due June 30, 2020*	4,226,561	4,226,106	
	Total Consumer discretionary	**30,225,125**	**30,917,521**	**10.0%**
	Consumer staples			
4,220,000	Harmony Foods Corp., *10.000%, due May 1, 2016*	4,455,980	4,527,491	
2,500,000	U.S. Food Services, *8.500%, due June 30, 2019*	2,527,858	2,539,031	
	Total Consumer staples	**6,983,838**	**7,066,522**	**2.3%**
	Industrials			
3,100,000	Air Canada, *12.000%, due February 1, 2016*	3,010,920	3,186,982	
4,695,000	Cleaver Brooks Inc., *8.750%, due December 15, 2019*	4,591,292	4,826,736	
250,000	Commercial Barge Line Co., *12.5%, due July 15, 2017*	276,739	274,439	
6,240,000	Crescent Resources, *10.250%, due August 15, 2017*	6,461,935	6,554,883	
4,500,000	ERA Group Inc., *7.750%, due December 15, 2022*	4,379,755	4,402,232	
2,500,000	RTL-Westcan Limited Partnership, *9.5%, due April 7, 2017*	2,500,000	2,621,266	
3,200,000	SPL Logistics Escrow LLC, *8.875%, due August 1, 2020*	3,378,943	3,377,410	
	Total Industrials	**24,599,584**	**25,243,948**	**8.2%**
	Materials			
200,000	Century Aluminum Co., *7.5%, due August 15, 2014*	252,780	198,144	
4,850,000	First Quantum Minerals, *7.250%, due October 15, 2019*	4,895,816	4,877,430	
3,000,000	Inmet Mining Corp., *7.500%, due June 1, 2021*	2,961,900	3,091,554	
	Total Materials	**8,110,496**	**8,167,128**	**2.6%**
	Real estate			
3,100,000	Delavaco Properties Inc. Convertible Debenture, *7.500%, due December 20, 2014*[(1)]	3,064,816	3,086,666	
	Total Real estate	**3,064,816**	**3,086,666**	**1.0%**
	Total Fixed Income Investments	**$ 108,763,162**	**$ 110,605,739**	**35.8%**
	Embedded Broker Commission	(185,726)	—	
	Total	**$ 291,151,622**	**$ 308,412,953**	**100.0%**

(1) Level 3 financial asset (note 14).

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

December 31, 2012 and 2011

1. OPERATIONS

Aston Hill VIP Income Fund (the "Fund") is a closed-end investment trust created under the laws of the Province of Ontario on October 25, 2001, pursuant to an amended and restated declaration of trust. Computershare Trust Company of Canada is the Trustee, and Aston Hill Asset Management Inc. (the "Manager") is responsible for managing the affairs of the Fund. Manulife Asset Management Limited, a subsidiary of Manulife Financial Corp., managed the Fund's portfolio until September 30, 2012. Effective October 1, 2012, Aston Hill Asset Management Inc. (the "Portfolio Manager") became responsible for portfolio management of the Fund. RBC Investor Services Trust is the custodian of the Fund's assets and prepares the weekly valuations of the Fund. The Fund is listed on the Toronto Stock Exchange and commenced operations on February 19, 2002.

On July 27, 2011, by way of an assignment to an affiliate, BFML Management Limited (at the time, an affiliate of Brompton Funds Management Limited) was sold to Aston Hill Financial Inc. BFML Management Limited was then renamed Aston Hill Management Limited and became the manager.

On December 30, 2011, Aston Hill Management Limited, along with six other subsidiaries of Aston Hill Financial Inc., amalgamated to form Aston Hill Asset Management Inc., which is the current Manager of the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and they include estimates and assumptions made by management that affect the reported amounts of assets and liabilities at the date of these financial statements and the reported amounts of income and expenses during the periods for which the financial statements report. Actual results could differ from these estimates.

a) Valuation of Investments

Investments are deemed held for trading in accordance with Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855. The Fund's investments are valued at estimated fair value. Investments held long that are publicly traded are valued at their bid price on the valuation date. Investments with no available bid price are valued at their closing price. Short-term investments and bonds held long are valued at the average bid quotations from recognized investment dealers. The cost of investments is based on their average cost.

b) Cash and Short-Term Investments

Cash and short-term investments consist of cash on hand and short-term debt investments with original maturities of three months or less. Cash and short-term investments are deemed held for trading and therefore are carried at fair value.

c) Investment Transactions and Income Recognition

Investment transactions are recorded on the trade date, and any realized and unrealized gains or losses are recognized using the average cost of the investments. Interest income is recognized on an accrual basis. Distributions from income trusts are recognized on the ex-distribution date. Dividend income is recognized on the ex-dividend date. Net realized and unrealized gains or losses on investments include net realized and unrealized gains or losses from foreign currency changes.

d) Transaction Costs

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities are expensed and are recognized in the Statements of Operations and Deficit.

e) Income Taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). Provided the Fund makes distributions in each year of its net income and net realized capital gains, the Fund will not generally be liable for income tax. It is the intention of the Fund to distribute all of its net income and net realized capital gains on an annual basis. Accordingly, no income tax provision has been recorded.

f) Foreign Exchange

The fair values of investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the noon 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 date of such transactions.

g) Foreign Currency Forward Contracts

The Fund may enter into foreign currency forward contracts, which are agreements between two parties to buy and sell currencies at a set price on a future date. The fair value of such contracts will fluctuate with changes in currency exchange rates. The contracts are marked-to-market and the change in fair value is recorded as an unrealized gain or loss. When a contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract on the date it was opened and the value on the date it was closed.

h) Other Assets and Liabilities

For the purposes of categorization in accordance with Section 3855, amounts receivable for investments sold, income receivable, amounts receivable for units sold and other assets are designated as loans and receivables and recorded at amortized cost. Similarly, accounts payable and accrued liabilities, accounts payable for investments purchased, redemptions payable to unitholders, and distributions payable to unitholders are designated as financial liabilities and reported at amortized cost. Amortized cost approximates fair value for these assets and liabilities due to their short-term nature.

i) Securities Lending

The Fund may enter into securities lending transactions. These transactions involve the temporary exchange of securities as collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the Statements of Operations and Deficit.

j) Warrants

Warrants are accounted for as equity in the financial statements. Upon issuance, a deemed distribution is recorded as a charge to retained earnings based on the fair value of the warrants on the date of issuance. The fair value of warrants, net of the related warrant issue costs, is categorized as a separate component of unitholders' equity and reclassified to unitholders' capital as the warrants are exercised. Any portion of the warrant capital related to warrants that expire is transferred to contributed surplus upon the expiry of the related warrants.

While the warrants are outstanding, diluted Net Assets per unit is calculated when the closing price of the Fund's units on a valuation date is greater than the subscription price. To calculate diluted Net Assets per unit, Net Assets are increased by the net proceeds received from the exercise of all warrants, and units are increased by the number of units issued from the exercise of all warrants.

Diluted increase (decrease) in Net Assets from operations per unit is calculated using the treasury stock method.

k) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of increases and decreases in Net Assets from operations during the reporting period. A significant area requiring the use of management judgments and estimates is the valuation of non-public investments. The resulting values may materially differ from values that would have been used had a readily available market existed for the investments and the prices at which the investments may be sold.

l) Transition to International Financial Reporting Standards

The Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board extended the deferral of the mandatory International Financial Reporting Standards ("IFRS") changeover date for investment companies to fiscal years beginning on or after January 1, 2014. The Fund, which is an investment company, will adopt IFRS commencing January 1, 2014.

In order to prepare for the transition to IFRS, the Manager has performed an assessment of the impact of the significant accounting differences between IFRS and Canadian GAAP including the impact to business processes and systems. Currently, the Manager does not expect any significant impact to Net Assets from the changeover to IFRS, with the main impact of IFRS on the Fund's financial statements being additional disclosures in the financial statements, the potential elimination of the difference between the Net Assets per unit and the Net Asset Value per unit at the financial statement reporting dates and a potential change in the presentation of unitholders' equity. Further updates on implementation progress and any changes to reporting impacts from the adoption of IFRS will be provided during the implementation period leading up to January 1, 2014. However, this present determination is subject to change resulting from the issuance of new standards or new interpretations of existing standards.

Notes to the Financial Statements (continued)

December 31, 2012 and 2011

3. RECONCILIATION OF NET ASSETS TO NET ASSET VALUE

In accordance with National Instrument ("NI") 81-106, a reconciliation is required between the Net Assets for financial reporting purposes (the "Net Assets") and the Net Asset Value for reporting other than in the financial statements (the "Net Asset Value"). The reconciliation is as follows:

As at December 31	2012		2011	
	Total	**Per Unit**	Total	Per Unit
Net Asset Value	**$ 315,757,404**	**$ 9.27**	$ 326,985,633	$ 9.03
Section 3855 adjustment[1]	**(802,963)**	**(0.02)**	(968,441)	(0.03)
Net Assets	**$ 314,954,441**	**$ 9.25**	$ 326,017,192	$ 9.00

[1] The Section 3855 adjustment relates to the valuation of an investment at bid price for Net Assets and at closing price for Net Asset Value.

4. UNITS OF THE FUND

Authorized

The Fund is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal, undivided interest in the Net Asset Value of the Fund. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Fund. Units may be redeemed at the option of unitholders by tendering units of the Fund by the last business day of July for redemption on the second last business day of August ("Redemption Valuation Date"). Redemption of tendered units will be settled based on the Net Asset Value per unit on the Redemption Valuation Date, less associated costs of the redemption, including brokerage costs. Units tendered for redemption will be redeemed effective the Redemption Valuation Date of each year and will be settled on or before the tenth business day in September.

Units may also be redeemed at the option of unitholders at least 10 business days prior to the second last business day of each month except for the month of August. Unitholders whose units are redeemed will receive a redemption price per unit equal to the lesser of (i) 94% of the weighted average trading price of the units for the 10 trading days immediately preceding the Redemption Valuation Date and (ii) 100% of the closing market price of the units, less any costs associated with the redemption, including brokerage costs.

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid for the period from November 10, 2011 to November 9, 2012. Pursuant to this issuer bid, the Fund was permitted to purchase up to 3,627,245 units for cancellation. The Fund renewed its issuer bid for the period from November 10, 2012 to November 9, 2013, which allows the Fund to purchase up to 3,410,658 units for cancellation. The Fund may only repurchase units when the Net Asset Value per unit exceeds its trading price.

Issued

	2012		2011	
	Number of Units	**Amount**	Number of Units	Amount
Units, beginning of year	**36,205,552**	**$ 340,099,811**	37,715,979	$ 379,239,133
Issuance of units upon exercise of warrants, net (note 5)	**—**	**—**	132,786	1,097,636
Repurchase of units under normal course issuer bid	**(305,400)**	**(3,255,394)**	(309,700)	(3,286,273)
Redemption of units	**(1,863,707)**	**(19,787,704)**	(1,359,202)	(14,422,086)
Units issued under the distribution reinvestment plan	**8,877**	**79,186**	25,689	247,378
Return of capital	**—**	**(18,844,423)**	—	(22,775,977)
Warrant cost adjustments (note 5)	**—**	**258,235**	—	—
Units, end of year	**34,045,322**	**$ 298,549,711**	36,205,552	$ 340,099,811

During the year ended December 31, 2012, nil (2011 – 132,786) units were issued upon the exercise of warrants for net proceeds of nil (2011 – $1,282,712) (note 5).

On August 31, 2012, 1,836,306 units (2011 – 1,356,680 units) were redeemed at a price of $9.15 (2011 – $9.01) per unit under the annual redemption option.

Pursuant to the monthly redemption option, 27,401 (2011 – 2,522) units were redeemed at an average price of $8.53 (2011 – $8.17) during the period.

As at December 31, 2012, the Fund had accumulated contributed surplus of $124,593,645 (2011 – $121,297,330). Contributed surplus is recorded when units of the Fund are redeemed or repurchased at prices per unit which are below the average cost per unit of unitholders' capital.

The weighted average number of units outstanding for the year ended December 31, 2012 was 35,431,662 (2011 – 37,241,746).

5. WARRANTS

The Fund issued 9,430,000 warrants to unitholders of record on February 22, 2011. Unitholders received warrants on the basis of one-fourth of one warrant for each unit held. A whole warrant entitled the holder to subscribe for one unit of the Fund at a subscription price of $9.81. Warrants not exercised prior to May 6, 2011 were void and of no value. Upon the exercise of a warrant, the Fund paid a fee equal to $0.15 per warrant to the dealer whose client was exercising the warrant. Pursuant to the warrant offering, the Fund issued 132,786 units for net proceeds of $1,282,712. Based on the closing price of the first trading day, the fair value of each warrant on the date of issuance was $0.10 per warrant. Costs associated with the issuance of these warrants amounted to $195,628.

While the warrants and Class A warrants were outstanding, diluted Net Assets per unit was calculated when the closing price of the Fund's units on a valuation date was greater than the subscription price. To calculate diluted Net Assets per unit, Net Assets were increased by the net proceeds received from the exercise of all warrants, and units were increased by the number of units issued from the exercise of all warrants.

As at December 31, 2011, there was $258,235 in accrued costs relating to previous issuance of warrants. As at December 31, 2012, these were no longer considered payable resulting in an adjustment to issuance costs.

6. CAPITAL MANAGEMENT

The Fund's objectives in managing its capital are to provide unitholders with a high level of income through monthly cash distributions and to preserve the Net Asset Value per unit. The Fund's capital includes unitholders' capital and loans payable. The Fund manages its capital taking into consideration the risk characteristics of its holdings. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to unitholders, return capital to unitholders, increase or decrease its level of borrowing, issue warrants or purchase units for cancellation.

7. DISTRIBUTIONS PAYABLE TO UNITHOLDERS

Distributions, as declared by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month. The distributions are payable by the tenth business day of the following month. For the year ended December 31, 2012, the Fund declared total distributions of $0.77 (2011 – $0.84) per unit, which amounted to $27,071,235 (2011 – $31,186,068). Under the Fund's distribution reinvestment plan, unitholders may elect to reinvest monthly distributions in additional units of the Fund, which may be issued from treasury or purchased in the open market. For the year ended December 31, 2012, 8,877 units (2011 – 25,689) for the value of $79,186 (2011 – $247,378) were issued by the Fund pursuant to the reinvestment plan.

8. MANAGEMENT AND SERVICE FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.85% per annum of the Net Asset Value of the Fund, plus applicable taxes. The Fund also pays to the Manager a service fee equal to 0.40% per annum of the Net Asset Value of the Fund. The service fee is in turn paid by the Manager to the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter.

The Fund is responsible for all other operating expenses incurred in connection with its operation and administration, such as custodian, valuation, Trustee, reporting, audit and legal fees.

Notes to the Financial Statements (continued)

December 31, 2012 and 2011

9. INVESTMENT TRANSACTIONS

Investment transactions for the years ended December 31 were as follows:

	2012	2011
Proceeds from sale of investments	**$ 289,979,057**	$ 267,334,215
Less cost of investments sold:		
Investments at cost, beginning of year	**276,566,013**	312,424,421
Investments purchased during the year	**292,915,176**	211,653,409
Investments at cost, end of year	**(291,151,622)**	(276,566,013)
Cost of investments sold during the year	**278,329,567**	247,511,817
Net realized gain on sale of investments	**$ 11,649,490**	$ 19,822,398

During the year the Fund had foreign exchange losses arising from the disposition of investments of $217,833 (2011 – losses of $30,079).

The brokerage commissions paid to dealers included $377,743 (2011 – $562,265) that was available for paying to third-party vendors, of which $377,743 (2011 – $10,424) was used for research by the Manager.

10. FORWARD CURRENCY CONTRACTS

The Fund may use forward currency contracts to hedge foreign exchange risks associated with its US dollar investment portfolio.

As at December 31, 2012, the Fund had entered into the following forward currency contracts with a Canadian chartered bank with an AA rating:

Canadian Dollars Purchased	US Dollars Sold	Delivery Date	Forward Rate (USD/CAD)	Unrealized Gain
$ 88,168,922	**$ (88,100,000)**	**January 16, 2013**	**0.99922**	**$ 416,935**

As at December 31, 2011:

Canadian Dollars Purchased	US Dollars Sold	Delivery Date	Forward Rate (USD/CAD)	Unrealized Loss
$ 86,244,295	$ (84,904,000)	January 13, 2012	0.98446	$ (236,376)

11. SECURITIES LENDING

The Fund has entered into a securities lending program with its custodian, RBC Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or the United States Government or its agencies, or a permitted supranational agency as defined in NI 81-102. The market values of the securities on loan and the related collateral at December 31, 2012, were $44.7 million (2011 – $52.9 million) and $46.1 million (2011 – $54.5 million), respectively.

12. LOANS PAYABLE

Pursuant to an agreement with a Canadian chartered bank, the Fund maintains a 364-day revolving credit facility. The revolving credit facility provides for maximum borrowings of $65.0 million (2011 – $125.0 million) with borrowings in Canadian currency at either the prime rate of interest or the bankers' acceptance rate, plus a fixed percentage, or in US currency at either the US base rate or the LIBOR rate, plus a fixed percentage. There were no borrowings outstanding under this facility as at December 31, 2012 and 2011.

13. FINANCIAL RISK MANAGEMENT

The Fund's investment activities expose it to a variety of financial risks. The Statement of Investment Portfolio presents the securities held by the Fund as at December 31, 2012, and groups the securities by asset type and market segment. The following comparative summary represents the securities by asset type and market segment held by the Fund as at December 31, 2011.

As at December 31, 2011	Income Trust	Equities	Fixed Income Investments	Total
Consumer discretionary	—	11.6%	4.3%	15.9%
Consumer staples	—	13.3%	0.3%	13.6%
Energy	—	4.3%	3.6%	7.9%
Financials	—	20.0%	4.3%	24.3%
Healthcare	—	1.4%	1.4%	2.8%
Industrials	0.3%	8.0%	1.5%	9.8%
Information technology	—	0.6%	—	0.6%
Materials	—	—	3.1%	3.1%
Oil and gas	—	4.1%	1.5%	5.6%
Technology	—	—	0.7%	0.7%
Telecommunications	—	14.2%	1.5%	15.7%
	0.3%	77.5%	22.2%	100.0%

The Manager attempts to minimize the potential adverse effects of these risks on the Fund's performance by employing a professional, experienced portfolio manager, by diversifying the investment portfolio within the constraints of the investment objectives, and by using financial instruments to hedge certain risk exposures. To assist in managing risks, the Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and restrictions, internal guidelines, and securities regulations.

The investment portfolio is primarily comprised of equities and debt securities. It is the Manager's intention to hedge substantially all of the US dollar foreign exchange exposure through its US dollar denominated loans and foreign currency forward contracts. Significant risks that are relevant to the Fund are discussed below.

a) Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk 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 market segment. All securities present a risk of loss of capital. The Manager attempts to moderate this risk through the careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk of loss resulting from financial instruments is equivalent to their fair value.

The Fund is exposed to other price risk from its investment in equity securities. As at December 31, 2012, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, Net Assets would have increased or decreased by approximately $19.8 million or 6.3% of total Net Assets (2011 – by approximately $21.8 million or 6.7% of total Net Assets). In practice, the actual trading results may differ, and the difference could be material.

b) Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments such as debt securities. The Fund is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates for such securities.

The Fund is also exposed to interest rate risk on its variable rate loans. Fluctuations in interest rates have a direct impact on the interest payments the Fund makes on its loans.

Notes to the Financial Statements (continued)

December 31, 2012 and 2011

The table below summarizes the Fund's exposure to interest rate risk as at December 31, 2012 by remaining term to maturity.

	Less Than 1 Year	1–3 Years	3–5 Years	> 5 Years	Total
Short-term and fixed income investments	**$ —**	**$ 3,284,810**	**$ 30,450,325**	**$ 76,870,604**	**$ 110,605,739**

As at December 31, 2011:

	Less Than 1 Year	1–3 Years	3–5 Years	> 5 Years	Total
Short-term and fixed income investments	$ 21,910,429	$ 5,722,258	$ 19,165,896	$ 37,669,953	$ 84,468,536

As at December 31, 2012, had prevailing interest rates increased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have decreased by approximately $3.9 million or 1.2% (2011 – approximately $2.3 million or 0.7%). Similarly, had prevailing interest rates decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have increased by approximately $3.9 million or 1.2% (2011 – approximately $2.3 million or 0.7%). The Fund's sensitivity to interest rate changes was estimated using the weighted average duration of the portfolio and the impact on annual interest expense for the loans payable. In practice, the actual trading results may differ, and the difference could be material.

c) Currency Risk

Currency risk is the risk that financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. The Fund holds US dollar denominated debt and equity securities and cash and short-term investments. As at December 31, 2012, the Fund's exposure to US dollar foreign exchange of US$112.1 million (2011 – US$84.6 million) was substantially hedged through foreign currency forward contract of US$88.1 million notional (2011 – US$84.9 million); see note 10.

As at December 31, 2012

Currency (000s)	**Financial Instruments Exposure**	**Derivatives Exposure**	**Total Currency Exposure**	**% of Net Assets**
US dollars	$ 110,331	$ (88,169)	$ 22,162	7.0%
Total	**$ 110,331**	**$ (88,169)**	**$ 22,162**	**7.0%**

As at December 31, 2011

Currency (000s)	Financial Instruments Exposure	Derivatives Exposure	Total Currency Exposure	% of Net Assets
US dollars	$ 86,144	$ (86,244)	$ (100)	—
Total	$ 86,144	$ (86,244)	$ (100)	—

As at December 31, 2012, had the Canadian dollar strengthened or weakened by 10% (2011 – 10%) in relation to all other foreign currencies held in the Fund, with all other variables held constant, Net Assets of the Fund would have increased or decreased, respectively, by approximately $2.2 million (2011 – $10,000). In practice, actual results may vary from this analysis, and the difference may be material.

Notes to the Financial Statements (continued)

December 31, 2012 and 2011

d) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund's greatest concentration of credit risk is in debt securities. The fair value of debt securities includes consideration of the creditworthiness of the issuer. The carrying amount of debt securities, as presented on the Statement of Investment Portfolio, represents the maximum credit risk exposure as at December 31, 2012. The carrying amount of the Fund's other assets also represents the maximum credit risk exposure, as they will be settled in the short term.

All transactions in securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the Fund has received payment. The trade will fail if either party fails to meet its obligation.

The Manager evaluates the credit quality of the securities prior to purchase and performs ongoing monitoring of the credit quality of the securities. The Fund will not invest more than 10% of its total assets in the securities of any one issuer in accordance with investment restrictions.

The Fund has entered into a securities lending program with its custodian; see note 11. Credit risk associated with these transactions is considered minimal as all counterparties have sufficient, approved credit and the value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned.

The Fund is also exposed to credit risk for the amount of unrealized gains under the foreign currency forward contracts (note 10) with a Canadian chartered bank with an AA rating.

As at December 31, 2012, the Fund invested 35.8% (2011 – 25.9%) of its portfolio in debt securities and short-term investments with the following credit ratings. Credit ratings are obtained from Standard & Poor's.

Debt Securities by Rating Category	**2012**	2011
AAA	—	3%
AA	—	23%
A to A+	—	4%
BBB	—	13%
Below BBB	**100%**	57%
Total	**100%**	100%

e) Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. Unitholder redemption requests are the main liquidity risk for the Fund. The Fund invests majority of its assets in investments that are traded in an active market and can be readily disposed of. There can be no assurance that an active trading market for the investments will exist at all times, or that the prices at which the securities trade accurately reflect their values. Thin trading in a security could make it difficult to liquidate holdings quickly.

The Fund is exposed to liquidity risk through its annual and monthly redemptions and loans payable. For the annual redemption, the Fund receives notice at least 20 business days prior to the date of redemption and has up to 10 business days following the date of redemption to settle the redemptions, which provides the Manager time to sell securities, although there may not be sufficient time to sell the securities at a reasonable price.

The Fund also has a 364-day revolving credit facility, which can be used to fund redemptions or finance investments; see note 12. The credit facility contains several financial covenants that require the Fund to meet certain financial ratios and financial condition tests. The Fund is within its financial covenants with respect to the credit facility. The Manager monitors the use of the credit facility on a regular basis.

All of the Fund's other financial liabilities at December 31, 2012 and 2011 had maturities of less than one year.

Notes to the Financial Statements (continued)

December 31, 2012 and 2011

14. FAIR VALUE DISCLOSURES

The Fund's assets and liabilities recorded at fair value have been categorized in accordance with CICA Handbook Section 3862, "Financial Instruments – Disclosure."

Section 3862 requires the Fund to classify its investments and derivative assets/liabilities into three categories based on the nature of the inputs used to determine their fair value. The categories and the nature of the inputs used in each category are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Short-term notes included in cash and short-term investments are classified as level 2.

Assets at fair value as at December 31, 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	$ 195,882,280	$ —	$ 1,924,934	$ 197,807,214
Fixed income investments	—	104,375,653	6,230,086	110,605,739
Foreign currency forward contracts	—	416,935	—	416,935
Total	**$ 195,882,280**	**$ 104,792,588**	**$ 8,155,020**	**$ 308,829,888**

Assets at fair value as at December 31, 2011	Level 1	Level 2	Level 3	Total
Income trusts	$ 948,068	$ —	$ —	$ 948,068
Equities	217,361,494	—	—	217,361,494
Fixed income investments	—	62,081,254	—	62,081,254
Total	$ 218,309,562	$ 62,081,254	$ —	$ 280,390,816

Liabilities at fair value as at December 31, 2011	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	$ —	$ (236,376)	$ —	$ (236,376)
Total	$ —	$ (236,376)	$ —	$ (236,376)

There were no transfers of financial assets between the levels during the years ended December 31, 2012 and 2011.

The following table provides a reconciliation of fair value measurements using level 3 inputs from December 31, 2011 to December 31, 2012:

	2012
Balance, beginning of year	$ —
Purchases	**7,991,880**
Net transfers in (out)	**—**
Gains (losses)	
Realized	**—**
Unrealized	**163,140**
Balance, end of year	**$ 8,155,020**

The change in unrealized gains (losses) during the year for assets held as at December 31, 2012 was $163,140.

As at December 31, 2012, had the fair value of the level 3 investments increased or decreased by 10%, with all other variables held constant, this would have increased or decreased Net Assets by approximately $815,502 (2011 – nil).

15. INCOME TAXES

The Fund had accumulated capital losses as at December 31, 2012 of $123,253,773 (2011 – $137,541,372). The capital losses can be carried forward for an indefinite period. As at December 31, 2012, the Fund had no non-capital loss carry-forwards.

16. COMPARATIVE FIGURES

Certain prior year numbers have been reclassified to conform to current year presentation.

Corporate Information

Independent Review Committee

John Crow
Chairman

Robert Falconer

C. Scott Browning

Directors and Senior Officers of the Manager

Eric Tremblay
Director and Chief Executive Officer

Ben Cheng[1]
Chief Investment Officer

Michael J. Killeen
Director and President

Larry W. Titley
Director and Chief Financial Officer

Portfolio Management

Jeffrey Burchell
Vice President and Portfolio Manager

Andrew Hamlin
Vice President and Portfolio Manager

Joanne Hruska
Vice President and Portfolio Manager

Sandy Liang
Vice President and Portfolio Manager

Vivian Lo
Vice President and Portfolio Manager

Robert Gill
Vice President and Portfolio Manager

Steve Vannatta
Portfolio Manager

Manager

Aston Hill Asset Management Inc.

Trustee and Transfer Agent

Computershare Trust Company of Canada

Custodian

RBC Investor Services Trust

Auditors

PricewaterhouseCoopers LLP

Website

www.astonhill.ca

(1) Mr. Cheng acts as a portfolio manager exclusively to investment funds managed by IA Clarington Investments Inc., and to two other investment funds, not including the fund in this document. See www.astonhill.ca for details.

AstonHill ASSET MANAGEMENT

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