Artemis

Investment Management

ENERGY INCOME FUND

ANNUAL REPORT 2012

DECEMBER 31, 2012

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ENERGY INCOME FUND

The units of Energy Income Fund (the “Fund” or “Energy” and formerly Sustainable Production Energy Trust) are listed on the Toronto Stock Exchange (“TSX”) under the symbol ENI.UN. Artemis Investment Management Limited (“Artemis”) is the trustee (the “Trustee”) and manager (the “Manager”) of the Fund. Galileo Global Equity Advisors Inc. is the investment manager (the “Investment Manager”) of the Fund.

INVESTMENT HIGHLIGHTS:

For the years ended December 31	**2012**	2011	2010	2009	2008
Net assets per unit (1)	$ **4.98**	$ 6.35	$ 6.80	$ 5.85	$ 4.06
Market price per unit (1)	**$ 4.17**	$ 5.07	$ 5.66	$ 5.38	$ 3.65
Trading discount	**(16.2)%**	(20.1)%	(16.8)%	(8.5)%	(10.0)%
Cash distributions per unit	$ **0.36**	$ 0.36	$ 0.36	$ 0.45	$ 0.90
Trailing yield (2)	**8.6%**	7.1%	6.4%	8.4%	24.7%
Market capitalization ($ millions)	$ **26.89**	$ 37.81	$ 39.82	$ 24.30	$ 19.40
Net assets ($ millions)	$ **32.10**	$ 47.34	$ 47.86	$ 26.43	$ 21.60

(1) Net assets and market price per unit are based on year end values.

(2) Trailing yield is based on the respective 12 months’ cash distributions declared expressed as a percentage of market price.

MANAGEMENT REPORT OF FUND PERFORMANCE

April 2, 2013

This report for the year ended December 31, 2012 includes both the management report of fund performance, containing financial highlights, and the audited annual financial statements of Energy Income Fund.

To obtain a copy of the Fund’s proxy voting disclosure record or quarterly portfolio disclosure, unitholders may contact the Manager by calling 416-934-7455, by writing to the Manager at Artemis Investment Management Limited, 5 Hazelton Avenue, Suite 200, Toronto, Ontario, M5R 2E1, or by visiting www.artemisfunds.ca. To obtain a copy of the Fund’s financial statements or management report of fund performance, unitholders may contact the Manager using one of the aforementioned methods or visit the SEDAR website at www.sedar.com. To obtain a copy of the Fund’s proxy voting policies and procedures, unitholders should contact the Manager directly.

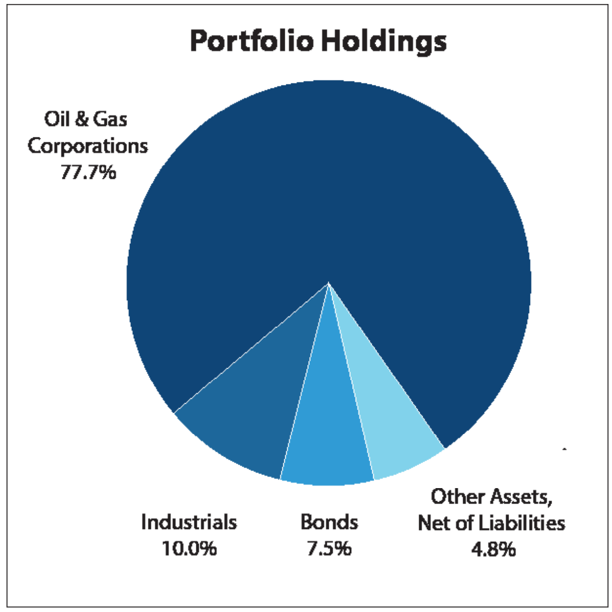
INVESTMENT OBJECTIVES AND STRATEGIES

Energy Income Fund’s investment objectives are to provide unitholders with monthly cash distributions, and achieve a total return on the portfolio that is greater than the total return provided by the benchmark index, as selected by the Manager from time to time. For the year ended December 31, 2011 and subsequent periods, the benchmark index used was changed to the S&P/TSX Capped Energy Index. Prior to 2011, the benchmark index was the S&P/TSX Capped Energy Trust Index.

RISK

There are a number of risks associated with an investment in Energy Income Fund. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund’s portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates, interest rates, and general business operation risks, any of which may affect the issuers’ income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund’s Investment Manager of the securities held in the portfolio may reduce these risks.

RESULTS OF OPERATIONS



Volatile pricing differentials between North American crudes was the key story in the Canadian energy sector over the last year. The approximate differential between the Edmonton price and West Texas Intermediate (WTI) ranged from -$20 to +$5 – a staggering range of $25 compared to the average WTI price of $94.

In the market, differentials have combined with macro uncertainty to drive volatility in Canadian energy stocks and mispricing relative to still robust corporate fundamentals. At the corporate level, volatility in differentials translated into challenging budgeting but led to creative solutions such as rail transportation. Improving pipeline infrastructure such as the Seaway Expansion (250,000 bbls/d expected online in the first quarter of 2013) and the south leg of Keystone XL (700,000 bbls/d in late 2013) will improve pricing and access for Canadian crudes, and move the bottleneck in North American energy infrastructure from Cushing, Oklahoma to the Gulf Coast.

A nascent recovery in China and the ongoing robust but slow recovery in the U.S. should provide further tailwinds for Canadian energy producers in 2013. The Chinese Purchasing Managers Index finished the year at an expansionary 50.6 and China's apparent fuel demand was up approximately 9% year over year based on the latest readings in November. In the U.S., the recovery continues to be slow but robust in the face of political drama. The final unemployment claims release of 2012 saw four-week average of initial unemployment claims fall to a five year low at 356,750 and the latest estimate of the third quarter GDP is that the U.S. economy grew at an annual rate of 3.1% from the second quarter. While sovereign debt in Europe and political drama in the U.S. may continue to be a threat, the worst possible scenarios continue to be avoided. This should provide some calm to the markets in general.

Specific to the Canadian energy sector, there are both opportunities and areas that warrant caution over the coming year. As the sector saw a number of foreign takeovers and investments in 2012, it is worth highlighting that these foreign entities are not making acquisitions to watch the grass grow. They will invest significant capital and the Canadian energy services sector stands to benefit. However, the benefits will not be shared equally – a change in drilling and completions technology means some service providers will benefit more than others.

Finally, it would be remiss not to mention the spate of junior energy companies converting to dividend-paying corporations. While these conversions increase the universe of stocks potentially suitable for the Energy Income Fund, not all conversions are created equal. The quality of the assets, production decline rates, capital efficiencies, and payout ratios vary from company to company. The Investment Manager's opinion is that combinations of these attributes make some companies better suited to the dividend-paying model than others.

In conclusion, the Investment Manager continues to like dividend-paying energy companies as a long-dated call on energy consumption that allows investors to share in the cash flows. While selectivity remains important, the fundamentals appear positive for the Canadian energy sector in 2013.

Energy Income Fund's net assets decreased to $32.10 million as at December 31, 2012 from $47.34 million as at December 31, 2011 due primarily to a decrease in net assets from operations of $6.03 million, repurchases made under the normal course issuer bid ("NCIB") program of $3.10 million and redemptions of $36.67 million throughout 2012, and distributions to unitholders of $3.41 million. This was partially offset by the proceeds from the exercise of warrants of $25.25 million and fair value of net assets contributed on the merger with Citadel SMaRT Fund of $8.66 million. The Fund's net assets per unit decreased to $4.98 per unit as at December 31, 2012 from $6.35 per unit as at December 31, 2011. The decrease in the Fund's net assets per unit, coupled with its monthly cash distributions, resulted in a negative total return of 15.94% over the year (2011 - negative total return of 1.32%). Excluding the dilutive effect of the warrant offering program, the Fund achieved a negative total return of 11.60% over the year.

The Fund's market price per unit also decreased to $4.17 per unit as at December 31, 2012 from $5.07 per unit as at December 31, 2011. The decrease in the Fund's market price per unit, coupled with its monthly cash distributions, resulted in a negative total return of 10.65%

over the year (2011 - negative total return of 4.06%).

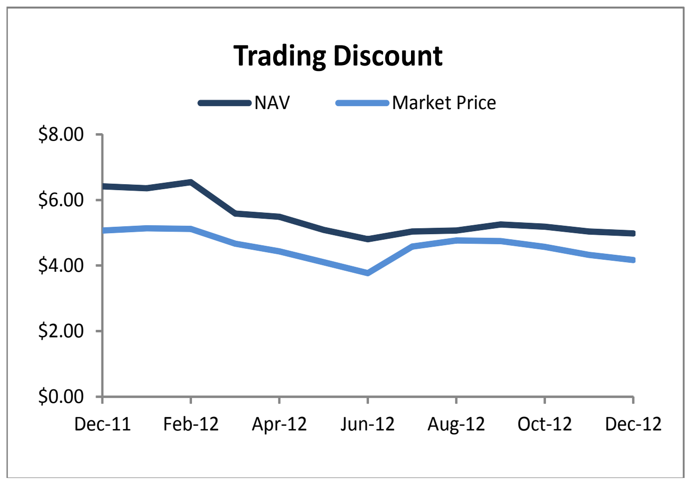
Total revenue was $2.15 million for both 2012 and 2011. Total expenses for 2012 were $1.90 million compared to $1.48 million in 2011. This increase in expenses was due to higher portfolio transaction costs as a result of an increased level of activity by the Investment Manager during the year. Management fees, which are calculated in reference to the Fund's net asset value, increased to $0.40 million for 2012 compared to $0.34 million for the same period in 2011. Investment management fees, which are also calculated in reference to the Fund's net asset value, increased to $0.23 million for 2012 compared to $0.19 million in 2011. Administrative expenses were $0.20 million in 2012 compared to $0.21 million in 2011. In 2012, the Fund generated net investment income of $0.25 million or $0.03 per unit compared to $0.67 million or $0.10 per unit in 2011.

The Fund realized losses of $2.01 million on the sale of investments in 2012 and experienced a change in unrealized depreciation in the value of investments of $4.27 million. In 2011, the Fund had realized gains on the sale of investments of $1.17 million and experienced a change in unrealized depreciation in the value of investments of $1.23 million. As a result, the Fund experienced a net loss from operations of $6.03 million or a loss of $0.62 per unit for 2012 compared to net income from operations of $0.60 million or a gain of $0.09 per unit in 2011.

For the years ended December 31, 2012 and 2011, Energy Income Fund paid total cash distributions of $0.36 per unit based on monthly distributions of $0.03 per unit.

TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

For 2012, the Fund's market price traded at an average discount to its net asset value per unit of 15.48%, compared to an average discount of 14.81% in 2011. With this discount, the Fund repurchased 627,200 units for cancellation under its NCIB program at an average cost of $4.93 per unit. The NCIB program, which commenced on October 4, 2010, provides liquidity and market price support for unitholders and permits the Fund to repurchase units in the open market for cancellation.



RECENT DEVELOPMENTS

Regulatory Issues

On March 4, 2011, preliminary prospectuses for offerings of warrants for both Citadel Income Fund and Energy Income Fund (the "Funds") were filed by Crown Hill Capital Corporation ("Crown Hill"), the former manager to the Funds. Staff of the Ontario Securities Commission ("Staff") recommended against receipting the prospectuses due to the widely publicized acquisition (the "Acquisition") by Crown Hill Fund of the administration contracts of the Citadel Group of Funds in June 2009 and the subsequent merger of some of those funds with the Crown Hill Fund, forming the Citadel Income Fund. At the time, Staff expressed their concerns with the Acquisition and the disclosure made in the June 3, 2009 information circular. After Crown Hill made changes to the proposed reorganization to address Staff's concerns, a new information circular was issued, approved by unitholders, and the reorganization was partially completed to create the Citadel Income Fund.

Despite Crown Hill's response, Staff continued to raise the same concerns with the Acquisition nearly two years later, and used those same arguments to recommend that the Director of Investment Funds deny the receipting of the prospectus in relation to the warrant offering.

On April 14, 2011, Crown Hill and the Funds availed themselves of the Opportunity to be Heard (the "OTBH") before the Director of Investment Funds. The OTBH meeting was adjourned and reconvened on May 11, 2011 with another (acting) Director. In the meantime, on May 6, 2011, Staff served Crown Hill and its President with an enforcement notice relating to the Acquisition. On May 11, 2011, the second (acting) Director upheld Staff's recommendation.

On May 31, 2011, Crown Hill and the Funds sought a hearing and review (the "Hearing and Review") of the Director's decision (pursuant to subsection 8(2) of the Securities Act) before the Ontario Securities Commission (the "Commission"). The application was heard on July 12, 13, and 14, 2011. Three business days prior to the Hearing and Review, July 7, 2011, Staff issued a Notice of Hearing and Statement of Allegations against Crown Hill and its President. It is alleged in the Statement of Allegations that the Citadel Acquisition was undertaken primarily in the interests of Crown Hill rather than the Fund, contrary to s.116 of the Securities Act. This was the same submission made by Staff at the OTBH and then at the Hearing and Review. In addition, Staff allege that the acquisition of the management contracts for the Fairway Diversified Income and Growth Trust and subsequent merger in January 2009 was also primarily in the interests of Crown Hill. Finally, Staff allege that certain amendments to the Declaration of Trust of MACCs Sustainable Yield Trust (the predecessor trust to Crown Hill Fund) to increase the management fee, grant broader powers to Crown Hill and to adopt less restrictive investment requirements, were also undertaken primarily to benefit Crown Hill.

Immediately following the issuance of the Notice of Hearing, Staff sought to stay the Hearing and Review on the basis that the Commission should await the outcome of the enforcement proceeding commenced on July 7, 2011, as the proceedings largely involved the same issues. The Commission dismissed Staff's motion.

On August 4, 2011, the Commission released its order, granting Crown Hill's application on the Hearing and Review and overturning the acting Director's decision to deny the receipting of the preliminary prospectuses. The Commission ruled and found that there were insufficient grounds to justify the acting Director's decision and Staff's recommendations. The Commission ruled that, contrary to Staff's submission and the Director's decision, it was not apparent that there was sufficient evidence to justify a refusal to issue a receipt for the prospectuses on the grounds that the business of the Funds may not be conducted with integrity.

The Funds filed final prospectuses in accordance with the Commission's order.

On August 8, 2011, Crown Hill and its President attended before the Commission and requested the earliest available hearing dates to address the allegations made by Staff in the enforcement proceeding. A hearing before the Commission commenced in May 2012 and, due to various scheduling issues, concluded in September 2012. Currently, Crown Hill is awaiting a decision by the Commission.

Warrant Offering

On September 27, 2011, the Fund announced that it had filed a final short form prospectus relating to its warrant offering. Each unitholder of record on October 7, 2011 received one new warrant for each unit held. A total of 6,366,249 warrants were issued. Each warrant entitled the unitholder to purchase a new unit upon payment of the subscription price of $5.00. The Fund paid a fee at the time of exercise equal to $0.10 per warrant to the broker. Warrants could be exercised at any time before the earlier of i) March 1, 2012, or ii) such date which is 20 business days from the date the embedded call feature in the warrants is exercised by the Fund in accordance with the terms of the warrant offering.

The exercise of warrants by warrant holders provided the Fund with additional capital to take advantage of attractive investment opportunities, reduce the management expense ratio, and increase the trading liquidity of the Fund's units. On March 2, 2012, upon completion of the warrant offering program, a total of 6,366,249 warrants were exercised for net proceeds of $31,194,619 in 2012 and 2011 combined after expenses totalling $636,626.

Annual Redemption Privilege

Under the Declaration of Trust, the maximum number of units redeemable in a year pursuant to the annual redemption privilege is 10% of the public float of the Fund as determined on the first business day of a calendar year less the number of units repurchased for cancellation by the Fund during the preceding twelve-month period (the "Maximum Redemption Amount"). The public float as determined on January 3, 2012 was 7,437,656 units and 10% of the public float was 743,766 units. From January 1, 2012 to December 31, 2012, the Fund repurchased 627,200 units for cancellation. The Maximum Redemption Amount was reached prior to the end of the twelve-month period ending December 31, 2012 and therefore no additional units were redeemable under the 2012 annual redemption privilege.

Partial Redemption Feature

On February 14, 2012, the Fund announced that up to 1,000,000 units could be redeemed on March 20, 2012 for an amount per unit equal to the transactional net asset value per unit as of March 15, 2012. Beneficial holders of units had to submit their request to redeem units by no later than March 14, 2012. Requests for redemptions were oversubscribed and all 1,000,000 units were redeemed. The units were redeemed at 100% of net asset value on a pro rata basis for a redemption price of $5.85 per unit.

Normal Course Issuer Bid Program

Effective November 21, 2012, the Fund renewed its NCIB program to permit the Fund to purchase outstanding units on the TSX from time to time. The Fund may purchase units in the market for cancellation if the Manager determines that such purchases provide liquidity to unitholders. Under the NCIB program, the Fund may purchase up to 644,585 units, representing approximately 10% of the public float of 6,445,848 units as at November 12, 2012. Additionally, the Fund may not purchase more than 128,917 units in any 30-day period, representing 2% of the issued and outstanding units. If these purchases are made, they will be made in accordance with applicable regulations over a twelve-month period ending November 20, 2013. Units purchased will be cancelled.

Fund Merger with Citadel SMaRT Fund

On February 15, 2012, Crown Hill, the administrative agent of Citadel SMaRT Fund ("SMaRT") and the manager of Energy announced that, subject to regulatory and other approvals, SMaRT would merge (the "Merger") into Energy on March 23, 2012.

The Merger was effected using an exchange ratio calculated as the net asset value per unit of SMaRT divided by the net asset value per unit of Energy, each determined as at the close of trading on the TSX on March 22, 2012. Unitholders of SMaRT received 3.074 units of Energy. As a result of the Merger, 1,534,254 additional units were issued by Energy.

Requisition Order

On January 25, 2012, Crown Hill announced that it had received a purported requisition for a meeting of unitholders of the Fund. After review, Crown Hill and its legal counsel determined that, for a number of reasons, the requisition was not valid.

On January 30, 2012, Crown Hill announced that the Fund had filed an application with the Commission under section 104 of the Ontario Securities Act (the "Act") to address the trading undertaken in the units of the Fund by a group of dissident unitholders apparently guided by CIBC Wood Gundy prior to the dissidents delivering a requisition to hold a unitholder meeting.

Trading records showed that the dissident unitholder group acquired nearly its entire announced position of 1.85 million units since October 25, 2011 for the apparent purpose of requisitioning a meeting. While acquiring this position, the dissident group did not disclose it had acquired more than 20% of the Fund's units, well above the required limit for disclosure. The dissident unitholders requested a unitholder meeting for the stated purpose of holding a vote to appoint a new manager and trustee to pursue an undisclosed agenda.

Crown Hill asked the Commission to determine whether: i) the individual respondents acted jointly or in concert in acquiring the Fund units and requisitioning the meeting which would mean they repeatedly breached the takeover provisions of the Act; ii) the individual respondents failed to comply with the early warning disclosure requirements of Part XX of the Act; iii) while in a special relationship with the Fund, the individual respondents traded units when they possessed material information that was not generally disclosed to the public, contrary to section 76 of the Act, and; iv) the Commission should exercise its public interest jurisdiction to prevent the individual respondents from taking advantage of their breaches of Ontario securities laws which, if permitted, would cause serious damage to the Fund, would be unfairly prejudicial to, and abusive of, the other unitholders of the Fund who sold their units to the individual respondents without knowledge of the proposed takeover, and would be contrary to the public interest.

Specifically, Crown Hill sought Commission orders: i) declaring that the individual respondents have not complied with the requirements of Part XX of the Act; ii) declaring that the individual respondents have traded in the units of the Fund, contrary to section 76 of the Act; iii) cease trading the securities of the Fund held by the respondents; iv) removing the exemptions available under Ontario securities law from the respondents, and; v) restraining the respondents from providing a notice of meeting, proxy circular, or any other form of proxy solicitation to unitholders of the Fund.

On February 10, 2012, Crown Hill announced that the Fund had been advised that a number of unitholders withdrew their support for a requisition to hold a unitholder meeting. Those unitholders held more than 50% of the units supporting the requisition. As a result, the requisition no longer had the minimum unitholder support required under the Fund's Declaration of Trust and the meeting would not proceed. Crown Hill therefore withdrew its previously announced application to the Commission under section 104 of the Act. Currently, the matter remains outstanding.

Unitholder Meetings

On July 17, 2012, the Fund issued a management information circular informing current unitholders of a special meeting to take place on

August 7, 2012. The purpose of the special meeting was to: i) provide the right for unitholders to voluntarily elect to receive an unlimited cash redemption of their units at 100% of the net asset value per unit less redemption costs including a fee per unit of 5% of the net asset value per unit plus applicable taxes paid to the manager; ii) implement a series of minority unitholder protections including a requirement that ordinary and extraordinary resolutions require affirmative votes of 50% and 66 2/3% of beneficial holders (as defined in the Declaration of Trust) respectively other than beneficial holders who are "Interested Parties", as defined in the extraordinary resolution attached to the management information circular; iii) amend the provisions relating to the termination and replacement of the manager, including a termination fee equal to 5% of net asset value and reasonable expenses upon termination; and iv) make a number of other amendments to the Declaration of Trust.

In the special meeting on August 7, 2012, unitholders voted in favour of the extraordinary resolution. On August 16, 2012, the Fund's special redemption price was determined to be $4.78 per unit. On August 22, 2012, 6,081,669 units were redeemed at the Fund's special redemption price. Crown Hill received a fee payment of $1,741,601 on the special redemption.

On November 26, 2012, the Fund issued a management information circular informing current unitholders of a special meeting to take place on December 18, 2012. The purpose of the special meeting was to: i) seek the approval of unitholders for the proposed change in manager and trustee from Crown Hill to Artemis; and ii) approve the setting of a special redemption date with respect to a special redemption of an aggregate of up to 400,000 units at 100% of net asset value per unit on the special redemption date.

In the special meeting on December 18, 2012, quorum was not established, thereby resulting in the adjournment of the meeting to January 2, 2013. On January 2, 2013, unitholders voted in favour of the extraordinary resolution. On January 17, 2013, the Fund's special redemption price was determined to be $4.759. Requests for redemptions were oversubscribed and all 400,000 units were redeemed at 100% of net asset value on a pro rata basis.

Change in Manager

On January 15, 2013, Crown Hill announced that it had tendered its resignation as manager. Such resignation was effective upon the appointment of Artemis as the new manager of the Fund, which subsequently took place on January 16, 2013. A termination payment of $1,834,481, which was equal to the product of the net asset value and five percent plus applicable taxes was paid to Crown Hill. In addition, expenses totalling $406,800 resulting from the resignation such as costs incurred to terminate employees, office and equipment leases and agreements for services were paid to Crown Hill.

Future Accounting Changes

The Fund is currently required to adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements relating to annual periods beginning on or after January 1, 2014. As a result, the Fund will adopt IFRS beginning January 1, 2014 and issue its first financial statements, prepared in accordance with IFRS, for the semi-annual period ending June 30, 2014. The 2014 semi-annual and annual financial statements will include 2013 comparative financial information and an opening statement of net assets as at January 1, 2013, also prepared in accordance with IFRS.

The Manager has begun to develop a transition plan to changeover to IFRS. Currently, the expected impact to the financial statements based on the Manager's assessment of the differences between current Canadian GAAP and IFRS are as follows: i) IFRS 13 *Fair Value Measurement* permits the use of mid-market prices or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. As a result, net assets for financial reporting purposes may be impacted and could align with the transactional net assets used to price unitholder transactions, eliminating the need for a reconciliation; ii) Units of the Fund are puttable instruments and are required to be presented as equity or liability depending on certain criteria. As a result, unitholders' equity may be required to be presented as a liability in the statement of net assets with related distributions presented as an expense in the statement of operations. Alternatively, equity presentation would require additional disclosure of the components of equity; iii) IFRS requires the presentation of a statement of cash flows, including comparatives for 2013; iv) Other reclassifications, presentation differences and additional disclosures will also be required in the financial statements to comply with the new requirements under IFRS.

RELATED PARTY TRANSACTIONS

The Manager is entitled to receive a management fee of 0.70% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2012, management fees totaled $399,660 (December 31, 2011 -

$341,317), of which $19,098 was payable as at December 31, 2012 (December 31, 2011 - $23,332). All other expenses of the Fund are initially paid by the Manager, which is then reimbursed by the Fund in a reasonable amount of time.

Administrative expenses for the year ended December 31, 2012 totaled $203,709 (December 31, 2011 - $213,712). As part of these expenses, the Fund paid a general overhead cost of $15,000 per month plus applicable taxes for 2012 (2011 - $10,000 per month) to cover related administrative salaries, employee benefits, general overhead, and office supplies.

For repurchases made subsequent to the amended and restated Declaration of Trust as of August 9, 2012, the Manager is entitled to receive a fee per unit of 5% of the net asset value per unit plus applicable taxes. For the year ended December 31, 2012, redemption fees totaled $1,805,432.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years as applicable.

Net Assets per Unit ("NAPU")

For the years ended December 31	**2012**	2011	2010	2009	2008
NAPU – beginning of year (1)	**$ 6.35**	$ 6.80	$ 5.85	$ 4.06	$ 5.12
Increase (decrease) from operations:					
Total revenue	**0.22**	0.33	0.38	0.38	0.62
Total expenses	**(0.19)**	(0.23)	(0.31)	(0.17)	(0.16)
Realized gains (losses)	**(0.21)**	0.18	0.41	(0.54)	(1.49)
Unrealized gains (losses)	**(0.44)**	(0.19)	1.55	2.53	0.87
Total increase (decrease) from operations (2)	**$ (0.62)**	$ 0.09	$ 2.03	$ 2.20	$ (0.16)
Distributions:					
From net investment income	**0.03**	-	0.06	0.20	0.52
Return of capital	**0.33**	0.36	0.30	0.25	0.38
Total distributions	**0.36**	0.36	0.36	0.45	0.90
NAPU – end of year	**$ 4.98**	**$ 6.35**	**$ 6.80**	**$ 5.85**	**$ 4.06**

(1) Net assets per unit ("NAPU") and cash distributions per unit are based on the actual number of units outstanding at the time. The NAPU are based on bid prices.

(2) The increase (decrease) from operations is based on the weighted average number of units outstanding over the year. This schedule is not a reconciliation of NAPU since it does not reflect unitholder transactions as shown on the Statements of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

For the years ended December 31	**2012**	2011	2010	2009	2008
Total net asset value ($ 000's)	**$ 32,102**	$ 47,339	$ 47,856	$ 26,413	$ 21,593
Number of units outstanding (000's)	**6,449**	7,458	7,036	4,517	5,322
Management expense ratio (1)	**2.68%**	3.01%	4.51%	2.95%	2.51%
Portfolio turnover ratio (2)	**153.97%**	37.68%	111.38%	108.51%	53.34%
Trading expense ratio (3)	**0.98%**	0.27%	0.61%	0.55%	0.40%
Closing market price	**$ 4.17**	$ 5.07	$ 5.66	$ 5.38	$ 3.65

(1) Management expense ratio is based on total expenses (excluding portfolio transaction costs) for the year and is expressed as an annualized percentage of weekly average net asset value during the year.

(2) Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average net asset value. The portfolio turnover ratio indicates how actively the Fund's investment manager manages the portfolio investments. There is not necessarily a relationship between a high turnover ratio and the performance of a fund.

(3) Trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of weekly average net asset value during the year.

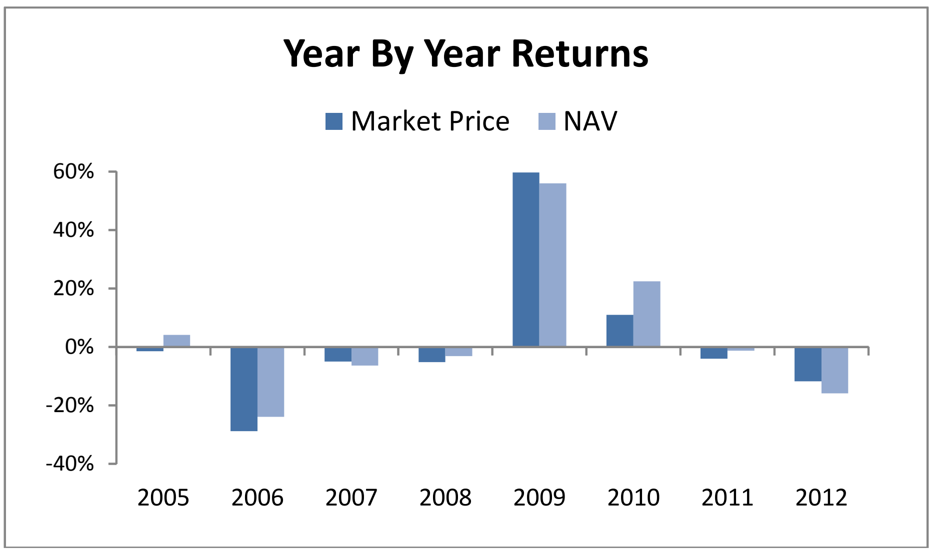
MANAGEMENT FEES

In consideration for its services as manager of the Fund, the Manager is entitled to receive a management fee of 0.70% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. The Investment Manager receives an investment management fee payable from the Fund. Galileo Global Equity Advisors Inc. receives a fee of 0.40% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly, in exchange for providing investment management services.

PAST PERFORMANCE

Energy Income Fund's performance numbers represent the annual compound total returns over the years from inception in October 2005 to December 31, 2012 (except for returns of less than one year which are compound total returns). Total returns are based upon both the Fund's change in market price and net assets per unit plus the reinvestment of all distributions in additional units of the Fund.

Returns do not take into account sales, redemptions, or income taxes payable that would have reduced returns. Past performance of the Fund does not necessarily indicate how it will perform in the future.



(1) For 2012 and prior years, this represents the annual return, unadjusted for the exercise of warrants, for the twelve-month period ended December 31.

ANNUAL COMPOUND RETURNS

The following table presents the annual compound returns for Energy Income Fund based on market price and net assets per unit for the periods indicated to December 31, 2012. For the year ended December 31, 2011 and subsequent periods, the returns are compared to the S&P/TSX Capped Energy Index due to the widespread conversion of oil & gas royalty trusts to corporations. The S&P/ TSX Capped Energy Index is a market cap weighted total return index of corporations which are classified in the energy sector of the Global Industry Classification Standards.

	1-Year	3-Year	5-Year	Since Inception
Energy Income Fund (market price)	(10.65)%	(1.38)%	7.75%	(0.47)%
Energy Income Fund (net assets)	(15.94)%	0.51%	8.82%	1.71%
Energy Income Fund (net assets excluding warrants) (1)	(11.60)%	2.75%	10.27%	2.65%
S&P/TSX Capped Energy Index (2)	(7.54)%	(5.80)%	(6.63)%	(2.52)%

(1) *This calculation adjusts for the dilution effect of the warrant distribution.*

(2) Prior to 2011, the annual compound returns for the Fund based on market price and net assets per unit were compared to the S&P/TSX Capped Energy Trust Index and therefore will not match the current comparison of the index's compound returns. Under the Declaration of Trust, the change in the benchmark index used to measure against the return of the portfolio may be selected and changed by the Manager from time to time.

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2012

Total Net Assets: $32,102,317

The major portfolio categories and top holdings of the Fund at the end of the year are indicated in the following tables. The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund. The next quarterly update will be in the Quarterly Portfolio Disclosure as at March 31, 2013. Quarterly updates are available at www.artemisfunds.ca.

Portfolio by Sector	% of Total Net Assets
Oil & Gas Corporations	77.7
Industrials	9.9
Bonds	7.5
Cash & Term Deposits	5.4
Liabilities, Net of Other Assets	(0.5)
Total Net Assets	100.0 %

TOP HOLDINGS (as a % of Total Net Assets)

Vermilion Energy Inc.	6.5%	Baytex Energy Corp.	4.0%
Black Diamond Group Ltd.	6.2%	Horizon North Logistics Inc.	3.7%
Athabasca Oil Corp.	5.7%	Canyon Services Group Inc.	3.5%
Whitecap Resources Inc.	5.4%	Crescent Point Energy Corp.	3.5%
Cash and cash equivalents	5.4%	Athabasca Oil Corp., 7.500%, 11/17/2019	3.1%
Pembina Pipeline Corp.	5.3%	Trilogy Energy Corp.	3.0%
Gibson Energy Inc.	5.2%	Cathedral Energy Services ltd.	2.8%
Canadian Energy Services & Technology Corp.	4.9%	United Hydrocarbon Corp.	2.8%
Twin Butte Energy Ltd.	4.8%	Freehold Royalties Ltd.	2.8%
Badger Daylighting Ltd.	4.8%	Strategic Oil & Gas Ltd.	2.3%
Banro Corporation, 10.000%, 03/01/2017	4.4%	Coastal Energy Co.	1.8%
Algonquin Power & Utilities Corp.	4.3%	Ravenwood Energy Corp.	0.1%
Bonterra Energy Corp.	4.2%		

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control. This includes the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations (including the Canadian Income Tax Act), fluctuations in interest rates, commodity prices, foreign exchange rates, and stock market volatility. Actual results, performance, or achievement could differ materially from those expressed in or implied by these forward-looking statements. Accordingly, no assurances can be given that any of these events anticipated by the forward-looking statements will transpire or occur or that if they do, what benefits (including the amount of proceeds) will be derived therefrom. The forward-looking statements contained in this annual report are expressly qualified by this cautionary statement. Except as may be required by applicable securities law, we undertake no obligation to publicly update or revise any forward-looking statements.

ENERGY INCOME FUND

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2012 AND 2011

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of Energy Income Fund (the "Fund") have been prepared by Artemis Investment Management Limited ("Artemis") and approved by the Board of Directors of Artemis (the "Board"). Artemis is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

Artemis maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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 is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements.

The Board has appointed the external audit firm of Ernst & Young LLP. It has audited the financial statements in accordance with Canadian generally accepted auditing standards to enable it to express to unitholders its opinion on the financial statements. The auditor has full and unrestricted access to the Board to discuss its findings.

Conor Bill
Chief Executive Officer
Artemis Investment Management Limited

Trevor Maunder
Chief Financial Officer
Artemis Investment Management Limited

April 2, 2013

INDEPENDENT AUDITORS' REPORT

To the Unitholders of **Energy Income Fund**

We have audited the accompanying financial statements of Energy Income Fund, which comprise the statements of investments and net assets as at December 31, 2012 and 2011, and the statements of operations and changes in net assets 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.

Auditors' 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 auditors' 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 auditors consider 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 Energy Income Fund as at December 31, 2012 and 2011, and results of its operations and changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada

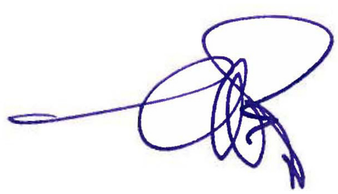
April 2, 2013

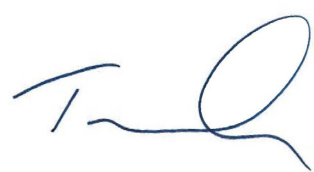
STATEMENTS OF NET ASSETS

As at December 31		**2012**		2011
Assets				
Investments at fair value	$	**30,558,650**	$	40,789,071
Cash and cash equivalents		**1,718,555**		1,874,294
Receivable for investments sold		**566,793**		-
Dividends and interest receivable		**188,001**		167,244
Prepaid expenses		**47,539**		69,388
Receivable for warrants exercised		**-**		4,907,110
		33,079,538		47,807,107
Liabilities				
Payable for investments purchased		**597,024**		112,537
Distributions payable		**193,461**		223,730
Accounts payable and accrued liabilities (Note 5)		**186,736**		132,090
		977,221		468,357
Net Assets Representing Unitholders' Equity	$	**32,102,317**	$	47,338,750
Units Outstanding (Note 4)		**6,448,709**		7,457,656
Net Asset per Unit (Note 2)	$	**4.98**	$	6.35

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

On behalf of the Board,





Conor Bill
Chief Executive Officer

Trevor Maunder
Chief Financial Officer

STATEMENTS OF OPERATIONS

For the years ended December 31		2012		2011
Investment Income				
Dividend income	$	**1,945,761**	$	2,117,081
Interest income		**202,487**		30,159
Total Investment Income		**2,148,248**		2,147,240
Expenses				
Portfolio transaction costs (Note 7)		**509,595**		121,888
Management fees (Note 5)		**399,660**		341,317
Legal fees		**257,596**		298,470
Investment management fees (Note 5)		**228,377**		193,972
Administrative expenses (Note 5)		**203,709**		213,712
Custody, valuation, and transfer fees		**81,894**		57,921
Regulatory and listing expenses		**50,010**		72,382
Unitholder servicing expenses		**48,976**		24,356
Audit and review fees		**44,523**		96,809
Insurance expenses		**33,052**		23,658
Independent review committee fees		**22,020**		16,634
Board fees		**21,050**		15,460
Income tax expense		**-**		2,859
Total Expenses		**1,900,462**		1,479,438
Net Investment Income		**247,786**		667,802
Net Realized Gain (Loss) on Sale of Investments (Note 6)		**(2,007,756)**		1,168,043
Net Realized Loss on Foreign Currency		**(5,691)**		-
Net Change in Unrealized Depreciation in Value of Investments		**(4,267,568)**		(1,234,615)
Increase (Decrease) in Net Assets from Operations	$	**(6,033,229)**	$	601,230
Increase (Decrease) in Net Assets from Operations per Unit (1)	$	**(0.62)**	$	0.09

(1) Based on the weighted average number of units outstanding during the year.

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	$ **47,338,750**	$ 47,856,029
Operations		
Net investment income	**247,786**	667,802
Net realized gain (loss) on sale of investments	**(2,007,756)**	1,168,043
Net realized loss on foreign currency	**(5,691)**	-
Net change in unrealized depreciation in value of investments	**(4,267,568)**	(1,234,615)
	(6,033,229)	601,230
Capital Unit Transactions		
Proceeds from exercise of warrants, net of expenses (Note 4)	**25,245,735**	5,948,884
Fair value of net assets contributed on merger (Note 1)	**8,661,627**	-
Proceeds from distribution reinvestment plan	**67,464**	58,998
Paid for units redeemed - monthly redemptions	**(7,255)**	(14,382)
Fees paid to Manager on redemptions (Note 5)	**(1,805,432)**	-
Units repurchased and cancelled under the normal course issuer bid	**(3,031,281)**	(4,709,647)
Paid for units redeemed - March 2012 partial redemption	**(5,850,000)**	-
Paid for units redeemed - August 2012 special redemption	**(29,070,377)**	-
	(5,789,519)	1,283,853
Distributions to Unitholders		
From net investment income	**(196,000)**	-
Return of capital	**(3,217,685)**	(2,402,362)
	(3,413,685)	(2,402,362)
Decrease in Net Assets for the Year	**(15,236,433)**	(517,279)
Net Assets — End of Year	$ **32,102,317**	$ 47,338,750
Distributions per Unit	$ **0.36**	$ 0.36

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

STATEMENTS OF INVESTMENTS

	As at December 31, 2012				As at December 31, 2011			
	Number of Shares	**Cost**	**Fair Value**	**% of Net Assets**	Number of Shares	Cost	Fair Value	% of Net Assets
Oil and Gas Corporations								
Algonquin Power & Utilities Corp.	**200,000**	**$ 1,298,176**	**$ 1,366,000**	**4.3**	-	$ -	$ -	-
Athabasca Oil Corp.	**175,000**	**1,945,035**	**1,825,250**	**5.7**				
Badger Daylighting Ltd.	**50,000**	**1,000,761**	**1,540,500**	**4.8**	115,000	2,271,228	2,435,700	5.1
Bankers Petroleum Ltd.	**-**	**-**	**-**	**-**	120,000	723,459	529,200	1.1
Baytex Energy Corp.	**30,000**	**1,115,669**	**1,286,100**	**4.0**	60,000	2,015,976	3,414,600	7.2
Bonavista Energy Corp.	**-**	**-**	**-**	**-**	140,000	3,576,776	3,647,000	7.7
Bonterra Energy Corp.	**30,000**	**1,256,050**	**1,362,900**	**4.2**	61,300	2,359,847	3,146,529	6.6
C&C Energia Ltd.	**-**	**-**	**-**	**-**	115,000	866,419	856,750	1.7
Canadian Energy Services & Technology Corp.	**150,000**	**1,618,555**	**1,582,500**	**4.9**	160,000	1,651,024	1,782,400	3.8
Canyon Services Group Inc.	**100,200**	**1,062,200**	**1,131,258**	**3.5**	-	-	-	-
Cathedral Energy Services Ltd.	**157,500**	**946,288**	**908,775**	**2.8**	-	-	-	-
Celtic Exploration Ltd.	**-**	**-**	**-**	**-**	45,000	1,107,778	1,024,650	2.2
Coastal Energy Co.	**30,000**	**597,024**	**596,100**	**1.8**	-	-	-	-
Crescent Point Energy Corp.	**30,000**	**1,125,000**	**1,125,000**	**3.5**	100,000	3,681,115	4,483,000	9.5
Freehold Royalties Ltd.	**40,000**	**725,443**	**890,800**	**2.8**	190,000	3,445,854	3,687,900	7.8
Gibson Energy Inc.	**70,000**	**1,439,162**	**1,677,900**	**5.2**	-	-	-	-
Pembina Pipeline Corp.	**60,000**	**1,677,898**	**1,706,400**	**5.3**	-	-	-	-
Penn West Petroleum Ltd.	**-**	**-**	**-**	**-**	160,000	3,481,354	3,225,600	6.8
Phoenix Energy Services Corp.	**-**	**-**	**-**	**-**	100,000	990,947	1,060,000	2.2
Pure Energy Services Ltd.	**-**	**-**	**-**	**-**	225,000	1,799,375	1,984,500	4.2
Ravenwood Energy Corp. (1)	**3,880**	**10,398**	**8,342**	**0.1**	3,880	10,398	8,342	0.1
Renegade Petroleum Ltd.	**-**	**-**	**-**	**-**	350,000	1,148,351	1,015,000	2.1
Spartan Oil Corp.	**-**	**-**	**-**	**-**	350,000	869,569	1,169,000	2.5
Strategic Oil & Gas Ltd.	**637,700**	**723,316**	**746,109**	**2.3**	-	-	-	-
Trilogy Energy Corp.	**32,700**	**917,990**	**949,608**	**3.0**	-	-	-	-
Twin Butte Energy Ltd.	**600,000**	**1,639,643**	**1,542,000**	**4.8**	-	-	-	-
United Hydrocarbon International Corp. (1)	**905,000**	**1,131,250**	**905,000**	**2.8**	-	-	-	-
Vermilion Energy Inc.	**40,000**	**1,547,104**	**2,072,800**	**6.5**	60,000	2,182,215	2,711,400	5.8
Whitecap Resources Inc.	**200,000**	**1,727,096**	**1,728,000**	**5.4**	-	-	-	-
Total Oil and Gas Corporations		**23,504,058**	**24,951,342**	**77.7**		32,181,685	36,181,571	76.4

	As at December 31, 2012				As at December 31, 2011			
	Number of Shares / Par Value	**Cost**	**Fair Value**	**% of Net Assets**	Number of Shares	Cost	Fair Value	% of Net Assets
Industrials								
Black Diamond Group Ltd.	**100,000**	**1,464,959**	**2,000,000**	**6.2**	250,000	2,416,594	4,607,500	9.7
Horizon North Logistics Inc.	**175,000**	**1,161,183**	**1,200,500**	**3.7**	-	-	-	-
Total Industrials		**2,626,142**	**3,200,500**	**9.9**		2,416,594	4,607,500	9.7
Total Equities		**26,130,200**	**28,151,842**	**87.6**		34,598,279	40,789,071	86.1
Bonds								
Athabasca Oil, 7.500%, 11/19/2017	**$1,000,000**	**1,001,875**	**1,001,875**	**3.1**	-	-	-	-
Banro Corporation, 10.000%, 03/01/2017	**1,700,000**	**1,503,351**	**1,404,933**	**4.4**	-	-	-	-
Total Bonds		**2,505,226**	**2,406,808**	**7.5**		-	-	-
Total Investments		**28,635,426**	**30,558,650**	**95.1**		34,598,279	40,789,071	86.1
Other Assets, Net of Liabilities			**1,543,667**	**4.9**			6,549,679	13.9
Total Net Assets			**$32,102,317**	**100.0**			$47,338,750	100.0

(1) Level 3 financial instrument.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2012

1. THE FUND

Establishment of the Fund

Energy Income Fund (the “Fund”) is the new name of the combined fund resulting from the merger on October 4, 2010 of Sustainable Production Energy Trust (“Sustainable”), Energy Plus Income Trust (“Energy Plus”) and CGF Resource 2008 Flow Through LP (“CGF LP”). The Fund acquired the investment portfolios and other assets of Energy Plus and CGF LP. Since the merger was an acquisition, it was done on a taxable basis. The Energy Plus unitholders received 1.2818 units of the Fund for each unit of Energy Plus held, while the CGF LP unitholders received 3.0177 units of the Fund for each unit of CGF LP held.

Predecessor Funds

Sustainable was an investment fund established under the laws of Alberta pursuant to a Declaration of Trust dated as of August 29, 2005. Sustainable commenced operations upon completion of its initial public offering on October 17, 2005.

Energy Plus was an investment fund established under the laws of Alberta pursuant to a Declaration of Trust dated as of September 23, 2004. Energy Plus commenced operations upon completion of its initial public offering on November 16, 2004.

CGF LP was a limited partnership established under the laws of Alberta pursuant to a Partnership Agreement dated as of December 19, 2007. CGF LP commenced operations on October 21, 2008, when it completed its initial public offering.

On June 3, 2009, Citadel Fund Administration LP became the administrator of Sustainable, Energy Plus and CGF LP. On November 16, 2009 Citadel Fund Administration LP transferred the Administration Agreement to a wholly-owned subsidiary, 2223785 Ontario Inc. (“2223785”). On December 18, 2009, Crown Hill Capital Corporation (“Crown Hill”) acquired Citadel Fund Administration LP and subsequently became the administrative agent of Sustainable, Energy Plus and CGF LP. On August 27, 2009, Valiant Trust Company, a wholly-owned subsidiary of Canadian Western Bank, replaced Computershare Trust Company of Canada as trustee for Sustainable and Energy Plus.

On October 4, 2010, Energy Plus and CGF LP were merged into Sustainable and the fund was renamed Energy Income Fund. The Declaration of Trust was amended, establishing the Fund under the laws of Ontario and appointing Crown Hill as manager and trustee.

On February 15, 2012, Crown Hill, the administrative agent of Citadel SMaRT Fund (“SMaRT”) and the manager of Energy, announced that SMaRT would merge (the “Merger”) into Energy on March 23, 2012. The Merger was effected using an exchange ratio calculated as the net asset value per unit of SMaRT divided by the net asset value per unit of Energy, each determined as at the close of trading on the TSX on March 22, 2012. Unitholders of SMaRT received 3.074 units of Energy per unit of SMaRT held. As a result of the Merger, 1,534,254 additional units were issued by Energy.

Crown Hill was formerly the trustee and manager of the Fund. Effective January 16, 2013, Artemis Investment Management Limited (“Artemis”) was appointed as the new trustee (the “Trustee”) and manager (the “Manager”) of the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles (“GAAP”), include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting years. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and equivalents

Cash and cash equivalents consists of cash on hand and short-term bankers’ acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Securities listed on a recognized public stock exchange are valued at their bid price on the valuation date. The fair value of financial assets and liabilities that are not traded in an active market (for example: non-traded investments) is determined by using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each statement date. Valuation techniques used include the use of comparable recent arm's length transactions, references to other instruments that are substantially the same, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants making the maximum use of market inputs. Certain financial assets and liabilities may be estimated using valuation techniques based on assumptions that are not supported by observable market prices or rates. Assumptions used in these techniques may include the costs paid for the security, recent news reports about the issuer, and general market indicators. Their fair value may be determined using valuation models that have been tested against the prices of actual market transactions and using management's best estimate of the most appropriate model inputs. These are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit spread, and limitations in the models.

Short-term notes, treasury bills, and bonds are valued at the average bid quotations from recognized investment dealers.

The Manager has reviewed its policies over the valuation of assets and liabilities and believes that the fair value ascribed to the financial assets and financial liabilities in these financial statements incorporates appropriate levels of credit risk.

(c) Investment income

Dividend income is recorded on the ex-dividend date, interest and securities lending income is recognized as earned, and dividend income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(d) Distributions

Distributions to unitholders are recorded by the Fund when declared.

(e) Transaction costs

Transaction costs are expensed as incurred.

(f) Application of CICA Handbook Section 3855

For the purpose of preparing its financial statements, the Fund values its investments pursuant to Section 3855 of the Canadian Institute of Chartered Accountants ("CICA") Handbook as outlined above in Note 2(b); the resulting net assets balance is referred to as "Net Assets". For all other purposes, including the processing of unitholder transactions, the value of the Fund's investments that trade in an active market continue to be determined using the last traded price; the resulting net assets balance is referred to as "Transactional Net Assets". On each valuation date, the Transactional Net Assets per unit is computed by dividing the Transactional Net Assets of the Fund by the total number of its units outstanding. A reconciliation of Transactional Net Assets to Net Assets is as follows:

As at December 31, 2012		**Net Assets**		**Net Assets per Unit**
Transactional Net Assets	$	**32,211,538**	**$**	**5.00**
Difference as a result of Section 3855		**(109,221)**		**(0.02)**
Net Assets	$	**32,102,317**	**$**	**4.98**

As at December 31, 2011		**Net Assets**		**Net Assets per Unit**
Transactional Net Assets	$	47,557,597	$	6.38
Difference as a result of Section 3855		(218,847)		(0.03)
Net Assets	$	47,338,750	$	6.35

g) Securities lending

The Fund may lend portfolio securities in order to earn additional revenue. The minimum allowable collateral is 102% of the current value of the loaned securities as per the requirements of National Instrument 81-102.

The market value of the loaned securities is determined on the close of any valuation date, and any additional required collateral is made by the Fund on the next business day. The securities on loan continue to be included on the Statements of Investments and are included in the total value on the Statements of Net Assets in Investments at fair value.

As of December 31, 2012, the Fund had an aggregate value of securities on loan of $11,633,000 (2011 - $17,669,125) and corresponding aggregate value of collateral for loan of $12,270,650 (2011 - $18,596,614).

(h) Future accounting changes

The Fund is currently required to adopt International Financial Reporting Standards ("IFRS") for interim and annual financial statements relating to annual periods beginning on or after January 1, 2014. As a result, the Fund will adopt IFRS beginning January 1, 2014 and issue its first financial statements, prepared in accordance with IFRS, for the semi-annual period ending June 30, 2014. The 2014 semi-annual and annual financial statements will include 2013 comparative financial information and an opening statement of net assets as at January 1, 2013, also prepared in accordance with IFRS.

The Manager has begun to develop a transition plan to changeover to IFRS. Currently, the expected impact to the financial statements based on the Manager's assessment of the differences between current Canadian GAAP and IFRS are as follows: i) IFRS 13 *Fair Value Measurement* permits the use of mid-market prices or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. As a result, net assets for financial reporting purposes may be impacted and could align with the transactional net assets used to price unitholder transactions, eliminating the need for a reconciliation; ii) Units of the Fund are puttable instruments and are required to be presented as equity or liability depending on certain criteria. As a result, unitholders' equity may be required to be presented as a liability in the statement of net assets with related distributions presented as an expense in the statement of operations. Alternatively, equity presentation would require additional disclosure of the components of equity; iii) IFRS requires the presentation of a statement of cash flows, including comparatives for 2013; iv) Other reclassifications, presentation differences and additional disclosures will also be required in the financial statements to comply with the new requirements under IFRS.

3. INCOME TAXES

The Fund is a mutual fund trust within the meaning of the Income Tax Act (Canada). The Fund is subject to applicable federal and provincial taxes on the amount of net income for tax purposes for the year, to the extent such net income for tax purposes has not been paid or made payable to unitholders in the year.

4. UNITHOLDERS' EQUITY

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable redeemable units of beneficial interest.

Units Issued and Outstanding

For the years ended December 31	**2012**		2011	
	Number	**Amount**	Number	Amount
Trust units – beginning of year	**7,457,656**	**$ 75,016,768**	7,035,664	$ 73,732,916
Issued under DRIP	**15,100**	**67,464**	10,282	58,997
Issued under merger (Note 1)	**1,534,254**	**8,661,627**	-	-
Warrants exercised, net of expenses	**5,152,191**	**25,245,735**	1,214,058	5,948,884
Units redeemed - monthly redemptions	**(1,623)**	**(7,255)**	(2,648)	(14,382)
Units redeemed - parital redemption (March 2012)	**(1,000,000)**	**(5,850,000)**		
Units redeemed - special redemption (August 2012)	**(6,081,669)**	**(30,811,978)**		
Units repurchased and cancelled under NCIB	**(627,200)**	**(3,095,112)**	(799,700)	(4,709,647)
Trust units – end of year	**6,448,709**	$ **69,227,249**	7,457,656	$ 75,016,768

Warrants Issued and Outstanding

For the years ended December 31	**2012**	2011
Balance of warrants outstanding – beginning of year	**5,152,191**	-
Warrants issued during the year	**-**	6,366,249
Warrants exercised during the year	**(5,152,191)**	(1,214,058)
Balance of warrants outstanding - end of year	**-**	5,152,191

The weighted average number of units outstanding for the year ended December 31, 2012 was 9,697,129 units (December 31, 2011 – 6,621,154 units).

Unitholders can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of the Fund at the five-day weighted average market price of the Fund's units. For the year ended December 31, 2012, a total of 15,100 units were issued under the DRIP (year ended December 31, 2011 - 10,282 units).

On September 27, 2011, the Fund announced that it had filed a final short form prospectus relating to its warrant offering. Each unitholder of record on October 7, 2011 received one new warrant for each unit held. A total of 6,366,249 warrants were issued. Each warrant entitled the unitholder to purchase a new unit upon payment of the subscription price of $5.00. The Fund paid a fee at the time of exercise equal to $0.10 per warrant to the broker. Warrants could be exercised at any time before the earlier of i) March 1, 2012, or ii) such date which is 20 business days from the date the embedded call feature in the warrants is exercised by the Fund in accordance with the terms of the warrant offering. On March 2, 2012, upon completion of the warrant offering program, a total of 6,366,249 warrants were exercised for net proceeds of $31,194,619 in 2012 and 2011 combined after expenses totalling $636,626.

For the period January 1, 2012 to December 31, 2012, the Fund repurchased 627,200 units for cancellation at an average cost of $4.93 per unit under the normal course issuer bid program (Note 10).

Through the monthly redemption feature offered during 2012, 1,623 units were redeemed for a total cost of $7,255. Through the partial redemption feature offered in March 2012 (Note 11), 1,000,000 units were redeemed for a total cost of $5,850,000. Through the special redemption feature offered in August 2012 (Note 12), 6,081,669 units were redeemed for a total cost of $30,811,978.

Total costs includes amounts paid to the unitholders and fees paid to Crown Hill as detailed in the Statements of Changes in Net Assets.

Unitholders are entitled to retract their units outstanding on the last business day of each month at an amount equal to (a) the lesser of: (i) 90% of the weighted average trading price of a unit on the Toronto Stock Exchange (the "TSX") during the preceding 15 trading days and (ii) the closing market price on the TSX on that day, less (b) any retraction costs.

5. ADMINISTRATIVE EXPENSES, INVESTMENT MANAGEMENT FEES, AND MANAGEMENT FEES

The Fund is responsible for all expenses incurred. All expenses of the Fund are initially paid by the Manager, which is then reimbursed by the Fund in a reasonable amount of time.

The Manager is entitled to a management fee of 0.70% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2012, management fees totaled $399,660 (December 31, 2011 - $341,317), of which $19,098 was payable as at December 31, 2012 (December 31, 2011 - $23,332). Galileo Global Equity Advisors Inc. is the investment manager (the "Investment Manager") of the Fund and is entitled to an investment management fee of 0.40% per annum of the average net asset value of the Fund plus applicable taxes, calculated and payable monthly. For the year ended December 31, 2012, investment management fees totaled $228,377 (December 31, 2011 - $193,972), of which $10,913 was payable as at December 31, 2012 (December 31, 2011 - $13,332).

Administrative expenses for the year ended December 31, 2012 totaled $203,709 (December 31, 2011 - $213,712). As part of these expenses, the Fund paid a general overhead cost of $15,000 per month plus applicable taxes in 2012 (2011 - $10,000 per month) to cover related administrative salaries, employee benefits, general overhead, and office supplies. See Note 13 - subsequent event.

For repurchases made subsequent to the amended and restated Declaration of Trust as of August 9, 2012, the Manager is entitled to receive a fee per unit of 5% of the net asset value per unit plus applicable taxes. For the year ended December 31, 2012, redemption fees totaled $1,805,432. See Note 13 for details of the termination fee paid to Crown Hill.

6. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

For the years ended December 31		2012		2011
Proceeds from the sale of investments	$	**81,842,156**	$	23,748,621
Less cost of investments sold:				
Investments at cost – beginning of year		**34,598,279**		40,101,916
Investments purchased during the year		**77,887,059**		17,076,941
Investments at cost – end of year		**(28,635,426)**		(34,598,279)
Cost of investments disposed of during the year		**83,849,912**		22,580,578
Net realized gain (loss) on sale of investments	$	**(2,007,756)**	$	1,168,043

7. PORTFOLIO TRANSACTION COSTS

For the year ended December 31, 2012, the Fund incurred portfolio transaction costs of $509,595 (year ended December 31, 2011 – $121,888). These costs are recorded separately in the Statements of Operations as an expense for the period.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund aims to provide unitholders with monthly distributions primarily through investments in oil and gas corporations. As a result, the Fund is exposed to the risk of being invested, on a concentrated basis, in these asset classes. The Fund's Investment Manager uses a disciplined, fundamental approach in its investment selection and portfolio management approach which consists of an intensive and ongoing research process of investment opportunities. The Investment Manager purchases and holds securities for the Fund for the short to medium term and also determines the timing of when to rotate the Fund's portfolio in order to enhance the Fund's portfolio performance and/or limit risk.

Financial Instruments

CICA Handbook Section 3862 requires disclosure of a three-level hierarchy for fair value measurement based upon transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows: (i) Level 1 - inputs are unadjusted quoted prices of identical instruments in active markets; (ii) Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; (iii) Level 3 - one or more significant inputs used in a valuation technique are unobservable in determining fair value of the instruments.

The following tables present as at December 31, 2012, and 2011 the level within the fair value hierarchy for each of the financial assets measured at fair value:

Financial assets — trading investments	Level 1	Level 2	Level 3	December 31, 2012 Total Fair Value
Equities	**$ 27,238,500**	**$ -**	**$ 913,342**	**$ 28,151,842**
Bonds	**-**	**2,406,808**	**-**	**2,406,808**
Total	**$ 27,238,500**	**$ 2,406,808**	**$ 913,342**	**$ 30,558,650**

Financial assets — trading investments	Level 1	Level 2	Level 3	December 31, 2011 Total Fair Value
Equities	$ 40,780,729	$ -	$ 8,342	$ 40,789,071
Total	$ 40,780,729	$ -	$ 8,342	$ 40,789,071

For the year ended December 31, 2012, the Fund had two securities that represented level 3 financial instruments: Ravenwood Energy Corp. and United Hydrocarbon International Corp., with the former being in the portfolio in the prior year and the latter being acquired during the year ended December 31, 2012.

Market Risk

Market risk represents the potential loss that can be caused by a change in the fair value of the financial instrument. The investments of the Fund are subject to normal market fluctuations and the risks inherent in being invested in the trust market. The Fund will continue to invest using a long-term perspective while focusing on quality businesses that consistently deliver strong returns for unitholders. The best estimate of the effect on net assets due to a reasonably possible change in the S&P/TSX Capped Energy Index (“Energy Index”), with other variables held constant, is as follows: If income trust prices on the energy index had increased or decreased by 10.00%, all other variables held constant, the net assets of the Fund would increase or decrease by 8.8% or $2,815,184, respectively (2011 - 8.6% or $4,078,907). In practice, the actual results may differ from the above sensitivity analysis and the difference could be material.

Interest Rate Risk

The Fund is also exposed to risks associated with the effect of fluctuations in the prevailing levels of market interest rates on its investments. The majority of the Fund’s assets are non-interest bearing. Excess cash and cash equivalents are invested in overnight deposits and bankers’ acceptances.

As at December 31, 2012, had the prevailing interest rates increased by 1%, with all other variables held constant, net assets would have decreased by approximately $87,981 (2011 - no significant exposure to interest rate risk).

Credit Risk

Credit risk represents the potential loss that the Fund would incur if the counterparties failed to perform to the terms of their obligations to the Fund. The Fund maintains all of its cash and equivalents at its custodian. All transactions in listed 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 broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The Fund invests approximately 87.6% of the investment portfolio in equity securities. Cash and short-term investments are held by the custodian. As at December 31, 2012, the Fund has a $2,406,808 exposure to credit risk (2011 - $nil).

Foreign Currency Risk

The assets and liabilities of the Fund are predominately held in the functional currency of the Fund which is the Canadian dollar; therefore, the Fund is not exposed to significant foreign currency risk.

Liquidity Risk

The Fund invests the 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 fair values. Thin trading in a security could make it difficult to liquidate holdings in a short period of time. The Fund generally maintains a sufficient cash balance to meet its daily operating expenses.

9. REQUISITION ORDER

On January 25, 2012, Crown Hill announced that it had received a purported requisition for a meeting of unitholders of the Fund. After review, Crown Hill and its legal counsel determined that, for a number of reasons, the requisition was not valid.

On January 30, 2012, Crown Hill announced that the Fund had filed an application with the Commission under section 104 of the Ontario Securities Act (the "Act") to address the trading undertaken in the units of the Fund by a group of dissident unitholders apparently guided by CIBC Wood Gundy prior to the dissidents delivering a requisition to hold a unitholder meeting.

Trading records showed that the dissident unitholder group acquired nearly its entire announced position of 1.85 million units since October 25, 2011 for the apparent purpose of requisitioning a meeting. While acquiring this position, the dissident group did not disclose it had acquired more than 20% of the Fund's units, well above the required limit for disclosure. The dissident unitholders requested a unitholder meeting for the stated purpose of holding a vote to appoint a new manager and trustee to pursue an undisclosed agenda.

Crown Hill asked the Commission to determine whether: i) the individual respondents acted jointly or in concert in acquiring the Fund units and requisitioning the meeting which would mean they repeatedly breached the takeover provisions of the Act; ii) the individual respondents failed to comply with the early warning disclosure requirements of Part XX of the Act; iii) while in a special relationship with the Fund, the individual respondents traded units when they possessed material information that was not generally disclosed to the public, contrary to section 76 of the Act, and; iv) the Commission should exercise its public interest jurisdiction to prevent the individual respondents from taking advantage of their breaches of Ontario securities laws which, if permitted, would cause serious damage to the Fund, would be unfairly prejudicial to, and abusive of, the other unitholders of the Fund who sold their units to the individual respondents without knowledge of the proposed takeover, and would be contrary to the public interest.

Specifically, Crown Hill sought Commission orders: i) declaring that the individual respondents have not complied with the requirements of Part XX of the Act; ii) declaring that the individual respondents have traded in the units of the Fund, contrary to section 76 of the Act; iii) cease trading the securities of the Fund held by the respondents; iv) removing the exemptions available under Ontario securities law from the respondents, and; v) restraining the respondents from providing a notice of meeting, proxy circular, or any other form of proxy solicitation to unitholders of the Fund.

On February 10, 2012, Crown Hill announced that the Fund had been advised that a number of unitholders withdrew their support for a requisition to hold a unitholder meeting. Those unitholders held more than 50% of the units supporting the requisition. As a result, the requisition no longer had the minimum unitholder support required under the Fund's Declaration of Trust and the meeting would not proceed. Crown Hill therefore withdrew its previously announced application to the Commission under section 104 of the Act. Currently, the matter remains outstanding.

10. NORMAL COURSE ISSUER BID PROGRAM

Effective November 21, 2012, the Fund renewed its NCIB program to permit the Fund to purchase outstanding units on the TSX from time to time. The Fund may purchase units in the market for cancellation if the Manager determines that such purchases provide liquidity to unitholders. Under the NCIB program, the Fund may purchase up to 644,585 units, representing approximately 10% of the public float of 6,445,848 units as at November 12, 2012. Additionally, the Fund may not purchase more than 128,917 units in any 30-day period, representing 2% of the issued and outstanding units. If these purchases are made, they will be made in accordance with applicable regulations over a twelve-month period ending November 20, 2013. Units purchased will be cancelled.

11. PARTIAL REDEMPTION FEATURE

On February 14, 2012, the Fund announced that up to 1,000,000 units could be redeemed on March 20, 2012 for an amount per unit equal to the transactional net asset value per unit as of March 15, 2012. Beneficial holders of units had to submit their request to redeem units by no later than March 14, 2012. Requests for redemptions were oversubscribed and all 1,000,000 units were redeemed. The units were redeemed 100% of net asset value on a pro rata basis at a redemption price of $5.85 per unit.

12. UNITHOLDER MEETINGS

On July 17, 2012, the Fund issued a management information circular informing current unitholders of a special meeting to take place on August 7, 2012. The purpose of the special meeting was to: i) provide the right for unitholders to voluntarily elect to receive an unlimited cash redemption of their units at 100% of the net asset value per unit less redemption costs including a fee per unit of 5% of the net asset value per unit plus applicable taxes paid to the manager; ii) implement a series of minority unitholder protections including a requirement that ordinary and extraordinary resolutions require affirmative votes of 50% and 66 2/3% of beneficial holders (as defined in the Declaration of Trust) respectively other than beneficial holders who are "Interested Parties", as defined in the extraordinary resolution attached to the management information circular; iii) amend the provisions relating to the termination and replacement of the manager, including a termination fee equal to 5% of net asset value and reasonable expenses upon termination; and iv) make a number of other amendments to the Declaration of Trust.

In the special meeting on August 7, 2012, unitholders voted in favour of the extraordinary resolution. On August 16, 2012, the Fund's special redemption price was determined to be $4.78 per unit. On August 22, 2012, 6,081,669 units were redeemed at the Fund's special redemption price. Crown Hill received a fee payment of $1,741,601 on the special redemption.

On November 26, 2012, the Fund issued a management information circular informing current unitholders of a special meeting to take place on December 18, 2012. The purpose of the special meeting was to: i) seek the approval of unitholders for the proposed change in manager and trustee from Crown Hill to Artemis; and ii) approve the setting of a special redemption date with respect to a special redemption of an aggregate of up to 400,000 units at 100% of net asset value per unit on the special redemption date.

In the special meeting on December 18, 2012, quorum was not established, thereby resulting in the adjournment of the meeting to January 2, 2013. On January 2, 2013, unitholders voted in favour of the extraordinary resolution. On January 17, 2013, the Fund's special redemption price was determined to be $4.759. Requests for redemptions were oversubscribed and all 400,000 units were redeemed at 100% of net asset value on a pro rata basis.

13. SUBSEQUENT EVENT

Change in Manager

On January 15, 2013, Crown Hill announced that it had tendered its resignation as manager. Such resignation was effective upon the appointment of Artemis as the new manager of the Fund, which subsequently took place on January 16, 2013. A termination payment of $1,834,481, which was equal to the product of the net asset value and five percent plus applicable taxes, was paid to Crown Hill. In addition, expenses totalling $406,800 resulting from the resignation such as costs incurred to terminate employees, office and equipment leases and agreements for services were paid to Crown Hill.

14. CAPITAL MANAGEMENT

The Fund's capital consists solely of Unitholders' equity. The Fund's Manager maintains the Fund's capital in accordance with its investment objectives, strategies and restrictions as detailed in its Declaration of Trust. Unitholders' equity consists of issued units, undistributed net investment income, if any, undistributed realized gains (losses) on sale of investments, if any, and unrealized gains (losses) in value of investments. Pursuant to its Declaration of Trust, the Fund is required to distribute all of its net income and net realized capital gains (as calculated for tax purposes); therefore, unitholders' equity mainly represents issued units and unrealized gains or losses in the value of investments.

15. COMPARATIVE NUMBERS

Certain prior period numbers have been reclassified to conform with current period's presentation.

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