ANNUAL REPORT 2010

Gold Participation and Income Fund

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Letter to Unitholders

We are pleased to present the 2010 annual report containing the management report of fund performance and the financial statements for Gold Participation and Income Fund (the “Fund”).

The Fund is a closed-end investment trust designed to provide investors with Canadian dollar exposure to the long-term performance of gold bullion and gold equity securities, while providing monthly distributions. The units are listed on the Toronto Stock Exchange under the ticker symbol GPF.UN. To accomplish its objectives the Fund invests its net assets in the Gold sector with up to 50 percent in shares of SPDR Gold Trust, an exchange-traded fund that seeks to track the price of gold by investing directly in gold bullion, and the balance in a portfolio of equity securities selected from the S&P/TSX Global Gold Index, a dynamic international benchmark of the world’s leading gold companies. To generate additional returns above the dividend income earned on the Fund’s investment portfolio, the Fund may, from time to time, write covered call options on up to 25 percent of the securities in the portfolio. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

During the 2010 fiscal year, the Fund paid total distributions of $1.53 per unit to unitholders, including $0.83 in regular distributions and $0.70 in special distributions at year-end. Gold bullion closed the year at US$1,421, up 29.5 percent from US$1,097 at the beginning of the year. The S&P/TSX Global Gold Index also had an impressive return of 25.9 percent in 2010. The Fund earned an annual total return of 19.0 percent, including the reinvestment of distributions. The net asset value increased from $12.16 per unit as at December 31, 2009 to $13.57 per unit as at December 31, 2010. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager’s Report sections.

On August 6, 2010, the warrants issued commensurate with the initial public offering expired and 886,894 warrants were exercised for gross proceeds of approximately $11 million.

We thank all unitholders for their continued support and encourage unitholders to review the more detailed information contained within the annual report.

John P. Mulvihill
Chairman & President,
Mulvihill Capital Management Inc.

Gold Participation and Income Fund [GPF.UN]

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Management Report of Fund Performance

This annual management report of fund performance contains the financial highlights for the year ended December 31, 2010 of Gold Participation and Income Fund (the "Fund"). The annual financial statements of the Fund are attached.

Copies of the Fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure may be obtained by calling 1-800-725-7172 toll-free, or by writing to the Fund at Investor Relations, 121 King Street West, Suite 2600, Toronto, Ontario, M5H 3T9, or by visiting our website at www.mulvihill.com.

Investment Objectives and Strategies

The Fund's investment objectives are to:

(i) maximize total returns for unitholders including both long-term appreciation in net asset value (''NAV'') per unit and distributions; and

(ii) pay unitholders monthly distributions in an amount targeted to be 6.5 percent per annum on the NAV of the Fund.

The Fund is designed to provide investors with Canadian dollar exposure to the long-term performance of gold bullion and gold equity securities, while providing monthly distributions.

The Fund achieves its objectives by investing its net assets in the Gold sector with up to 50 percent in shares of SPDR Gold Trust, an exchange-traded fund that seeks to track the price of gold by investing directly in gold bullion, and the balance in a portfolio (the ''Managed Gold Portfolio'') of equity securities selected from the S&P/TSX Global Gold Index, a dynamic international benchmark of the world's leading gold companies. To generate additional returns above the dividend income earned on the Fund's investment portfolio, the Fund may, from time to time, write covered call options on up to 25 percent of the securities in the portfolio. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

Risk

Risks associated with an investment in the units of the Fund are discussed in the Fund's 2010 annual information form, which is available on the Fund's website at www.mulvihill.com or on SEDAR at www.sedar.com. There were no changes to the Fund over the year that materially affected the risks associated with an investment in the units of the Fund.

Summary of Investment Portfolio

The composition of the portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update is available on our website at www.mulvihill.com.

Asset Mix

December 31, 2010

	% OF NET ASSET VALUE
Canada	48%
United States	45%
International	5%
Cash	2%
	100%

Portfolio Holdings

December 31, 2010

	% OF NET ASSET VALUE
SPDR Gold Trust	37%
Barrick Gold Corporation	10%
Goldcorp Inc.	10%
Newmont Mining Corporation	8%
Eldorado Gold Corporation	6%
AngloGold Ashanti Limited ADR	5%
Agnico-Eagle Mines Limited	5%
New Gold Inc.	4%
Semafo Inc.	3%
Yamana Gold Inc.	3%
Premier Gold Mines Limited	3%
Alamos Gold Inc.	2%
Osisko Mining Corporation	2%
Cash	2%

Results of Operations

Distributions

For the year ended December 31, 2010, total distributions of $1.53 per unit were paid to unitholders, which included a special year-end distribution of $0.70 per unit comprising $0.15 in cash and $0.55 in units of the Fund. For the year ended December 31, 2009, total distributions of $0.73 per unit were paid to unitholders, which included a special year-end distribution of $0.42 per unit in units of the Fund. Units issued pursuant to the special year-end distributions in 2010 and 2009 were immediately consolidated such that the number of issued and outstanding units of the Fund did not change.

Since the inception of the Fund in August 2009, the Fund has paid total cash and unit distributions of $2.25 per unit, including $1.12 per unit of special year-end distributions.

Revenues and Expenses

For the year ended December 31, 2010, the Fund’s total revenue per unit was unchanged at $0.03 per unit compared to prior period. An increase in dividend income during the current year was largely offset by a net foreign exchange loss on short-term investments. Total expenses per unit increased from $0.15 per unit, for the period from inception on August 7, 2009 to December 31, 2009, to $0.32 per unit in 2010. Growth in net asset value resulted in higher management and service fees per unit, and the harmonized sales tax, which became effective in Ontario on July 1, 2010, also contributed to an increase in expenses per unit. The Fund had a net realized and unrealized gain of $3.14 per unit in 2010 as compared to a net realized and unrealized gain of $1.37 per unit in 2009.

Net Asset Value

The net asset value per unit of the Fund increased by $1.41 per unit, or 11.6 percent, from $12.16 per unit at December 31, 2009 to $13.57 per unit at December 31, 2010. The total net asset value of the Fund increased $15.2 million from $28.6 million at December 31, 2009 to $43.8 million at December 31, 2010, as net proceeds of $10.5 million from the exercise of warrants and the net gain on investments more than offset monthly cash distributions to unitholders.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance from its inception on August 7, 2009.

The net assets per unit presented in the financial statements differs from the net asset value per unit calculated weekly, primarily as a result of investments being valued at bid prices for financial statements purposes and at closing prices for weekly net asset value purposes.

Periods ended December 31

	2010	2009 (4)
THE FUND'S NET ASSETS PER UNIT		
Net Assets, beginning of period (based on bid prices) (1)	**$ 12.14**	$ 11.19 (5)
INCREASE (DECREASE) FROM OPERATIONS		
Total revenue	**0.03**	0.03
Total expenses	**(0.32)**	(0.15)
Realized gain (loss) for the period	**2.19**	0.83
Unrealized gain (loss) for the period	**0.95**	0.54
Total Increase (Decrease) from Operations (2)	**2.85**	**1.25**
DISTRIBUTIONS		
From net investment income	**(0.58)**	(0.10)
From capital gains	**(0.95)**	(0.63)
Total Annual Distributions (3)	**(1.53)**	**(0.73)**
Net Assets, as at December 31 (based on bid prices) (1)	**$ 13.56**	**$ 12.14**

(1) Net assets per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities on that date date and including the valuation of securities at bid prices divided by the number of units then outstanding.
(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized and unrealized gains (losses), less expenses and is calculated based on the weighted average number of units outstanding during the period. The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of units outstanding during the period.
(3) Distributions to unitholders are based on the number of units outstanding on the record date for each distribution. Distributions of $0.31 were paid in cash and distributions of $0.42 were paid in units. Immediately following the distribution of units, the issued and outstanding capital of the Fund was consolidated such that the number of issued and outstanding units of the Fund did not change due to the distribution.
(4) For the period from inception on August 7, 2009 to December 31, 2009.
(5) Initial issue price, net of agent fees and initial issue costs.

RATIOS/SUPPLEMENTAL DATA	2010	2009
Net Asset Value ($millions) (1)	**$ 43.78**	$ 28.57
Number of units outstanding (1)	**3,226,994**	2,350,100
Management expense ratio (2)	**1.95%**	1.98% (5)
Portfolio turnover rate (3)	**212.02%**	78.35%
Trading expense ratio (4)	**0.52%**	1.08% (5)
Net Asset Value per unit (6)	**$ 13.57**	$ 12.16
Closing market price	**$ 14.20**	$ 10.46

(1) This information is provided as at December 31.
(2) The management expense ratio ("MER") is the sum of all fees and expenses, including federal and provincial sales taxes and excluding transaction fees charged to the Fund divided by the average net asset value. In August of 2009, the Fund realized issuance costs of $1,903,500 in connection with its issuance of 2,350,000 units and 2,350,000 warrants. The MER for 2009 including these issuance costs is 8.79%.
(3) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by the average value of the portfolio securities. The Fund employs an option overlay strategy which can result in higher portfolio turnover by virtue of option exercises, when compared to a conventional equity mutual fund.
(4) Trading expense ratio represents total commissions expressed as a percentage of the daily average net asset value during the period.
(5) Annualized.
(6) Net asset value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities and including the valuation of securities at closing prices divided by the number of units then outstanding.

Management Fees

Mulvihill Fund Services Inc. (the "Manager" or "Mulvihill") amalgamated with Mulvihill Capital Management Inc. (the "Investment Manager" or "MCM") on September 1, 2010. As successor, MCM became the Manager of the Fund. MCM is entitled to fees under the Investment Management Agreement calculated monthly as 1/12 of 0.70 percent of the net asset value of the Fund at each month end. Services received under the Investment Management Agreement include the making of all investment decisions and writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. MCM also makes all decisions as to the purchase and sale of securities in the Fund's portfolio and as to the execution of all portfolio and other transactions.

MCM, as the Manager, is entitled to fees under the Trust Agreement calculated monthly as 1/12 of 0.10 percent of the net asset value of the Fund at each month end. Services received under the Trust Agreement include providing or arranging for required administrative services to the Fund.

Recent Developments

On August 6, 2010, the warrants issued commensurate with the initial public offering expired and 886,994 warrants were exercised in aggregate for gross proceeds of approximately $11 million.

Mulvihill amalgamated with MCM on September 1, 2010. As successor, MCM became the Manager of the Fund. Management fees previously paid to Mulvihill will be paid to MCM from and after the effective date of the amalgamation.

The Government of Ontario harmonized its provincial sales tax with the federal goods and services tax effective July 1, 2010. Implementation of the proposed changes increased the amount of taxes paid by the Fund on its expenses incurred after July 1, 2010, including but not limited to management fees.

Future Accounting Policy Changes

The Manager has developed a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants ("CICA") for changeover to International Financial Reporting Standards ("IFRS").

The changeover plan was prepared to address the requirements and includes disclosures of the qualitative and quantitative impact, if any, of the changeover to IFRS in the 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS with comparatives. However, the Canadian Accounting Standards Board approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies ("AcG-18"). As a result, the Fund will adopt IFRS for its fiscal period beginning January 1, 2013 and will issue its initial financial statements in accordance with IFRS, with comparative information, for the interim period ending June 30, 2013.

The key elements of the changeover plan deal with the requirements for financial reporting, net asset value per unit calculations, systems and processes, and training. The plan also sets out the timeline for implementation of the changes and the required technical training or support required for a smooth transition.

As at December 31, 2010, some anticipated changes to financial reporting include:

- Compliance with the full body of IFRS without industry specific exemptions. Unlike Canadian Generally Accepted Accounting Principles ("Canadian GAAP") where investment fund accounting was based upon guidance in AcG-18;
- Implementation of cash flow statements;
- Presentation of comparative information; and,
- Additional financial statement note disclosures on the recognition and classification of financial instruments.

Due to anticipated changes in IFRS prior to the transition to IFRS, the Manager cannot conclusively determine the impact of the Fund's financial results at this time. Based on the Manager's current understanding and analysis of IFRS to the current accounting policies under Canadian GAAP, the Manager does not anticipate the transition to IFRS will have a material impact on the Fund's net assets per unit, systems and processes, and it is expected that it will mainly result in additional note disclosure in the financial statements.

Implementation of the changeover plan is progressing as scheduled. The Manager will continue to monitor ongoing changes to IFRS and adjust the changeover plan accordingly.

Past Performance

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

(1) the information shown assumes that all distributions made by the Fund during these periods were reinvested in the Fund,

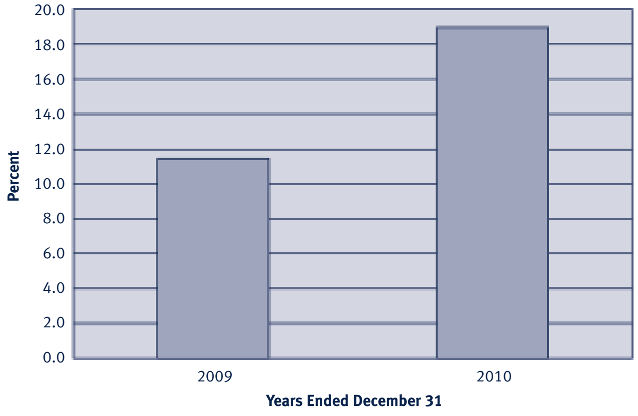
(2) the information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

(3) the past performance of the Fund does not necessarily indicate how it will perform in the future.

Year-By-Year Returns

The bar chart below illustrates how the Fund's annual total return varied from year to year since inception. The chart also shows, in percentage terms, how much an investment made on January 1, 2010 or the date of inception in 2009 would have increased or decreased by the end of the fiscal year.

Annual Total Return



Annual Compound Returns

The following table shows the Fund's historical annual compound return (net of expenses) for the periods ended December 31, 2010 as compared to the performance of the S&P/TSX Global Gold Index.

(In Canadian Dollars)	One Year	Since Inception*
Gold Participation and Income Fund	**18.98%**	15.15%
S&P/TSX Global Gold Index**	**25.94%**	16.88%

* From inception of the Fund on August 7, 2009.
** S&P/TSX Global Gold Index is a dynamic international benchmark tracking the world's leading gold companies.

The equity performance benchmark shown here provides an approximate indication of how the Fund's returns compare to a public market index for similar securities. It is important to note that the Fund is not managed in order to match or exceed this index; rather, its objectives are to pay out quarterly dividends and return the original invested amount at the termination date. As a result, the Fund has, from time to time, maintained cash balances in an effort to provide greater net asset value stability and employs a covered option writing strategy to generate the distributions.

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

Portfolio Manager Report

Gold prices reached a high of US$1,431 on December 7, 2010 and closed the year at US$1,421. Gold has appreciated strongly as investors added the metal to their portfolios due to a number of factors including a weakening of the U.S. dollar and inflation expectations. A further source of demand in the gold market was the elimination of the AngloGold Ashanti Limited hedge booked in the middle of September. Central banks continued to diversify their foreign exchange reserves by adding gold, a continuation of the trend beginning in late 2009.

Some of the fundamental drivers of gold continue to be the loose monetary policies maintained by various central banks, ballooning deficits in the U.S. and Europe that have led some Asian central banks to diversify their foreign exchange reserves into gold, as well as the proliferation of gold exchange traded funds globally that continue to be a source of demand, as well as a tool in the investors arsenal to hedge against high inflation.

Gold is expected to continue to be the primary vehicle used by investors to hedge away inflation if fiscal and monetary policy makers do not show considerable restraint over the next few years following the stimulative policies in the aftermath of the credit crisis. The Manager continues to be positive on Gold equities and their ability to offer good leverage to rising gold prices. There was a proliferation in the number of stocks within the S&P/TSX Global Gold Index which began the year with 34 constituents and ended the year with 56 members.

The strong cash flow of the gold producers due to higher gold prices is very compelling, and has resulted in dividend increases in some companies like Goldcorp Inc., Alamos Gold Inc., and Newmont Mining Corporation. Merger and acquisition activity picked up with Red Back Mining Inc., Andean Resources Limited and Ventana Gold Corp. being takeover targets. Going forward margin expansion is expected to continue across the universe of gold producers while these companies focus on reserve growth through capital expenditures or acquisitions.

The allocation of the SPDR Gold Trust has fluctuated between 27 percent and 50 percent of the net assets in the Fund with the balance invested in Gold equities while holding a small cash balance. The Fund benefitted from its holdings in the takeover targets; Andean Resources Limited and Red Back Mining Inc. The distributions were generated using a mix of capital gains from the sale of stock as well as option writing premium. Volatility remained at high levels versus the rest of the market and was sufficient to maintain option writing programs. The Fund selectively wrote covered calls on a portion of the portfolio when the Fund was being adequately compensated for the high volatility or if the Manager perceived the stock had a flat to downward bias over the short-term. The Fund ended the year with no options written on the portfolio.

The annual total return of the Fund, including reinvestment of distributions, for the year ended December 31, 2010 was 19.0 percent, compared to the S&P/TSX Global Gold Index which had a total return of 25.9 percent and the SPDR Gold Trust which had a return of 21.7 percent in Canadian dollar terms. The difference was primarily due to the impact of the dilution from warrants issued on the initial public offering.

The U.S. dollar traded within a narrow range against the Canadian dollar for most of 2010. The U.S. dollar exposure in the Fund is fully hedged back to the Canadian dollar.

Related Party Transactions

The manager and investment manager of the Fund is MCM (“Manager “ or “Investment Manager”). MCM became the Manager of the Fund on September 1, 2010 as successor by amalgamation with Mulvihill Fund Services Inc.

MCM manages the Fund’s investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and MCM dated July 27, 2009.

MCM is the Manager of the Fund pursuant to a Management Agreement made between the Fund and MCM dated July 27, 2009, and as such, is responsible for providing or arranging for required administrative services to the Fund.

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

Independent Review Committee

National Instrument 81-107 - Independent Review Committee for Investment Funds (“NI 81-107”) requires all publicly offered investment funds to establish an independent review committee (“IRC”) to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions. Members of the IRC are Robert W. Korthals, Michael M. Koerner and Robert G. Bertram.

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

Management's Responsibility for Financial Reporting

The accompanying financial statements of Gold Participation and Income Fund (the "Fund") and all the information in this annual report are the responsibility of the management of Mulvihill Capital Management Inc. (the "Manager"), and have been approved by the Fund's Board of Advisors (the "Board").

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 of the annual financial statements.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board meets periodically with management and the independent auditor to discuss internal controls, the financial reporting process, various auditing and financial reporting issues, and to review the annual report, the financial statements and the independent auditor's report. Deloitte & Touche LLP has full and unrestricted access to the Board.

John P. Mulvihill
Director
Mulvihill Capital Management Inc.
March 2, 2011

John D. Germain
Director
Mulvihill Capital Management Inc.

To the Unitholders of Gold Participation and Income Fund

We have audited the accompanying financial statements of Gold Participation and Income Fund, which comprise the statement of investments as at December 31, 2010, the statements of net assets as at December 31, 2010 and 2009, and the statements of financial operations, of changes in net assets, and net realized gain on sale of investments for year ended December 31, 2010 and for the period from August 7, 2009, the inception date of the Fund, to December 31, 2009, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Gold Participation and Income Fund as at December 31, 2010 and 2009, and the results of its operations, its changes in the net assets, and its cash flows for the year or period referred to above in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 2, 2011
Toronto, Ontario

Statements of Net Assets

As at December 31

	2010	2009
ASSETS		
Investments at fair value (cost - $39,479,622; 2009 - $26,149,549)	**$ 43,320,344**	$ 27,413,838
Short-term investments at fair value (cost - nil; 2009 - $1,418,574)	**–**	1,418,574
Cash	**1,032,843**	13,104
Interest receivable	**–**	185
Dividends receivable	**3,234**	3,858
TOTAL ASSETS	**44,356,421**	**28,849,559**
LIABILITIES		
Distributions payable	**484,049**	–
Accrued liabilities	**114,819**	74,830
Issue expenses payable	**–**	255,509
TOTAL LIABILITIES	**598,868**	**330,339**
NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY	**$ 43,757,553**	**$ 28,519,220**
Number of Units Outstanding (Note 5)	**3,226,994**	**2,350,100**
Net Assets per Unit - Basic (Note 4)	**$ 13.5598**	**$ 12.1353**
Net Assets per Unit - Diluted (Note 5)	**n/a**	**$ 11.9177**

On Behalf of the Manager,
Mulvihill Capital Management Inc.

John P. Mulvihill, Director

John D. Germain, Director

Statements of Financial Operations

For the year ended December 31, 2010 and for the period from August 7, 2009, the inception date of the Fund, to December 31, 2009

	2010	2009
REVENUE		
Dividends	$ 102,029	$ 32,871
Interest, net of foreign exchange	(22,127)	38,607
Withholding taxes	(4,212)	–
TOTAL REVENUE	75,690	71,478
EXPENSES (Note 6)		
Management fees	283,181	90,110
Service fees	146,521	45,194
Administrative and other expenses	66,950	19,028
Transaction fees (Note 9)	180,629	121,105
Custodian fees	31,740	16,627
Audit fees	26,026	27,315
Advisory board fees	22,464	7,469
Independent review committee fees	6,811	2,317
Legal fees	39,251	1,423
Unitholder reporting costs	20,139	4,523
Federal and provincial sales taxes	36,514	6,992
TOTAL EXPENSES	860,226	342,103
Net Investment Loss	(784,536)	(270,625)
Net gain on sale of investments	5,122,031	1,172,134
Net gain on derivatives	763,668	772,347
Net Gain on Sale of Investments	5,885,699	1,944,481
Net change in unrealized appreciation/depreciation of investments	2,548,162	1,264,239
Net Gain on Investments	8,433,861	3,208,720
NET INCREASE IN NET ASSETS FROM OPERATIONS	$ 7,649,325	$ 2,938,095
NET INCREASE IN NET ASSETS FROM OPERATIONS PER UNIT - BASIC (based on the weighted average number of units outstanding during the period of 2,690,919; 2009 - 2,343,576)	$ 2.8426	$ 1.2537
NET INCREASE IN NET ASSETS FROM OPERATIONS PER UNIT - DILUTED	n/a	$ 1.2312

The notes are an integral part of the Financial Statements.

Statements of Changes in Net Assets

For the year ended December 31, 2010 and for the period from August 7, 2009, the inception date of the Fund, to December 31, 2009

	2010	2009
NET ASSETS, BEGINNING OF PERIOD	$ 28,519,220	$ –
Net Increase in Net Assets from Operations	7,649,325	2,938,095
Unit Transactions (Note 5)		
Proceeds from units issued, net of warrant exercise fees	10,452,029	1,200
Proceeds from reinvestment of distributions	1,766,780	990,685
Normal course issuer bid purchases	(119,108)	–
Proceeds from units issued, net of issue costs	–	26,296,500
	12,099,701	27,288,385
Distributions to Unitholders		
From net investment income	(1,540,554)	(221,215)
From net realized gain on sale of investments	(2,970,139)	(1,486,045)
	(4,510,693)	(1,707,260)
Change in Net Assets during the Period	15,238,333	28,519,220
NET ASSETS, END OF PERIOD	$ 43,757,553	$ 28,519,220

Statements of Net Gain on Sale of Investments

For the year ended December 31, 2010 and for the period from August 7, 2009, the inception date of the Fund, to December 31, 2009

	2010	2009
Proceeds from Sale of Investments	$ 70,431,814	$ 18,728,123
Cost of Investments Sold		
Cost of investments, beginning of period	26,149,549	–
Cost of investments purchased	77,876,188	42,933,191
	104,025,737	42,933,191
Cost of Investments, End of Period	(39,479,622)	(26,149,549)
	64,546,115	16,783,642
NET GAIN ON SALE OF INVESTMENTS	$ 5,885,699	$ 1,944,481

Statement of Investments

As at December 31, 2010

	Number of Shares	Average Cost	Fair Value	% of Portfolio
INVESTMENTS				
Canadian Common Shares				
Materials				
Agnico-Eagle Mines Limited	25,700	$ 1,991,513	**$ 1,964,765**	
Alamos Gold Inc.	51,200	1,051,040	**968,704**	
Barrick Gold Corporation	84,200	3,725,846	**4,466,810**	
Eldorado Gold Corporation	148,200	2,652,492	**2,741,700**	
Goldcorp Inc.	91,500	3,983,581	**4,191,615**	
New Gold Inc.	183,000	1,523,834	**1,771,440**	
Osisko Mining Corporation	66,000	953,390	**957,000**	
Premier Gold Mines Limited	157,200	1,172,619	**1,155,420**	
Semafo Inc.	139,000	1,731,357	**1,494,250**	
Yamana Gold Inc.	108,500	1,276,238	**1,383,375**	
Total Materials		**20,061,910**	**21,095,079**	**48.7%**
Total Canadian Common Shares		**$ 20,061,910**	**$ 21,095,079**	**48.7%**
Non-North American Common Shares				
Materials				
AngloGold Ashanti Limited ADR	44,800	**$ 2,114,178**	**$ 2,190,610**	**5.0%**
Total Non-North American Common Shares		**$ 2,114,178**	**$ 2,190,610**	**5.0%**
United States Common Shares				
Materials				
Newmont Mining Corporation	58,700	**$ 3,310,991**	**$ 3,581,879**	**8.3%**
Total United States Common Shares		**$ 3,310,991**	**$ 3,581,879**	**8.3%**
Exchange Traded Funds				
SPDR Gold Trust	115,900	**$ 14,020,416**	**$ 15,976,716**	**36.9%**
Total Exchange Traded Funds		**$ 14,020,416**	**$ 15,976,716**	**36.9%**
Forward Exchange Contracts				
Sold USD $900,000, Bought CAD $901,665 @ 0.99815 - January 26, 2011			**$ 6,881**	
Sold USD $350,000, Bought CAD $350,648 @ 0.99815 - January 26, 2011			**2,676**	
Sold USD $3,300,000, Bought CAD $3,375,900 @ 0.97752 - January 26, 2011			**94,949**	
Sold USD $3,150,000, Bought CAD $3,164,726 @ 0.99534 - February 23, 2011			**31,167**	
Sold USD $5,150,000, Bought CAD $5,174,076 @ 0.99534 - February 23, 2011			**50,955**	
Bought USD $5,200,000, Sold CAD $5,231,408 @ 0.99400 - March 9, 2011			**(56,758)**	
Sold USD $2,800,000, Bought CAD $2,816,912 @ 0.99400 - March 9, 2011			**30,562**	
Sold USD $700,000, Bought CAD $714,577 @ 0.97960 - March 9, 2011			**17,962**	
Sold USD $11,600,000, Bought CAD $11,841,570 @ 0.97960 - March 9, 2011			**297,666**	
Total Forward Exchange Contracts			**$ 476,060**	**1.1%**
Adjustment for transaction fees		(27,873)		
TOTAL INVESTMENTS		**$ 39,479,622**	**$ 43,320,344**	**100.0%**

The notes are an integral part of the Financial Statements.

1. Establishment of the Fund

Gold Participation and Income Fund (the "Fund") is a closed-end investment trust established under the laws of the Province of Ontario on July 27, 2009. The Fund began operations on August 7, 2009.

The Manager of the Fund is Mulvihill Capital Management Inc. ("MCM"). Prior to September 1, 2010, the Manager of the Fund was Mulvihill Fund Services Inc. ("Mulvihill") which amalgamated with MCM on September 1, 2010. As successor, MCM is the Manager and the Investment Manager of the Fund. RBC Dexia Investor Services Trust is the Custodian of the assets of the Fund.

2. Investment Objectives of the Fund

The Fund's investment objectives are to:

(i) maximize total returns for unitholders including both long-term appreciation in net asset value ("NAV") per unit and distributions; and

(ii) pay Unitholders monthly distributions in an amount targeted to be 6.5 percent per annum on the NAV of the Fund.

The Fund is designed to provide investors with Canadian dollar exposure to the long-term performance of gold bullion and gold equity securities, while providing monthly distributions.

The Fund achieves its objectives by investing its net assets in the Gold sector with up to 50 percent in shares of SPDR Gold Trust, an exchange-traded fund that seeks to track the price of gold by investing directly in gold bullion, and the balance in a portfolio (the "Managed Gold Portfolio") of equity securities selected from the S&P/TSX Global Gold Index, a dynamic international benchmark of the world's leading gold companies. To generate additional returns above the dividend income earned on the Fund's investment portfolio, the Fund may, from time to time, write covered call options on up to 25 percent of the securities in the portfolio. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which include estimates and assumptions by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported period. Primary estimates include valuation of investments. While management believes that the estimates used in preparing its financial statements are reasonable and prudent, actual results could differ from these estimates.

Financial Instruments – Disclosures

The Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. See additional note disclosures in Note 11.

The significant accounting policies of the Fund are as follows:

Valuation of Investments

Investments are recorded in the financial statements at their fair value determined as follows:

Securities are valued at fair value, which is determined by the closing bid price on the recognized stock exchange on which the securities are listed or principally traded. If no bid prices are available, the securities are valued at the closing sale price.

Short-term investments are included in the statement of investments at their cost. This value, together with accrued interest, approximates fair value at bid price.

Listed options are valued at fair values as reported on recognized exchanges. Over the counter options are valued using the Black-Scholes valuation model.

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

Transaction Fees

Transaction fees have been expensed as incurred and included in the transaction fees line in the Statement of Financial Operations. Transaction fees are costs that are directly attributable to portfolio transactions which include fees and commissions paid to brokers and dealers.

Investment Transactions and Income

Investment transactions are accounted for on a trade date basis. Realized gains and losses on the sale of investments and change in unrealized appreciation/depreciation of investments are determined on an average cost basis. Realized gains and losses relating to written options may arise from:

(i) Expiration of written options whereby realized gains are equivalent to the premium received;

(ii) Exercise of written covered call options whereby realized gains or losses are equivalent to the premium received in addition to the realized gain or loss from disposition of the related investments at the exercise price of the option; and

(iii) Closing of written options whereby realized gains or losses are equivalent to the cost of purchasing options to close the positions, net of any premium received.

Realized gains and losses related to options are included in gains (losses) on derivatives.

Realized gains and losses relating to purchased put options may arise from:

(i) Expiration of purchased put options whereby realized losses are equivalent to the premium paid;

(ii) Exercise of purchased put options whereby realized gains or losses are equivalent to the realized gain or loss from disposition of the related investments at the exercise price of the option less the premium paid; and

(iii) Sale of purchased put options whereby realized gains or losses are equivalent to the sale proceeds, net of any premium paid.

Option premiums received are reflected as deferred credits in investments so long as the options are outstanding. Any difference resulting from revaluation is included in the change in unrealized appreciation/depreciation of investments. The premiums received on written put options that are exercised are included in the cost of the security purchased.

Dividend income is recorded on the ex-dividend date. Interest income is recorded daily as it is earned.

Foreign Currency Translation

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

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

4. Net Asset Value

The net asset value of the Fund is calculated using the fair value of investments at the close or last trade price. The net assets per unit is calculated using the fair value of investments at the closing bid price. The net assets per unit for financial reporting purposes and net asset value per unit for pricing purposes will not be the same due to the use of different valuation techniques.

The difference between the net asset value per unit for pricing purposes and the net assets per unit reflected in the financial statements is as follows:

	2010	2009
Net Asset Value per unit (for pricing purposes)	**$13.5682**	$12.1574
Difference	**(0.0084)**	(0.0221)
Net Assets per unit (for financial statement purposes)	**$13.5598**	$12.1353

5. Unitholders' Equity

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

On August 7, 2009, the Fund issued 2,300,000 Combined Units at a price of $12.00 per Combined Unit for gross proceeds of $27,600,000. Each Combined Unit consists of one unit and one warrant for one Unit. On August 26, 2009, an additional 50,000 Combined Units were issued for additional gross proceeds of $600,000 pursuant to the exercise of the over-allotment option granted to the Fund's agents in the initial public offering. The Combined units separated into units and warrants on August 26, 2009 for a total of 2,350,000 units and 2,350,000 warrants issued and outstanding. Costs of $1,903,500 were incurred in connection with these offerings and the establishment of the Fund and were charged to equity.

Each warrant for one unit entitled the unitholder to purchase one unit at a subscription price of $12.00 on November 6, 2009, February 5, 2010, May 7, 2010, or August 6, 2010, each an "Exercise Date". During the year, 886,894 warrants (2009 - 100 warrants) were exercised for total gross proceeds of $10,642,728 (2009 - $1,200). As at December 31, 2010, no warrants (2009 - 2,349,900) remained outstanding.

Upon exercise of a warrant, the Fund paid a fee of $0.12 per warrant to RBC Dominion Securities Inc. for and on behalf of the Agents and a fee of $0.18 per warrant to the dealer whose client has exercised the warrant. Such fees were paid by the Fund out of the assets attributable to the units. During the year warrant exercise fees paid amounted to $190,699 (2009 - $30).

A reasonable allocation of the purchase price of the Combined Units between the units and the warrants is required for tax purposes. The Fund considered it reasonable to allocate $0.69 to each warrant.

The basic net assets per unit was calculated without giving effect to the dilutive impact of the outstanding warrants. The diluted net assets per unit refers to the net assets of the Fund plus the net proceeds that would have been received by the Fund if all outstanding warrants were exercised, divided by the number of units outstanding plus the additional units that would be outstanding if all of the outstanding warrants had been exercised on the applicable valuation date. The diluted net assets per unit was calculated when the basic net assets per unit exceeds $11.70 per unit, equivalent to the subscription price of $12.00 less the agent and dealer fees of $0.12 and $0.18 respectively, on the applicable valuation date. At December 31, 2010, there was no diluted net assets per unit as all warrants had expired.

Units may be surrendered at any time for redemption to Computershare Investor Services Inc., the Fund's registrar and transfer agent, but will be redeemed only on a Redemption Date (as defined below). Units surrendered for redemption by a unitholder at least twenty business days prior to the last day in January of 2011 or any year thereafter (the "January Redemption Date") will be redeemed on such January Redemption Date. Units surrendered for redemption by a unitholder at least ten business days prior to the last day of any other month (a "Monthly Redemption Date" and, together with the January Redemption Date, a "Redemption Date"), will be redeemed on such Monthly Redemption Date. If a day that would otherwise be a Redemption Date is not a business day, the Redemption Date is the preceding business day. Unitholders will receive payment for the units on or before the fifteenth day following such Redemption Date (the "Redemption Payment Date").

Commencing in 2011, unitholders whose units are redeemed on a January Redemption Date will be entitled to receive a redemption price per unit equal to the NAV per unit determined as of such date. For unitholders whose units are redeemed on any other Redemption Date, the redemption price per unit will be equal to the lesser of:

(i) 95 percent of the Market Price. For such purposes, "Market Price" means the weighted average trading price of the units on the principal stock exchange on which the units are listed (or, if the units are not listed on any stock exchange, on the principal market on which the units are quoted for trading) for the ten trading days immediately preceding the applicable Redemption Date, and

(ii) 100 percent of the Closing Market Price of the units on the applicable Redemption Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with such payment, including, but not limited to, costs incurred in liquidating securities held in the Fund's portfolio. For such purposes, the "Closing Market Price" means the closing price of the units on the principal stock exchange on which the units are listed (or, if the units are not listed on any stock exchange, on the principal market on which the units are quoted for trading) or, if there was no trade on the relevant date, the average of the last bid and the last asking prices of the units on the principal stock exchange on which the units are listed (or, if the units are not listed on any stock exchange, on the principal market on which the units are quoted for trading).

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

Unit transactions during the year are as follows:

	2010	2009
Units outstanding, beginning of period	**2,350,100**	–
Units issued	**–**	2,350,000
Units issued upon exercise of warrants	**886,894**	100
Units purchased for cancellation	**(10,000)**	–
Units outstanding, end of period	**3,226,994**	2,350,100

On December 8, 2010, the Toronto Stock Exchange ("TSX") renewed a normal course issuer bid filed by the Fund. Under the terms of the normal course issuer bid, the Fund proposes to purchase, if considered advisable, up to a maximum of 318,699 units (2009 - 233,010) or 10 percent of its public float as determined in accordance with the rules of the TSX. The Fund may not purchase more than 64,540 of its units (representing approximately 2 percent of the Fund's issued and outstanding units as of November 30, 2010) in any 30-day period under the bid. The purchases would be made in the open through the facilities of the TSX. The normal course issuer bid will remain in effect until the earlier of December 9, 2011, the termination of the bid by the Fund or when the Fund has purchased the maximum number of units permitted under the bid. As at December 31, 2010, 10,000 units (2009 - nil) have been purchased by the Fund.

6. Management Fees and Expenses

Mulvihill amalgamated with MCM on September 1, 2010. As successor, MCM became the Manager and the Investment Manager of the Fund. Fees are payable to the Manager under the terms of the trust agreement and to the Investment Manager under the terms of an investment management agreement. The fees are payable at annual rates of 0.10 percent and 0.70 percent respectively of the Fund's net asset value, calculated and payable monthly, plus applicable taxes.

The Fund is responsible for all ongoing trustee, manager, legal, accounting and audit fees as well as all other expenses incurred by the Trustee and the Manager in the ordinary course of business relating to the Fund's operations. The Fund is also responsible for commissions and other costs of portfolio transactions and any extraordinary expenses of the Fund which may be incurred from time to time.

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

In addition to the fees and expenses payable by the Fund, the estimated ordinary expenses of SPDR Gold Trust (including the fees of its trustee, custodian and sponsor), in which the Fund invests, are estimated to be 0.40 percent per annum of SPDR Gold Trust's daily net asset value.

7. Distributions

The Fund endeavours to make monthly cash distributions of net income and net realized capital gains to unitholders on the last day of each month at an amount targeted to be 6.5 percent per annum of the net asset value of the Fund.

If after such distributions there would otherwise remain in the Fund additional net investment income or net realized capital gains, the Fund intends to make a special distribution of such portion of the remaining net investment income and net realized capital gains as is necessary to ensure that the Fund is not liable for income tax thereon under the Income Tax Act (Canada) (the "Act").

In December 2010, the Fund announced a special capital gains distribution of $0.6975 per unit, comprised of $0.15 in cash and $0.5475 in units which was paid in January 2011. Immediately following the distribution of units, the issued and outstanding capital of the Fund was consolidated such that the number of issued and outstanding units of the Fund did not change due to the distribution.

8. Income Taxes

The Fund is a "mutual fund trust" as defined in the Act . The Fund is subject to tax in each taxation year under Part I of the Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to unitholders in the year. Income tax paid by the Fund on any net realized capital gains not paid or payable to unitholders is recoverable by the Fund to the extent and in the circumstances provided in the Act.

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

Issue costs of approximately $1.4M (2009 - $1.8M) remain undeducted for tax purposes as at year-end.

9. Transaction Fees

Total transaction fees paid for the year ended December 31, 2010 in connection with portfolio transactions were $180,629 (2009 - $121,105). Of this amount $31,236 (2009 - $24,993) was directed for payment of client brokerage commissions.

10. Capital Disclosures

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "Capital Disclosures" requires the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Fund's objectives, policies and processes are described in Note 2, information on the Fund's unitholders' equity is described in Note 5 and Note 7 and the Fund does not have any externally imposed capital requirements.

11. Financial Instruments and Risk Management

The Fund's financial instruments consist of cash, investments, certain derivative contracts, receivables and payables. In accordance with CICA Handbook Section 3862, "Financial Instruments - Disclosures" the Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

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

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

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

The following is a summary of the inputs used as of December 31, 2010 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Canadian Common Shares	$ 21,095,079	$ –	$ –	$ 21,095,079
Non-North American Common Shares	2,190,610	–	–	$ 2,190,610
United States Common Shares	3,581,879	–	–	$ 3,581,879
Exchanged Traded Funds	15,976,716	–	–	$ 15,976,716
Forward Exchange Contracts	–	476,060	–	$ 476,060
Total Investments	**$ 42,844,284**	**$ 476,060**	**$ –**	**$ 43,320,344**

The following is a summary of the inputs used as of December 31, 2009 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Term Investments	$ –	$ 1,418,759	$ –	$ 1,418,759
Canadian Common Shares	11,806,407	–	–	$ 11,806,407
Non-North American Common Shares	563,887	–	–	$ 563,887
United States Common Shares	1,735,910	–	–	$ 1,735,910
Exchanged Traded Funds	13,272,340	–	–	$ 13,272,340
Forward Exchange Contracts	–	41,521	–	$ 41,521
Options	–	(6,227)	–	$ (6,227)
Total Investments	**$ 27,378,544**	**$ 1,454,053**	**$ –**	**$ 28,832,597**

There were no transfers between Level 1 and Level 2 during 2010 and 2009.

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

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

Concentration Risk

The Fund was created to invest in the securities of gold-related issuers and is not expected to have significant exposure to any other investments or assets. Investors should review carefully the continuous disclosure documentation of SPDR Gold Trust for a discussion of the risk factors that it considers applicable to itself and its shares. The Fund's holdings are concentrated in gold-related securities and they are not diversified.

Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or segment. The Fund's most significant exposure to other price risk arises from its investments in equity securities. Net assets per unit varies as the value of the securities in the Fund varies. The Fund has no control over the factors that affect the value of the securities in the Fund, including factors that affect all of the Canadian securities. The Fund's market risk is managed by taking a long-term perspective and utilizing an option writing program.

Approximately 98 percent (2009 - 96 percent) of the Fund's net assets held at December 31, 2010 were publicly traded equities. If equity prices on the exchange increased or decreased by 10 percent as at December 31, 2010, the net assets of the Fund would have increased or decreased by $4.3M (2009 - $2.7M) respectively or 9.8 percent (2009 - 9.6 percent) of the net assets, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

The Fund may, from time to time, write covered call options in respect of all or part of the common shares in the Fund. In addition, the Fund may write cash covered put options in respect of securities in which the Fund is permitted to invest. The Fund is subject to the risk of its investment position including those securities that are subject to outstanding call options and those securities underlying put options written by the Fund, should the market price of such securities decline. In addition, the Fund will not participate in any gain on the securities that are subject to outstanding call options above the strike price of such options. The Fund may also purchase put options. The Fund has downside risk on invested positions which may be partially mitigated by the use of purchased put options. The risk to the Fund with respect to purchased put options is limited to the premiums paid to purchase the put options. There were no options outstanding at December 31, 2010.

Liquidity Risk

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required. To manage this risk, the Fund invests the majority of its assets in investments that are traded in an active market and which can be easily disposed. In addition, the Fund aims to retain sufficient cash and short-term investments positions to maintain liquidity and to meet its obligations when due. Liabilities are payable within one year.

Cash is required to fund redemptions. Unitholders must surrender units at least 10 business days prior to the last day of the month and receive payment on or before 15 calendar days following the month end valuation date. Therefore the Fund has a maximum of 21 business days to generate sufficient cash to fund redemptions mitigating liquidity issues.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. The financial instruments which potentially expose the Fund to interest rate risk are the short term fixed income securities. The Fund has minimal sensitivity to change in rates since securities are usually held to maturity and are short-term in nature.

Currency Risk

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

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

Approximately 52 percent (2009 - 56 percent) of the Fund's net assets held at December 31, 2010 were held in securities denominated in U.S. currency. Currency risk is mitigated by the Fund through the use of forward contracts. At December 31, 2010 and 2009, the Fund had no currency risk as a result of its investment in foreign currency contracts.

Credit Risk

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

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

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

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

The following are the credit ratings for the counterparties to derivative financial instruments that the Fund dealt with during the prior year, based on Standard & Poor's credit ratings as of December 31, 2009:

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

The Fund held no short-term investments as of December 31, 2010.

The following are the credit ratings for short-term investments held by the Fund based on Standard & Poor's credit ratings as of December 31, 2009:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Government of Canada Treasury Bills	AAA	63%
Province of Ontario Treasury Bills	AA	37%
Total		**100%**

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

12. Future Accounting Policy Changes

The Fund was required to adopt International Financial Reporting Standards ("IFRS") for the year beginning on January 1, 2011. However, the Canadian Accounting Standards Board approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies ("AcG-18"). As a result, the Fund will adopt IFRS for the year beginning on January 1, 2013 and will issue its initial statements on a comparative basis for the interim period ending June 30, 2013.

Board of Advisors

John P. Mulvihill
Chairman & President,
Mulvihill Capital Management Inc.

John D. Germain
Senior Vice-President & Chief Financial Officer
Mulvihill Capital Management Inc.

Michael M. Koerner[1]
Corporate Director

Robert W. Korthals[1]
Corporate Director

Robert G. Bertram[1]
Corporate Director

[1] *Independent Review Committee Member*

Information

Auditors:
Deloitte & Touche LLP
Brookfield Place
181 Bay Street, Suite 1400
Toronto, Ontario M5J 2V1

Transfer Agent:
Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1

Shares Listed:
Toronto Stock Exchange
trading under
GPF.UN

Custodian:
RBC Dexia Investor Services Trust
RBC Centre
155 Wellington Street West, 2nd Floor
Toronto, Ontario M5V 3L3

Visit our website at www.mulvihill.com for additional information on all Mulvihill Investment Funds.

Investment Funds Managed by Mulvihill Capital Management Inc.

UNIT TRUSTS
Canadian Utilities & Telecom Income Fund
Core Canadian Dividend Trust
Gold Participation and Income Fund
Premier Canadian Income Fund
Top 10 Canadian Financial Trust

SPLIT SHARES
MCM Split Share Corp.
Premium Income Corporation
S Split Corp.
Top 10 Split Trust
World Financial Split Corp.

PRINCIPAL PROTECTED FUNDS
Government Strip Bond Trust
Pro-AMS U.S. Trust

Head Office:

Mulvihill Capital Management Inc.
121 King St. W., Suite 2600
Toronto, Ontario
M5H 3T9

Tel: 416 681-3966
1 800 725-7172
Fax: 416 681-3901
e-mail: info@mulvihill.com

Contact your broker directly for address changes.

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Mulvihill Capital Management Inc.
Investor Relations
121 King St. W., Suite 2600
Toronto, Ontario
M5H 3T9

Tel: 416 681-3966
1 800 725-7172
Fax: 416 681-3901
e-mail: info@mulvihill.com

MCM

www.mulvihill.com