ANNUAL REPORT 2010

S Split Corp.

Letter to Shareholders

We are pleased to present the 2010 annual report containing the management report of fund performance and the financial statements for S Split Corp. (the "Fund").

The Fund is a split share corporation designed to provide Preferred shareholders with fixed cumulative preferential quarterly distributions and the Class A shareholders with attractive quarterly distributions and to return the original issue price to holders of both Preferred and Class A shares on the termination date of the Fund. The shares are listed on the Toronto Stock Exchange under the ticker symbols SBN.PR.A for the Preferred shares and SBN for the Class A shares. A Unit of the Fund consists of one Preferred share and one Class A share. To accomplish its objectives the Fund invests in common shares of The Bank of Nova Scotia ("BNS").

Distributions totalling $0.62 per share were paid to Class A shareholders and $0.53 per share were paid to Preferred shareholders during the year ended December 31, 2010. The Fund's annual total return for the year ended December 31, 2010, including reinvestment of distributions, was 8.7 percent. The annual total return on BNS shares during this period was 20.4 percent. The comparative shortfall is due to a combination of cash held and option overwriting which limits upside participation while reducing volatility.

In August 2010, the Fund issued warrants to Class A shareholders allowing holders of warrants to purchase a Unit of the Fund on or before the expiry date of January 17, 2011 at an exercise price of $19.13 per Unit. By January 17, 2011, the expiry date, 1,728,632 warrants were exercised for gross proceeds of approximately $33 million. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

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

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

S Split Corp. [SBN.UN]

TABLE OF CONTENTS

Management Report of Fund Performance

This annual management report of fund performance contains the financial highlights for the year ended December 31, 2010 of S Split Corp. (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) provide holders of Preferred shares with fixed cumulative preferential monthly cash distributions in the amount of $0.04375 per Preferred share representing a yield on the issue price of the Preferred shares of 5.25 percent per annum and to return the issue price of $10.00 per Preferred Share to holders of Preferred Shares at the time of redemption of such shares on December 1, 2014; and

(ii) provide holders of Class A shares with regular monthly cash distributions targeted to be 6.0 percent per annum on the net asset value (“NAV”) of the Class A shares and to provide holders of Class A Shares with the opportunity for leveraged growth in NAV and distributions per Class A Share.

The net proceeds of the offering were invested by the Fund in The Bank of Nova Scotia (“BNS”) shares.

To generate additional returns above the dividend income earned on BNS shares, the Fund may, from time to time, write covered call options in respect of some or all of such BNS shares. The number of BNS shares that may be subject to call options and the terms of such options will vary, from time to time, based on the assessment of market conditions.

Risk

Risks associated with an investment in the securities 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. A change to the Fund in 2010 that has materially affected the risks associated with an investment in the securities of the Fund is set out below.

Warrants

The issuance of warrants in August 2010 could result in a risk of dilution to existing Class A shareholders. As disclosed in the prospectus of the warrant offering, if Class A shareholders wish to retain their current percentage ownership in the Fund, and assuming that all warrants are exercised, the Class A shareholders should purchase all of the Units for which they may subscribe pursuant to the warrants delivered under the offering. If a Class A shareholder does not do so and other holders of warrants exercise any of their warrants, that Class A shareholder’s current percentage in the Fund will be diluted by the issue of Units under the offering. The exercise of warrants may also have a dilutive impact on the Fund’s distributable income.

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 and Portfolio Holdings

December 31, 2010

	% OF NET ASSET VALUE*
Financials - The Bank of Nova Scotia	86 %
Cash and Short-Term Investments	28 %
Other Assets (Liabilities)	(14)%
	100 %

*The Net Asset Value excludes the Redeemable Preferred share liability.

Results of Operations

Distributions

During the year ended December 31, 2010, cash distributions of $0.62 per share were paid to Class A shareholders compared to $0.42 per share in 2009. Cash distributions of $0.53 per share were paid to Preferred shareholders in 2010 were unchanged from the previous year. Since the inception of the Fund in May 2007, the Fund has paid total cash distributions of $2.22 per Class A share and $1.90 per Preferred share.

Revenues and Expenses

The Fund's total revenue per Unit decreased from $0.89 per Unit for the year ended December 31, 2009 to $0.72 per Unit for 2010, largely reflecting a higher portfolio allocation to cash during the year. Total expenses per Unit increased from $0.47 per Unit in 2009 to $0.50 per Unit in 2010, mainly due to the unfavourable impact of the new harmonized sales tax in Ontario and higher management and service fees resulting from higher net asset values. The Fund had a net realized and unrealized gain of $1.73 per Unit in 2010 as compared to a net realized and unrealized gain of $4.37 per Unit in 2009.

Net Asset Value

The net asset value per Unit of the Fund increased by $0.56 per Unit, or 2.7 percent, from $20.90 per Unit at December 31, 2009 to $21.46 per Unit at December 31, 2010. The aggregate net asset value of the Fund increased $4.6 million, from $79.8 million at December 31, 2009 to $84.4 million at December 31, 2010, as net proceeds from the exercise of warrants and the increase in price of BNS shares more than offset cash distributions and redemptions during the year.

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 date on May 17, 2007.

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	2008	2007[4]
THE FUND'S NET ASSETS PER UNIT				
Net Assets, beginning of period (based on bid prices)[1]	$ **20.89**	$ **16.98**	$ **22.96**	$ **25.00**
INCREASE (DECREASE) FROM OPERATIONS				
Total revenue	**0.72**	0.89	0.64	0.64
Total expenses	**(0.50)**	(0.47)	(0.47)	(0.36)
Realized gain (loss) for the period	**0.27**	(2.67)	(0.76)	0.01
Unrealized gain (loss) for the period	**1.46**	7.04	(4.13)	(1.50)
Total Increase (Decrease) from Operations[2]	**1.95**	**4.79**	**(4.72)**	**(1.21)**
DISTRIBUTIONS				
Class A Share				
From net investment income	**–**	–	–	(0.07)
Non-taxable distributions	**(0.62)**	(0.42)	(0.67)	(0.44)
Total Class A Share Distribution	**(0.62)**	**(0.42)**	**(0.67)**	**(0.51)**
Preferred Share				
From net investment income	**(0.17)**	(0.29)	(0.17)	(0.33)
Non-taxable distributions	**(0.36)**	(0.24)	(0.36)	–
Total Preferred Share Distributions	**(0.53)**	**(0.53)**	**(0.53)**	**(0.33)**
Total Annual Distributions[3]	**(1.15)**	**(0.95)**	**(1.20)**	**(0.84)**
Net Assets, as at December 31 (based on bid prices)[1]	$ **21.45**	$ **20.89**	$ **16.98**	$ **22.96**

(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 excluding the liability for the Redeemable Preferred shares of the Fund on that 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), net of withholding taxes and foreign exchange gains (losses), less expenses excluding Preferred share distributions, and is calculated based on the weighted average number of units outstanding during the year. 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 shareholders are based on the number of units outstanding on the record date for each distribution and were paid in cash.
(4) For the period from inception on May 17, 2007 to December 31, 2007.

	2010	2009	2008	2007
RATIOS/SUPPLEMENTAL DATA				
Net Asset Value, excluding the liability for Redeemable Preferred shares ($millions)[1]	$ **84.36**	$ 79.80	$ 74.49	$ 108.61
Net Asset Value ($millions)[1]	$ **45.05**	$ 41.62	$ 30.75	$ 61.41
Number of Units outstanding[1]	**3,930,870**	3,818,900	4,374,300	4,719,300
Management expense ratio[2]	**2.93%**	2.52%	2.22%	0.90%[5]
Portfolio turnover rate[3]	**54.87%**	18.07%	9.10%	9.34%
Trading expense ratio[4]	**0.04%**	0.07%	0.05%	0.05%[5]
Net Asset Value per Unit[6]	$ **21.46**	$ 20.90	$ 17.02	$ 23.01
Closing market price - Class A	$ **8.95**	$ 8.50	$ 4.50	$ 9.90
Closing market price - Preferred	$ **10.38**	$ 10.00	$ 9.25	$ 10.19

(1) This information is provided as at December 31. One Unit consists of one Class A and one Preferred share.
(2) The management expense ratio ("MER") is the sum of all fees and expenses, including federal and provincial sales taxes but excluding transaction fees and Class A share distributions, charged to the Fund divided by the average net asset value, excluding the liability for the Redeemable Preferred shares. The MER for 2010 and 2009 includes the warrant offering costs and warrant exercise fees. The MER for 2010 and 2009 excluding the warrant offering costs and warrant exercise fees is 2.26% and 2.30% respectively. The MER, including Preferred share distributions, is 5.48%, 5.39%, 4.73% and 4.49% for 2010, 2009, 2008 and 2007 respectively.
(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 1.55 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.

Retraction Fee

If a retraction of a Class A Share or Preferred Share occurs prior to July 2014, a retraction fee payable to MCM by the retracting shareholder will be deducted by MCM from the amount otherwise receivable by the retracting shareholder to compensate MCM, in part, for paying the Agents' fees and expenses of the offering.

Recent Developments

On August 23, 2010, the Fund issued 3,923,580 warrants to Class A shareholders, on the basis of one warrant for each Class A share held, with each warrant entitling the holder to subscribe to one Unit (consisting of one Class A share and one Preferred share) of the Fund at a subscription price of $19.13, if exercised by the expiry date of January 17, 2011. The offering was designed to provide the Fund with additional capital that can be used to take advantage of attractive investment opportunities in BNS shares, while also increasing the trading liquidity of the Class A shares and Preferred shares and reducing the ongoing management expense ratio ("MER") of the Fund. By January 17, 2011, 1,728,632 warrants had been exercised for gross proceeds of approximately $33 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, and therefore resulted in an increase in the MER.

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 share calculations, systems and processes, and training. The plan also sets out the timeline for implementation of the changes and the required technical training or other 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 where investment fund accounting was based upon guidance in AcG-18;
- Changes to the presentation of shareholder equity to consider puttable instruments;
- 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 full impact of the transition to IFRS on the Fund's financial results at this time. Based on the Manager's current understanding and analysis of IFRS as compared to the current accounting policies under Canadian GAAP, the Manager does not anticipate that the transition to IFRS will have a material impact on the Fund's net assets per share, nor 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,

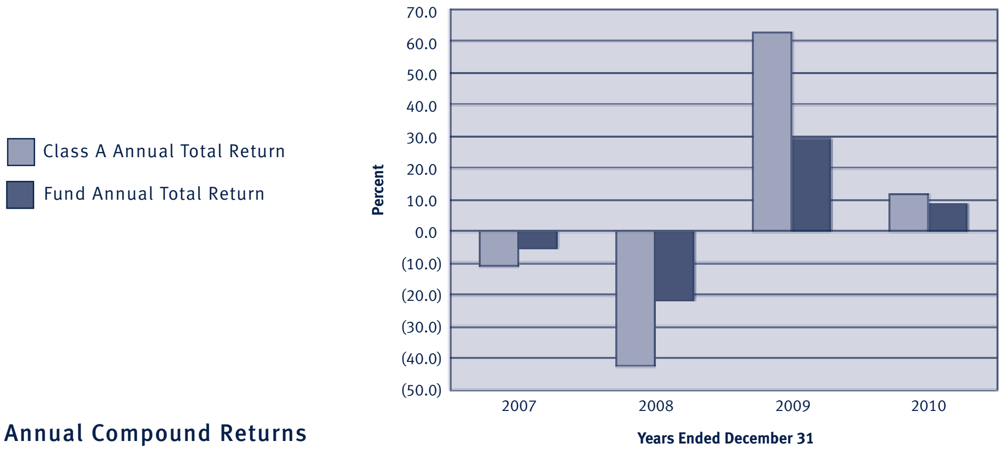
(2) the information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

(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 in each of the past four years. The chart also shows, in percentage terms, how much an investment made on January 1 in each year or the date of inception in 2007 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 The Bank of Nova Scotia shares and S&P/TSX Financials Index.

(In Canadian Dollars)	One Year	Three Years	Since Inception*
S Split Corp.	**8.65 %**	3.20 %	1.02 %
S Split Corp. - Class A	**11.71 %**	1.45 %	(1.79)%
S Split Corp. - Preferred	**5.38 %**	5.38 %	4.85 %
The Bank of Nova Scotia Shares	**20.40 %**	8.99 %	5.24 %
S&P/TSX Financials Index**	**10.48 %**	0.74 %	(0.84)%

* From date of inception on May 17, 2007.

** The S&P/TSX Financials Index is a subset of the constituents of the S&P/TSX Composite Index that have been classified according to the Global Industry Classification Standard.

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

2010 was a year of continued, albeit uncertain, recovery. Economic data continues to be mixed, however, employment levels in Canada have returned to pre-recession levels although the rate of growth is still below normal levels. The S&P/TSX Financials Index was the second weakest performing sector in 2010 after being the second best performing sector in 2009.

BNS reported relatively good earnings for 2010, showing double-digit year over year returns in all four quarters. The second quarter numbers caught many investors off guard coming in better than expected, especially compared to the other large banks. The share price was virtually unchanged in the first half of the year but began a catch-up rally after the surprise earnings. BNS delivered an annual total return of 20.4 percent in 2010, most of which came in the second half. It was the best share performance of the big five banks.

There were two key developments in the second half of 2010. In September BNS announced the creation of a new business line, "Global Wealth Management", adding to the existing businesses including: Canadian Banking, International Banking, and Scotia Capital. Also on the wealth theme, BNS announced in December that they planned to acquire the balance of Dundee Wealth Inc. ("Dundee") they did not own for $2.3 billion. In 2010, Scotia Mutual Funds was the top ranked mutual fund provider by sales of the big banks, and Dundee was the best selling independent wealth management group in Canada. The combined group will make BNS the fifth largest mutual fund provider in the country.

The net asset value of the Fund on December 31, 2010 was $21.46 per Unit compared to $20.90 per Unit at December 31, 2009. The Fund's Class A and Preferred Shares are listed on the Toronto Stock Exchange ("TSX") as SBN and SBN.PR.A, respectively.

Distributions totalling $0.62 per share were paid to Class A shareholders and $0.53 per share were paid to Preferred shareholders during the year ended December 31, 2010. The Fund's annual total return for the year ended December 31, 2010, including reinvestment of distributions, was 8.7 percent. The annual total return on BNS shares during this period was 20.4 percent. The comparative shortfall was due to a combination of cash held, and the cost of protective puts purchased. The average cash position during the year was approximately 8 percent, somewhat higher than usual due to the closing of a warrant offering early in the year, and our cautious outlook during the summer.

In order to generate income, the Fund may write covered call options in respect of all or part of the BNS shares held in the portfolio. Volatility continued the decline, which began in 2009, into the first quarter of 2010. After a brief spike, volatility continued to trend lower into the year-end. The returns from call writing were lower this year than prior years due to lower volatility, which results in less call premium being generated. We had to forgo some upside participation in BNS at certain times during the year when calls were in place. Our cautious stance starting in June led to the purchase of protective puts at a cost of approximately 125 basis points. The puts proved to be unnecessary at BNS rallied for the remainder of the year.

The Canadian Banks are expected to generate strong profitability and enhance their capital ratios in 2011 based on improving credit, continued expense control and leverage to an economic recovery. The Manager believes BNS is positioned better than most banks due to their strong credit improvement in 2010 as loan loss provisions declined by 30 percent compared to 2009. With the addition to their wealth management business, as well as their significant international operations, BNS has significant leverage to an improving economy as well as a well-diversified platform for building earnings and improving margins in 2011.

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 April 26, 2007.

MCM is the Manager of the Fund pursuant to a Management Agreement made between the Fund and MCM dated April 26, 2007, 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 S Split Corp. (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 Directors (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 Audit Committee 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 Audit Committee and the Board.

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

John D. Germain
Director
Mulvihill Capital Management Inc.

To the Shareholders of S Split Corp.

We have audited the accompanying financial statements of S Split Corp., which comprise the statement of investments as at December 31, 2010, the statements of financial position as at December 31, 2010 and 2009, and the statements of operations and deficit, changes in net assets and of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of S Split Corp. 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 years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

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

Statements of Financial Position

As at December 31

	2010	2009
ASSETS		
Investments at fair value (cost - $63,422,357; 2009 - $72,362,584)	$ 72,169,943	$ 74,879,478
Short-term investments at fair value (cost - $23,619,731; 2009 - $4,393,763)	23,619,731	4,393,763
Cash	58,449	60,294
Interest receivable	2,936	5,679
Dividends receivable	624,113	745,902
TOTAL ASSETS	$ 96,475,172	$ 80,085,116
LIABILITIES		
Due to brokers - investments	$ 11,511,477	$ –
Redemptions payable	364,031	7,747
Accrued liabilities	166,724	206,010
Accrued management fees	119,018	112,086
Retraction fee payable (Note 5)	14,480	400
Redeemable Preferred shares (Note 5)	39,308,700	38,189,000
	51,484,430	38,515,243
EQUITY		
Class A and Class J shares (Note 5)	52,160,464	57,286,371
Deficit	(7,169,722)	(15,716,498)
	44,990,742	41,569,873
TOTAL LIABILITIES AND EQUITY	$ 96,475,172	$ 80,085,116
Number of Units Outstanding (Note 5)	3,930,870	3,818,900
Net Assets per Unit		
Preferred Share	$ 10.0000	$ 10.0000
Class A Share - Basic	11.4455	10.8853
Net Assets per Unit (Note 4)	$ 21.4455	$ 20.8853
Net Assets per Class A Share - Diluted (Note 5)	$ 10.1541	$ 9.6531

On Behalf of the Board of Directors,

John P. Mulvihill, Director

Robert W. Korthals, Director

Statements of Operations and Deficit

Years ended December 31

	2010	2009
REVENUE		
Interest	$ 28,625	$ 151,321
Dividends	3,043,782	3,485,933
	3,072,407	3,637,254
Net realized gain (loss) on investments	3,848,344	(10,298,068)
Net realized loss on derivatives	(2,685,864)	(625,395)
Total Net Realized Gain (Loss)	1,162,480	(10,923,463)
TOTAL REVENUE	4,234,887	(7,286,209)
EXPENSES (Note 6)		
Management fees	1,406,206	1,241,896
Service fees	218,741	172,713
Administrative and other expenses	100,081	94,565
Transaction fees (Note 8)	38,502	52,675
Custodian fees	27,652	27,643
Audit fees	27,537	28,375
Director fees	20,575	19,631
Independent review committee fees	6,601	6,514
Legal fees	8,434	13,567
Shareholder reporting costs	26,116	36,484
Capital tax	–	2,150
Federal and provincial sales taxes	114,525	71,480
Subtotal Expenses	1,994,970	1,767,693
Warrant offering costs (Note 5)	140,012	169,766
TOTAL EXPENSES	2,134,982	1,937,459
Net Realized Income (Loss) before Distributions	2,099,905	(9,223,668)
Preferred share distributions	(2,202,030)	(2,136,671)
Net Realized Loss	(102,125)	(11,360,339)
Net change in unrealized appreciation/depreciation of investments	6,230,692	28,799,044
NET INCOME FOR THE YEAR	$ 6,128,567	$ 17,438,705
NET INCOME PER CLASS A SHARE - BASIC (based on the weighted average number of Class A shares outstanding during the year of 4,267,645; 2009 - 4,092,587)	$ 1.4361	$ 4.2610
NET INCOME PER CLASS A SHARE - DILUTED	$ 1.3250	$ 3.8960
DEFICIT		
Balance, beginning of year	$ (15,716,498)	$ (35,080,932)
Net allocations on retractions of Class A shares (Note 5)	5,014,311	3,607,833
Net income for the year	6,128,567	17,438,705
Distributions on Class A Shares	(2,596,102)	(1,682,104)
BALANCE, END OF YEAR	$ (7,169,722)	$ (15,716,498)

The notes are an integral part of the Financial Statements.

Statements of Changes in Net Assets

Years ended December 31

	2010	2009
NET ASSETS, BEGINNING OF YEAR	$ 41,569,873	$ 30,536,439
Net Realized Income (Loss) before Distributions	**2,099,905**	(9,223,668)
Class A Share Capital Transactions		
Value for Class A shares redeemed	**(11,514,906)**	(4,760,667)
Proceeds from Class A shares issued, net of warrant exercise fees	**11,403,310**	37,500
	(111,596)	(4,723,167)
Distributions		
Class A Share		
Non-taxable distributions	**(2,596,102)**	(1,682,104)
Preferred Share		
From net investment income	**(702,214)**	(1,172,426)
Non-taxable distributions	**(1,499,816)**	(964,245)
	(4,798,132)	(3,818,775)
Net Change in Unrealized Appreciation/Depreciation of Investments	**6,230,692**	28,799,044
Changes in Net Assets during the Year	**3,420,869**	11,033,434
NET ASSETS, END OF YEAR	**$ 44,990,742**	$ 41,569,873

Statements of Cash Flows

Years ended December 31

	2010	2009
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	$ 4,454,057	$ 32,432,384
Cash Flows Provided by (Used In) Operating Activities		
Net Realized Income (Loss) before Distributions	**2,099,905**	(9,223,668)
Adjustments to Reconcile Net Cash Provided by (Used in) Operating Activities		
Purchase of investment securities	**(44,242,015)**	(24,700,331)
Proceeds from disposition of investment securities	**54,344,722**	10,388,709
Net realized (gain)/loss on sale of investments (including derivatives)	**(1,162,480)**	10,923,463
(Increase)/decrease in dividends receivable and interest receivable	**124,532**	(525,165)
Increase/(decrease) in due to brokers - investments, accrued management fees and accrued liabilities	**11,479,123**	139,297
	20,543,882	(3,774,027)
Cash Flows Provided by (Used In) Financing Activities		
Proceeds from issuance of Units, net of warrant exercise fees	**24,916,210**	37,500
Distributions to Class A shares	**(2,596,102)**	(1,682,104)
Distributions to Preferred shares	**(2,202,030)**	(2,136,671)
Class A share redemptions	**(11,321,542)**	(5,113,357)
Preferred share redemptions	**(12,216,200)**	(6,086,000)
	(3,419,664)	(14,980,632)
Net Increase/(Decrease) in Cash and Short-Term Investments During the Year	**19,224,123**	(27,978,327)
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	**$ 23,678,180**	$ 4,454,057
Cash and Short-Term Investments comprised of:		
Cash	**$ 58,449**	$ 60,294
Short-Term Investments	**23,619,731**	4,393,763
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	**$ 23,678,180**	$ 4,454,057

Statement of Investments

As at December 31, 2010

	Par Value/ Number of Shares/ Number of Contracts	Average Cost/ Proceeds	Fair Value	% of Portfolio
SHORT-TERM INVESTMENTS				
Term Deposit				
Royal Bank of Canada, 0.95% - January 4, 2011	20,875,000	$ 20,875,000	$ 20,875,000	88.4 %
Treasury Bills				
Government of Canada, 0.97% - February 17, 2011	2,750,000	2,744,731	2,744,731	11.6 %
		23,619,731	23,619,731	100.0 %
Accrued Interest			2,936	0.0 %
TOTAL SHORT-TERM INVESTMENTS		$ 23,619,731	$ 23,622,667	100.0 %
INVESTMENTS				
Canadian Common Shares				
Financials				
The Bank of Nova Scotia	1,273,700	$ 63,843,744	$ 72,664,585	100.7 %
Total Canadian Common Shares		$ 63,843,744	$ 72,664,585	100.7 %
Options				
Written Covered Call Options (100 shares per contract)				
The Bank of Nova Scotia - January 2011 @ $57	(3,846)	$ (240,375)	$ (338,417)	(0.5)%
Written Covered Put Options (100 shares per contract)				
The Bank of Nova Scotia - January 2011 @ $57	(1,650)	(136,950)	(156,225)	(0.2)%
Total Options		$ (377,325)	$ (494,642)	(0.7)%
Adjustment for transaction fees		(44,062)		
TOTAL INVESTMENTS		$ 63,422,357	$ 72,169,943	100.0 %

The notes are an integral part of the Financial Statements.

1. Establishment of the Fund

S Split Corp. (the "Fund") is a mutual fund corporation established under the laws of the Province of Ontario on January 26, 2007. The Fund began operations on May 17, 2007.

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) provide holders of Preferred shares with fixed cumulative preferential monthly cash distributions in the amount of $0.04375 per Preferred share representing a yield on the issue price of the Preferred shares of 5.25 percent per annum and to return the issue price of $10.00 per Preferred Share to holders of Preferred Shares at the time of redemption of such shares on December 1, 2014; and

(ii) provide holders of Class A shares with regular monthly cash distributions in an amount targeted to be 6.0 percent per annum on the net asset value ("NAV") of the Class A shares and to provide holders of Class A Shares with the opportunity for leveraged growth in NAV and distributions per Class A Share.

To generate additional returns above the dividend income earned on BNS shares, the Fund may, from time to time, write covered call options in respect of some or all of such BNS shares. The number of BNS shares that may be subject to call options and the terms of such options will vary from time to time, based on the assessment of market conditions.

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 periods. Primary estimates include valuation of investments. While management believes that the estimates used in preparing its financial statements are reasonable and prudent, actual results could differ from these estimates.

Financial Instruments - Disclosures

The Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. See additional note disclosures in Note 10.

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.

Transaction Fees

Transaction fees have been expensed as incurred and included in the transaction fees line in the Statement of Operations and Deficit. 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. 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.

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)	**$21.4592**	$20.8972
Difference	**(0.0137)**	(0.0119)
Net Assets per Unit (for financial statement purposes)	**$21.4455**	$20.8853

5. Share Capital

The Fund is authorized to issue an unlimited number of Class A shares, Preferred shares and Class J shares.

The holders of Class J shares are not entitled to receive distributions. The holders of Class J shares will be entitled to one vote per share. The Class J shares are redeemable and retractable at a price of $1.00 per share. The Class J shares rank subordinate to both the Class A shares and the Preferred shares with respect to distributions on the dissolution, liquidation or winding up of the Fund. A trust established for the benefit of the holders from time to time of the Class A shares and the Preferred shares owns all of the issued and outstanding Class J shares.

Class A Shares

Class A shares may be surrendered at any time for retraction to Computershare Investor Services Inc. ("Computershare"), the Fund's registrar and transfer agent, but will be retracted only on a monthly Valuation Date. Class A shares surrendered for retraction by a holder of Class A shares at least 10 business days prior to the last day of a month (a "Valuation Date") will be retracted on such Valuation Date and the shareholder will be paid on or before the fifteenth business day of the following month (the "Retraction Payment Date"). Such retractions are subject to a Retraction Fee as described under "Retraction Fee" below.

Holders of Class A shares whose shares are surrendered for retraction will be entitled to receive a retraction price per Class A share (the "Class A share Retraction Price") equal to 95 percent of the difference between (i) the NAV per Unit determined as of the relevant Valuation Date, and (ii) the cost to the Fund of the purchase of a Preferred share in the market for cancellation. The cost of the purchase of a Preferred share will include the purchase price of the Preferred share, commission and such other costs, if any, related to the liquidation of any portion of the Fund's portfolio required to fund such purchase. If the NAV per Unit is less than $10.00, the Class A share Retraction Price will be nil. Any declared and unpaid distributions payable on or before a Valuation Date in respect of the Class A shares tendered for retraction on such Valuation Date will also be paid on the Retraction Payment Date.

Holders of Class A shares also have an annual retraction right under which they may concurrently retract an equal number of Class A shares and Preferred shares on the June Valuation Date of each year (the "Annual Valuation Date"). The price paid by the Fund for such a concurrent retraction will be equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Fund's portfolio required to fund such retraction. Such retractions are subject to a Retraction Fee as described under "Retraction Fee" below. Net allocations on retractions represent gains on retractions where the price paid upon retraction is less than the carrying value of the retracted shares.

Preferred Shares

Preferred shares may be surrendered at any time for retraction to Computershare, but will be retracted only on a monthly Valuation Date. Preferred shares surrendered for retraction by a holder of Preferred Shares at least 10 business days prior to a Valuation Date will be retracted on such Valuation Date and the shareholder will receive payment on or before the Retraction Payment Date. Such retractions are subject to a Retraction Fee as described under "Retraction Fee" below.

Holders of Preferred shares whose shares are surrendered for retraction will be entitled to receive a retraction price per Preferred share (the "Preferred Share Retraction Price") equal to 95 percent of the lesser of (i) the NAV per Unit determined as of the relevant Valuation Date less the cost to the Fund of the purchase of a Class A share in the market for cancellation; and (ii) $10.00. The cost of the purchase of a Class A share will include the purchase price of the Class A share, commission and such other costs, if any, related to the liquidation of any portion of the Fund's portfolio required to fund such purchase. Any declared and unpaid distributions payable on or before a Valuation Date in respect of the Preferred Shares tendered for retraction on such Valuation Date will also be paid on the Retraction Payment Date.

Holders of Preferred shares also have an annual retraction right under which they may concurrently retract an equal number of Preferred shares and Class A shares on the Annual Valuation Date. The price paid by the Fund for such a concurrent retraction will be equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Fund's portfolio required to fund such retraction. Such retractions are subject to a Retraction Fee as described under "Retraction Fee" below.

During the year, 1,239,320 Units (2009 - 557,400) were redeemed by the Fund.

Issued and Outstanding

	2010	2009
3,930,870 (2009 - 3,818,900) Preferred shares	**$39,308,700**	$ 38,189,000
3,930,870 (2009 - 3,818,900) Class A shares	**$52,160,364**	$ 57,286,271
100 (2009 - 100) Class J shares	**100**	100
	$52,160,464	$ 57,286,371

On December 17, 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 394,897 Class A shares (2009 – 383,350) and 394,897 Preferred shares (2009 – 383,350) or 10 percent of its public float as determined in accordance with the rules of the TSX. One Unit consists of one Class A share and one Preferred share. The Fund may not purchase more than 78,979 of its Units (representing approximately 2 percent of the Fund's issued and outstanding Units as of December 13, 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 20, 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, nil Units (2009 - nil) have been purchased by the Fund.

Warrants

In 2009, the Fund issued 3,818,100 warrants to Class A shareholders of record outstanding at the close of business on November 19, 2009 at a cost of $169,766. All Class A shareholders as of the record date received warrants on a basis of one warrant for each share held. Each warrant entitled the shareholder thereof to acquire one Unit upon payment of $18.75 on or before March 31, 2010. Warrants not exercised by the expiry date were rendered void and of no value. During the year, 1,290,700 warrants (2009 - 2,000 warrants) were exercised.

Upon exercise of a 2009 warrant, the Fund paid a fee of $0.33 per warrant to the dealer whose client 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 $425,931 (2009 - $660).

In 2010, the Fund issued 3,923,580 warrants to Class A shareholders of record outstanding at the close of business on August 23, 2010 at a cost of $140,012. All Class A shareholders as of the record date received warrants on a basis of one warrant for each share held. Each warrant entitles the shareholder thereof to acquire one Unit upon payment of $19.13 on or before January 17, 2011. Warrants not exercised by the expiry date will be rendered void and of no value. During the year, 60,590 warrants were exercised.

Upon exercise of a 2010 warrant, the Fund paid a fee of $0.29 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 $17,571.

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, relating to the 2010 warrants, was calculated when the basic net assets per Unit exceeds $18.84 per Unit, equivalent to the subscription price of $19.13 less the dealer fees of $0.29, on the applicable valuation date.

No amount is required to be included in computing the income of a shareholder as a consequence of acquiring warrants under the offerings. The fair market value and the cost of a warrant acquired under the offerings were nil, as of the date the warrant was issued.

Retraction Fee

If a retraction of a Class A share or Preferred share occurs prior to July 2014, a retraction fee payable to the Investment Manager by the retracting shareholder will be deducted by the Investment Manager from the amount otherwise receivable by the retracting shareholder to compensate the Investment Manager, in part, for paying the Agents' fees and expenses of the offering. Retraction fees in the amount of $1,228,660 (2009 - $664,760) was incurred during the year of which $14,480 (2009 - $400) was payable at year-end.

The retraction fee is calculated as follows:

Time of Retraction	Retraction Fee per Unit
July 2008 to June 2009	$1.20
July 2009 to June 2010	$1.00
July 2010 to June 2011	$0.80
July 2011 to June 2012	$0.60
July 2012 to June 2013	$0.40
July 2013 to June 2014	$0.20
July 2014 to December 2014	Nil

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 1.55 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 0.50 percent annually of the Class A shares net asset value of the Fund which it pays to dealers in connection with Class A shares held by clients of the sales representatives of such dealers, plus applicable taxes. This service fee is payable quarterly. No service fee will be paid in any calendar quarter if regular distributions are not paid to Class A shareholders in respect of each month in such calendar quarter.

7. Income Taxes

The Fund is a "mutual fund corporation" as defined in the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. Also, the Fund is generally subject to a tax of 33 1/3 percent under Part IV of the Act on taxable dividends received in the year. This tax is fully refundable upon payment of sufficient dividends. The Fund is also subject to tax on the amount of its interest and foreign dividend income that is not offset by operating expenses and share issue expenses. The Fund is also a "financial intermediary corporation" as defined in the

Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends received.

No amount is payable on account of income taxes in 2010 or 2009.

Accumulated capital losses of approximately $7.6M (2009 - $5.3M) are available for utilization against realized gains on sale of investments in future years. The capital losses can be carried forward indefinitely.

Issue costs of approximately $0.2M (2009 - $0.2M) remain undeducted for tax purposes at year-end.

8. Transaction Fees

Total transaction fees for the year ended December 31, 2010 in connection with portfolio transactions were $38,502 (2009 - $52,675). Of this amount $5,951 (2009 - $19,564) was directed for payment of client brokerage commissions.

9. 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 shareholders’ equity is described in Note 5 and the Fund does not have any externally imposed capital requirements.

10. Financial Instruments and Risk Management

The Fund’s financial instruments consist of cash, receivables, investments, payables and Redeemable Preferred shares. 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
Short-Term Investments	$ –	$ 23,622,667	$ –	$ 23,622,667
Canadian Common Shares	72,664,585	–	–	$ 72,664,585
Options	–	(494,642)	–	$ (494,642)
Total Investments	**$ 72,664,585**	**$ 23,128,025**	**$ –**	**$ 95,792,610**

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	$ –	$ 4,399,442	$ –	$ 4,399,442
Canadian Common Shares	74,879,478	–	–	$ 74,879,478
Total Investments	**$ 74,879,478**	**$ 4,399,442**	**$ –**	**$ 79,278,920**

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 other price risk, liquidity risk, interest rate risk and credit risk.

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

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 BNS shares varies. The Fund has no control over the factors that affect the value of the securities in the Fund, specifically factors that affect BNS securities. The Fund’s market risk is managed by following the objectives of the Fund.

Approximately 86 percent (2009 - 94 percent) of the Fund’s net assets, excluding the Redeemable Preferred share liability, held at December 31, 2010 were in a publicly traded equity. If equity prices on the exchange increased or decreased by 10 percent as at December 31, 2009, the net assets, excluding the Redeemable Preferred share liability, of the Fund would have increased or decreased by $7.3M (2009 - $7.5M) respectively or 8.6 percent (2009 - 9.4 percent) of the net assets, excluding the Redeemable Preferred share liability, 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 its position in the BNS Shares in the Fund. In addition, the Fund may write cash covered put options in respect of BNS securities. The Fund is subject to the risk of its investment position including those BNS securities that are subject to outstanding call options and those BNS securities underlying put options written by the Fund, should the market price of the BNS Shares 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.

Liquidity Risk

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required. To manage this risk, the Fund invests the majority of its assets in investments that are traded in an active market and which can be easily disposed. In addition, the Fund aims to retain sufficient cash and short-term investments to maintain liquidity and to meet its obligations when due. Liabilities are payable within one year except the Redeemable Preferred Share liability which matures on December 1, 2014 (see Note 5).

Cash is required to fund redemptions. Shareholders must surrender shares at least 10 business days prior to the last day of the month and receive payment on or before 15 business days following the month end valuation date. Therefore the Fund has a maximum of 25 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.

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 in accordance with the Fund's objectives.

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+
Toronto-Dominion Bank	AA	A-1+

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

Dealer	Long-Term Local Currency Rating	Short-Term Local Currency Rating
Canadian Dollar		
Canadian Imperial Bank of Commerce	A+	A-1
Citigroup Inc.	A	A-1
Royal Bank of Canada	AA-	A-1+

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, 2010:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Term Deposit	A-1+	88%
Government of Canada Treasury Bills	AAA	12%
Total		**100%**

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
Bankers' Acceptances	A-1	79%
Government of Canada Treasury Bills	AAA	21%
Total		**100%**

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

11. 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.

12. Subsequent Event

On January 17, 2011, 1,668,042 warrants were exercised for gross proceeds of $31,909,643 and the Fund incurred $483,732 in warrant exercise fees.

Statement of Corporate Governance Practices

The Board of Directors of the Fund is responsible for the overall stewardship of the Fund's business and affairs. The Fund has investment objectives and investment strategies that are set out in the prospectus of the Fund. The Fund's manager, Mulvihill Capital Management Inc. (the "Manager"), administers many functions associated with the operations of the Fund pursuant to a management agreement entered into at the time the Fund issued its shares to the public. Under this agreement the Manager is responsible for certain day to day operations of the Fund including the payment of distributions on its shares and attending to the retraction or redemption of its shares in accordance with their terms.

The Board consists of five directors, three of whom are independent of the Fund. The Board believes that the number of directors is appropriate for the Fund and only directors independent of the Fund are compensated. Amounts paid as compensation are reviewed for adequacy to ensure that they realistically reflect the responsibilities and risk involved in being an effective director. Individual directors may engage an outside advisor at the expense of the Fund in appropriate circumstances subject to the approval of the Board.

To assist the Board in its monitoring of the Fund's financial reporting and disclosure, the Board has an Audit Committee. The Audit Committee consists of three members, all of whom are independent of the Fund. The responsibilities of the Audit Committee include, but are not limited to, review of the annual financial statements and the annual audit performed by the external auditor and oversight of the Fund's compliance with tax and securities laws and regulations. The Audit Committee has direct communication channels with the independent auditor to discuss and review specific issues as appropriate.

The Board is responsible for developing the Fund's approach to governance issues and, together with the Investment Manager, is evolving a best practices governance procedure.

The Fund maintains an Investor Relations line (toll-free: 1-800-725-7172 or e-mail: info@mulvihill.com) and website (www.mulvihill.com) to respond to inquiries from shareholders.

Board of Directors

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[1,2]
Corporate Director

Robert W. Korthals[1,2]
Corporate Director

Robert G. Bertram[1,2]
Corporate Director

[1] Audit Committee Member
[2] 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
SBN/SBN.PR.A

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

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Contact your broker directly for address changes.

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