ANNUAL REPORT 2010

# Core Canadian Dividend Trust

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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 Core Canadian Dividend Trust (the “Fund”).

The Fund is a closed-end investment trust designed to provide unitholders with a stable stream of monthly distributions targeted to be 6.5 percent per annum on the net asset value (“NAV”) of the Fund and to preserve and grow the NAV. The units are listed on the Toronto Stock Exchange (“TSX”) under the ticker symbol CDD.UN. To accomplish its objectives the Fund invests in a blue chip portfolio consisting of fifteen high quality, large capitalization, and dividend paying Canadian companies across multiple industry sectors that have an excellent long-term track record of dividend growth and share price appreciation. The Fund will generally invest not less than 4 percent and not more than 10 percent of the NAV in each security comprising the Core Canadian Dividend Portfolio, as well as, up to 15 percent in other securities listed on the TSX. 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 in respect of some or all 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 fiscal year ended 2010, the annual total return of the Fund, including reinvestment of distributions, was 9.9 percent. Distributions of $0.48 per unit were paid to unitholders during the year and the NAV increased from $7.40 per unit as at December 31, 2009 to $7.63 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 Report sections.

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

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

Core Canadian Dividend Trust [CDD.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 Core Canadian Dividend Trust (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 unitholders with a stable stream of monthly distributions targeted to be 6.5 percent per annum on the net asset value ("NAV") of the Fund; and

(ii) preserve and grow the NAV per unit.

The Fund invests in a blue chip portfolio consisting of fifteen high quality, large capitalization, dividend paying Canadian companies across multiple industry sectors that have an excellent long-term track record of dividend growth and share price appreciation. The Fund will generally invest not less than 4 percent and not more than 10 percent of the NAV in each security comprising the Core Canadian Dividend Portfolio, as well as, up to 15 percent in other securities listed on the Toronto Stock Exchange.

To generate additional returns, the Fund may, from time to time, write covered call options in respect of all or part of the securities in the portfolio. In addition, the Fund may write cash covered put options in respect of securities in which the Fund 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 |
|---|---|
| Financials | 47 % |
| Energy | 28 % |
| Materials | 13 % |
| Cash and Short-Term Investments | 12 % |
| Industrials | 8 % |
| Utilities | 8 % |
| Telecommunication Services | 7 % |
| Consumer Discretionary | 6 % |
| Other Assets (Liabilities) | (29)% |
| | 100 % |

## Portfolio Holdings

December 31, 2010

| | % OF NET ASSET VALUE |
|---|---|
| Cash and Short-Term Investments | 12% |
| Enbridge Inc. | 10% |
| TransCanada Corp. | 9% |
| Russel Metals Inc. | 8% |
| Manulife Financial Corporation | 8% |
| Canadian Utilities Ltd. | 8% |
| BCE Inc. | 8% |
| Bank of Montreal | 7% |
| AGF Management Limited - Class B | 6% |
| Teck Resources Limited - Class B | 6% |
| National Bank of Canada | 6% |
| The Toronto-Dominion Bank | 6% |
| Thompson Reuters Corp. | 6% |
| The Bank of Nova Scotia | 5% |
| Royal Bank of Canada | 5% |
| Barrick Gold Corporation | 4% |
| Canadian Imperial Bank of Commerce | 4% |
| Cameco Corporation | 3% |
| Canadian Natural Resources Ltd. | 3% |
| Talisman Energy Inc. | 3% |
| Agnico-Eagle Mines Limited | 2% |

## Results of Operations

### Distributions

For the year ended December 31, 2010, cash distributions of $0.48 per unit were paid to unitholders compared to $0.43 per unit in 2009. Since the inception of the Fund in November 2006, the Fund has paid total cash distributions of $2.11 per unit.

### Revenues and Expenses

The Fund's total revenue per unit increased to $0.26 per unit for the year ended December 31, 2010 from $0.23 per unit for 2009, largely reflecting higher dividend income earned on a per average-unit basis. Overall expenses (excluding warrant offering costs) decreased slightly from $0.6 million in 2009 to $0.5 million in 2010, mainly attributable to a decrease in average net asset value and unitholder activity in the current year partially offset by the unfavourable impact of the Ontario harmonized sales tax and the administrative costs associated with the normal course issuer bid. However, total expenses per unit increased by $0.02 per unit to $0.22 per unit in 2010 due to a decreased number of units outstanding during the year. The Fund had a net realized and unrealized gain of $0.67 per unit in 2010 as compared to a net realized and unrealized gain of $1.45 per unit in 2009.

### Net Asset Value

The net asset value per unit of the Fund increased by $0.23 per unit, or 3.1 percent, from $7.40 per unit at December 31, 2009 to $7.63 per unit at December 31, 2010. The total net asset value of the Fund decreased $3.3 million, from $17.3 million at December 31, 2009 to $14.0 million at December 31, 2010, primarily as a result of annual redemptions in December totalling $4.0 million.

## 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 November 16, 2006.

Since 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.

Years ended December 31

| | 2010 | 2009 | 2008 | 2007 | 2006[4] |
|---|---|---|---|---|---|
| **THE FUND'S NET ASSETS PER UNIT** | | | | | |
| **Net Assets, beginning of period (based on bid prices)[1]** | **$ 7.39** | **$ 6.38** | **$ 8.77** | **$ 9.66** | **$ 9.38[5]** |
| INCREASE (DECREASE) FROM OPERATIONS | | | | | |
| Total revenue | **0.26** | 0.23 | 0.27 | 0.29 | 0.05 |
| Total expenses | **(0.22)** | (0.24) | (0.18) | (0.19) | (0.03) |
| Realized gain (loss) for the period | **0.20** | (1.15) | (0.57) | 0.28 | – |
| Unrealized gain (loss) for the period | **0.47** | 2.60 | (1.38) | (0.66) | 0.32 |
| **Total Increase (Decrease) from Operations[2]** | **0.71** | **1.44** | **(1.86)** | **(0.28)** | **0.34** |
| DISTRIBUTIONS | | | | | |
| Non-taxable distributions | **(0.48)** | (0.43) | (0.53) | (0.62) | (0.05) |
| **Total Annual Distributions[3]** | **(0.48)** | **(0.43)** | **(0.53)** | **(0.62)** | **(0.05)** |
| **Net Assets, as at December 31 (based on bid prices)[1]** | **$ 7.61** | **$ 7.39** | **$ 6.38** | **$ 8.77** | **$ 9.66** |

(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. For years prior to 2007, securities were valued at closing prices.
(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 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 year.
(3) Distributions to unitholders 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 November 16, 2006 to December 31, 2006.
(5) Net of agent fees and initial issue costs.

| **RATIOS/SUPPLEMENTAL DATA** | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Net Asset Value ($millions)[1] | **$ 13.96** | $ 17.29 | $ 18.84 | $ 37.33 | $ 57.93 |
| Number of units outstanding[1] | **1,831,294** | 2,335,451 | 2,949,146 | 4,248,271 | 6,000,000 |
| Management expense ratio ($millions)[2] | **2.64%** | 3.21% | 2.08% | 1.95% | 1.86%[5] |
| Portfolio turnover rate[3] | **164.67%** | 117.23% | 75.04% | 59.91% | 1.82% |
| Trading expense ratio[4] | **0.35%** | 0.36% | 0.15% | 0.10% | 0.87%[5] |
| Net Asset Value per unit[6] | **$ 7.63** | $ 7.40 | $ 6.39 | $ 8.79 | $ 9.67 |
| Closing market price | **$ 7.15** | $ 6.98 | $ 5.25 | $ 8.05 | $ 9.95 |

(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. The MER for 2010 includes the warrant exercise fees. The MER for 2010 excluding the warrant exercise fees is 2.63%. The MER for 2009 includes the warrant offering costs. The MER for 2009 excluding the warrant offering costs is 2.42%.
(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 1.00 percent of the net asset value of the Fund at each month end. Services received under the Investment Management Agreement include the making of all investment decisions and writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. 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

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,

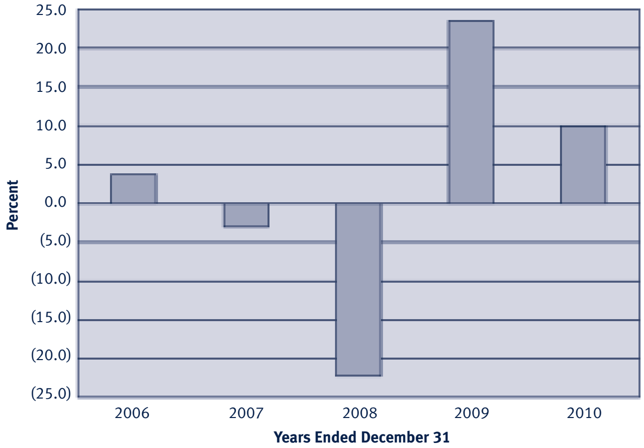
(2) the information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

(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 in each of the past five 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 2006 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 60 Index.

| (In Canadian Dollars) | One Year | Three Years | Since Inception* |
|---|---|---|---|
| Core Canadian Dividend Trust | **9.93%** | 1.83% | 1.23% |
| S&P/TSX 60 Index** | **13.84%** | 1.12% | 4.03% |

* From date of inception on October 27, 2006
** The S&P/TSX 60 Index is a capitalization-weighted index based on 60 highly capitalized stocks for which options are listed.

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

The Canadian economy grew at a quick pace in the first half of 2010 but had slower gross domestic product growth in the third quarter of 1.0 percent. The Bank of Canada raised the benchmark overnight rate in June, July and September from the unusually low rate of 0.25 percent to 1.00 percent in quarter point increments. The Canadian currency has traded in a fairly narrow range for most of the year and the Canadian banks have used the stronger dollar to make inroads into the U.S. with the Bank of Montreal and The Toronto-Dominion Bank announcing acquisitions in December.

The Fund invests primarily in a universe of fifteen specified stocks, with under or overweight allocations holding between 4 percent and 10 percent in each security. As the year progressed the Fund added weight in Energy and Utilities names, such as Enbridge Inc. and Canadian Utilities Ltd., while generally reducing weight in the Financials in the portfolio, such as Royal Bank of Canada and Canadian Imperial Bank of Commerce. For the second straight year, the best performing stock was Teck Resources Limited, up over 67 percent in 2010. The weakest performing stock was Manulife Financial Corporation ("MFC"). The Fund increased its holding in MFC above the 4 percent minimum following the price capitulation in the summer of 2010. While it has recovered somewhat, the stock is still well below pre-crisis levels. The Fund continues to hold an overweight position in this name due to its leverage to improving equity markets and rising interest rates.

For the year ended December 31, 2010, the net asset value of the Fund based on closing prices was $7.63 per unit compared to the net asset value of $7.40 per unit at December 31, 2009 and distributions of $0.48 per unit were paid to unitholders during the year. The Fund's units, listed on the Toronto Stock Exchange as CDD.UN, closed on December 31, 2010 at $7.15 per unit, which represents a 6.3 percent discount to the net asset value.

A new index, S&P/TSX VIX Index (“VIXC”), was released this year to track the volatility of the S&P/TSX 60 Index. Like the Chicago Board Options Exchange Volatility Index (“VIX”), its counterpart in the U.S., the VIXC was in decline entering 2010. Volatility jumped towards the end of the first quarter after surprisingly weak employment report and concerns over debt levels in many European countries. Going forward, the VIXC will be a better proxy than the VIX for the volatility of securities within the Fund.

During the course of the year, volatility reached its peak in the middle of May before gradually decreasing with intermittent spikes towards the end of the year. The Manager took advantage of the spikes in volatility by increasing the overwriting activity in the months of February, June, and September. The Fund ended the year with calls overwritten on approximately 5 percent of the notional value of the Fund versus an average level of 8 percent for the year. The gross premium from overwriting contributed approximately 1 percent to the return of the Fund.

The Fund was positioned very defensively during the summer before becoming more invested by fall. The Manager purchased put protection during the summer when expectations were particularly uncertain, which proved to be unnecessary as the market moved meaningfully higher for most of the second half of 2010. The put protection negatively impacted the return of the Fund by approximately 55 basis points. The outlook for 2011 is cautiously optimistic for Canadian equities and therefore the Fund had no put protection at year-end.

## 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 October 27, 2006.

MCM is the Manager of the Fund pursuant to a Management Agreement made between the Fund and MCM dated October 27, 2006, 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”). 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 Core Canadian Dividend Trust (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 Core Canadian Dividend Trust

We have audited the accompanying financial statements of Core Canadian Dividend Trust, 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 gain (loss) on sale of investments for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Core Canadian Dividend Trust as at December 31, 2010 and 2009, and the results of its operations and its changes in the net assets 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 Net Assets

As at December 31

| | 2010 | 2009 |
|---|---|---|
| ASSETS | | |
| Investments at fair value (cost - $15,516,914; 2009 - $19,789,655) | **$ 16,248,885** | $ 19,414,832 |
| Short-term investments at fair value (cost - $1,647,574; 2009 - $1,909,045) | **1,647,574** | 1,909,045 |
| Cash | **36,340** | 8,864 |
| Interest receivable | **419** | 338 |
| Dividends receivable | **53,115** | 61,792 |
| Due from brokers - investments | **–** | 581,903 |
| TOTAL ASSETS | **17,986,333** | **21,976,774** |
| LIABILITIES | | |
| Redemptions payable | **3,975,398** | 4,543,061 |
| Accrued liabilities | **68,165** | 182,242 |
| TOTAL LIABILITIES | **4,043,563** | **4,725,303** |
| NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY | **$ 13,942,770** | **$ 17,251,471** |
| **Number of Units Outstanding** (Note 5) | **1,831,294** | **2,335,451** |
| **Net Assets per Unit - Basic** (Note 4) | **$ 7.6136** | **$ 7.3868** |
| **Net Assets per Unit - Diluted** (Note 5) | **n/a** | **$ 7.1654** |

On Behalf of the Manager,
Mulvihill Capital Management Inc.

John P. Mulvihill, Director

John D. Germain, Director

## Statements of Financial Operations

Years ended December 31

| | | 2010 | | 2009 |
|---|---|---|---|---|
| REVENUE | | | | |
| Dividends | $ | **601,363** | $ | 654,789 |
| Interest | | **4,347** | | 35,586 |
| TOTAL REVENUE | | **605,710** | | **690,375** |
| EXPENSES (Note 6) | | | | |
| Management fees | | **190,281** | | 220,371 |
| Service fees | | **69,189** | | 80,182 |
| Administrative and other expenses | | **61,177** | | 51,160 |
| Transaction fees (Note 9) | | **60,622** | | 70,778 |
| Custodian fees | | **36,723** | | 29,483 |
| Audit fees | | **22,928** | | 23,075 |
| Advisory board fees | | **19,631** | | 19,631 |
| Independent review committee fees | | **6,601** | | 6,514 |
| Legal fees | | **5,342** | | 4,339 |
| Unitholder reporting costs | | **18,472** | | 28,861 |
| Federal and provincial sales taxes | | **22,515** | | 17,765 |
| **Subtotal Expenses** | | **513,481** | | **552,159** |
| Warrant offering costs (Note 5) | | **–** | | 156,065 |
| TOTAL EXPENSES | | **513,481** | | **708,224** |
| **Net Investment Income (Loss)** | | **92,229** | | **(17,849)** |
| Net gain (loss) on sale of investments | | **653,998** | | (3,663,612) |
| Net gain (loss) on sale of derivatives | | **(180,648)** | | 287,940 |
| **Net Gain (Loss) on Sale of Investments** | | **473,350** | | **(3,375,672)** |
| Net change in unrealized appreciation/depreciation of investments | | **1,106,794** | | 7,659,289 |
| **Net Gain on Investments** | | **1,580,144** | | **4,283,617** |
| NET INCREASE IN NET ASSETS FROM OPERATIONS | $ | **1,672,373** | $ | **4,265,768** |
| NET INCREASE IN NET ASSETS FROM OPERATIONS PER UNIT - BASIC (based on the weighted average number of units outstanding during the year of 2,346,455; 2009 - 2,947,465) | $ | **0.7127** | $ | **1.4473** |
| NET INCREASE IN NET ASSETS FROM OPERATIONS PER UNIT - DILUTED | | **n/a** | $ | **1.3804** |

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 | $ 17,251,471 | $ 18,806,600 |
| **Net Increase in Net Assets from Operations** | 1,672,373 | 4,265,768 |
| **Unit Transactions** (Note 5) | | |
| Proceeds from issuance of units, net of warrant exercise fees | 120,179 | – |
| Value for units redeemed | (3,975,398) | (4,543,062) |
| | (3,855,219) | (4,543,062) |
| **Distributions to Unitholders** | | |
| Non-taxable distributions | (1,125,855) | (1,277,835) |
| **Change in Net Assets during the Year** | (3,308,701) | (1,555,129) |
| NET ASSETS, END OF YEAR | $ 13,942,770 | $ 17,251,471 |

## Statements of Net Gain (Loss) on Sale of Investments

Years ended December 31

| | 2010 | 2009 |
|---|---|---|
| **Proceeds from Sale of Investments** | $ 31,592,013 | $ 18,249,479 |
| **Cost of Investments Sold** | | |
| Cost of investments, beginning of year | 19,789,655 | 22,254,621 |
| Cost of investments purchased | 26,845,922 | 19,160,185 |
| | 46,635,577 | 41,414,806 |
| **Cost of Investments, End of Year** | (15,516,914) | (19,789,655) |
| | 31,118,663 | 21,625,151 |
| NET GAIN (LOSS) ON SALE OF INVESTMENTS | $ 473,350 | $ (3,375,672) |

## 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** | | | | |
| **Treasury Bills** | | | | |
| Government of Canada, 0.95% - February 17, 2011 | 1,650,000 | $ 1,647,574 | $ 1,647,574 | 100.0% |
| **Accrued Interest** | | | 419 | 0.0% |
| **TOTAL SHORT-TERM INVESTMENTS** | | $ 1,647,574 | $ 1,647,993 | 100.0% |
| **INVESTMENTS** | | | | |
| **Canadian Common Shares** | | | | |
| **Consumer Discretionary** | | | | |
| Thompson Reuters Corp. | 21,300 | $ 780,772 | $ 791,508 | 4.9% |
| **Energy** | | | | |
| Cameco Corporation | 12,000 | 451,467 | 483,000 | |
| Canadian Natural Resources Ltd. | 9,300 | 341,767 | 411,897 | |
| Enbridge Inc. | 24,200 | 1,216,172 | 1,360,766 | |
| Talisman Energy Inc. | 18,100 | 348,701 | 400,372 | |
| TransCanada Corp. | 32,000 | 1,156,917 | 1,214,080 | |
| **Total Energy** | | 3,515,024 | 3,870,115 | 23.8% |
| **Financials** | | | | |
| AGF Management Limited - Class B | 46,000 | 1,020,952 | 896,080 | |
| Bank of Montreal | 16,700 | 989,624 | 959,248 | |
| Canadian Imperial Bank of Commerce | 6,900 | 502,069 | 539,787 | |
| Manulife Financial Corporation | 67,200 | 1,484,818 | 1,149,120 | |
| National Bank of Canada | 12,300 | 789,719 | 841,566 | |
| Royal Bank of Canada | 13,000 | 695,109 | 678,860 | |
| The Bank of Nova Scotia | 12,630 | 637,143 | 720,541 | |
| The Toronto-Dominion Bank | 10,800 | 703,527 | 800,280 | |
| **Total Financials** | | 6,822,961 | 6,585,482 | 40.5% |
| **Industrials** | | | | |
| Russel Metals Inc. | 50,600 | 1,090,956 | 1,158,740 | 7.1% |
| **Materials** | | | | |
| Agnico-Eagle Mines Limited | 4,000 | 289,693 | 305,800 | |
| Barrick Gold Corporation | 11,200 | 545,434 | 594,160 | |
| Teck Resources Limited - Class B | 14,000 | 697,331 | 863,100 | |
| **Total Materials** | | 1,532,458 | 1,763,060 | 10.8% |
| **Telecommunication Services** | | | | |
| BCE Inc. | 29,600 | 911,690 | 1,046,064 | 6.4% |
| **Utilities** | | | | |
| Canadian Utilities Ltd. | 19,400 | 885,788 | 1,052,838 | 6.5% |
| **Total Canadian Common Shares** | | $ 15,539,649 | $ 16,267,807 | 100.0% |
| **Options** | | | | |
| **Written Covered Call Options** (100 shares per contract) | | | | |
| Canadian Natural Resources Ltd. - January 2011 @ $42 | (46) | $ (5,014) | $ (9,387) | |
| The Bank of Nova Scotia - January 2011 @ $57 | (42) | (2,625) | (3,696) | |
| TransCanada Corp. - January 2011 @ $38 | (160) | (6,240) | (5,839) | |
| **Total Written Covered Call Options** | | (13,879) | (18,922) | 0.0% |
| **Total Options** | | $ (13,879) | $ (18,922) | 0.0% |
| Adjustment for transaction fees | | (8,856) | | |
| **TOTAL INVESTMENTS** | | $ 15,516,914 | $ 16,248,885 | 100.0% |

The notes are an integral part of the Financial Statements.

## 1. Establishment of the Fund

Core Canadian Dividend Trust (the "Fund") is a closed-end investment trust established under the laws of the Province of Ontario on October 27, 2006. The Fund began operations on November 16, 2006.

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 unitholders with a stable stream of monthly distributions targeted to be 6.5 percent per annum on the net asset value ("NAV") of the Fund; and

(ii) preserve and grow the NAV per unit.

The Fund invests its assets primarily in dividend-paying shares listed on the Toronto Stock Exchange ("TSX"). The Fund will generally invest not less than 4 percent and not more than 10 percent of the NAV in each of the issuers in the portfolio. In addition, up to 15 percent of the NAV of the Fund may be invested in equity securities of other issuers listed on the TSX which the Investment Manager believes is consistent with the Fund's objectives.

To generate additional returns above the dividend income earned on the portfolio, the Fund may, from time to time, write covered call options in respect of all or part of the securities in the portfolio. In addition, the Fund may write cash covered put options in respect of all of the securities in which the Fund 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 periods. Primary estimates include valuation of investments. While management believes that the estimates used in preparing its financial statements are reasonable and prudent, actual results could differ from these estimates.

### Financial Instruments – Disclosures

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

The significant accounting policies of the Fund are as follows:

### Valuation of Investments

Investments are recorded in the financial statements at their fair value 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 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.

## 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) | **$7.6252** | $7.4028 |
| Difference | **(0.0116)** | (0.0160) |
| Net Assets per unit (for financial statement purposes) | **$7.6136** | $7.3868 |

## 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.

All units have equal voting rights and privileges. Each whole unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally with respect to any and all distributions made by the Fund including distributions of net income and net realized capital gains, and distributions upon the termination of the Fund.

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 the monthly Valuation Date (as defined below). units surrendered for redemption by a unitholder at least 20 business days prior to the end of the year (the "December Valuation Date") will be redeemed on such December Valuation Date and the unitholder will receive payment on or before the fifteenth day following such December Valuation Date (the "Redemption Payment Date"). Units surrendered for redemption by a unitholder at least 10 business days prior to the last day of any other month (a "Valuation Date") will be redeemed on such Valuation Date and the unitholder will receive payment on or before the fifteenth day following such Valuation Date.

Unitholders whose units are redeemed on the December Valuation Date in each year will be entitled to receive a redemption price per unit (the "Unit Redemption Price") equal to the NAV per unit determined as of such Valuation Date.

For unitholders whose units are redeemed on any other Valuation Date, the redemption price per unit will be equal to the lesser of:

a) 95 percent of the Market Price. For such purposes "Market Price" is 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 Valuation Date, and

b) 100 percent of the Closing Market Price of the units on the applicable Valuation 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 Valuation Date in respect of units tendered for redemption on such Valuation Date will also be paid on the applicable Redemption Payment Date.

In June 2010, the Toronto Stock Exchange ("TSX") accepted 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 235,205 or 10 percent of its public float as determined in accordance with the rules of the TSX. The Fund may not purchase more than 47,041 of its units (representing approximately 2 percent of the Fund's issued and outstanding units as of May 31, 2010) in any 30-day period under the bid. The purchases would be made in the open market through facilities of the TSX. The normal course issuer bid will remain in effect until the earlier of June 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, nil units have been purchased by the Fund.

Unit transactions during the year are as follows:

| | **2010** | 2009 |
|---|---|---|
| Units outstanding, beginning of year | **2,335,451** | 2,949,146 |
| Units redeemed | **(521,350)** | (613,695) |
| Units issued upon exercise of warrants | **17,193** | – |
| Units outstanding, end of year | **1,831,294** | 2,335,451 |

### Warrants

The Fund issued 2,949,146 warrants to unitholders of record outstanding at the close of business on November 19, 2009 (the "Offering") at a cost of $156,065. Unitholders received warrants on a basis of one warrant for each unit held November 19, 2009. Each warrant entitled the holder thereof to acquire one unit upon payment of $7.11 (the "Subscription Price") on or before on June 15, 2010 (the "Expiry Date"). Warrants not exercised by the Expiry Date were rendered void and of no value. During the year, 17,193 (2009 - nil) warrants were exercised.

Upon exercise of a warrant, the Fund paid a fee of $0.12 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 $2,063 (2009 - nil).

No amount was required to be included in computing the income of a unitholder as a consequence of acquiring warrants under the Offering, provided that the income of the Fund for its taxation year ending in 2009 did not exceed the cash distributions from the Fund for 2009. However, unitholders were required to reduce the adjusted cost base of their units by the aggregate fair market value of all the warrants acquired under the Offering. To the extent that the adjusted cost base of a unit would otherwise be less than zero, the negative amount is deemed to be a capital gain recognized by the unitholder and the unitholder's adjusted cost base of the unit is increased by the amount of such deemed capital gain. The fair market value and the cost of a warrant acquired under the Offering were nil, as of the date the warrant was issued.

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 $6.99 per unit, equivalent to the subscription price of $7.11 less the dealer fees of $0.12, on the applicable valuation date. At December 31, 2010, there was no diluted net assets per unit as all warrants expired.

## 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 1.00 percent respectively of the Fund's net asset value, calculated and payable monthly, plus applicable taxes.

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

The Fund 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.

## 7. Distributions

The Fund endeavours to make monthly 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 will not be liable for income tax thereon under the Income Tax Act (Canada) (the "Act").

## 8. Income Taxes

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

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

Accumulated non-capital losses of $0.3M (2009 - $0.2M) and capital losses of approximately $4.8M (2009 - $4.8M) are available for utilization against realized gains on sale of investments in future years. The capital losses can be carried forward indefinitely. The non-capital losses expire in 2029.

Issue costs of approximately $0.8M (2009 - $1.5 M) remain undeducted for tax purposes at year-end.

## 9. Transaction Fees

Total transaction fees paid for the year ended December 31, 2010 in connection with portfolio transactions were $60,622 (2009 - $70,778). Of this amount $17,730 (2009 - $16,202) 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 |
|---|---|---|---|---|
| Short-Term Investments | $ – | $ 1,647,993 | $ – | **$ 1,647,993** |
| Canadian Common Shares | 16,267,807 | – | – | **$ 16,267,807** |
| Options | – | (18,922) | – | **$ (18,922)** |
| **Total Investments** | **$ 16,267,807** | **$ 1,629,071** | **$ –** | **$ 17,896,878** |

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 | $ – | $ 1,909,383 | $ – | **$ 1,909,383** |
| Canadian Common Shares | 19,414,832 | – | – | **$ 19,414,832** |
| **Total Investments** | **$ 19,414,832** | **$ 1,909,383** | **$ –** | **$ 21,324,215** |

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 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 117 percent (2009 - 113 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 $1.6M (2009 - $1.9M) respectively or 11.7 percent (2009 - 11.3 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.

### 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.

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.

### 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 current and prior year, based on Standard & Poor's credit ratings as of December 31, 2010 and 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+ |

The following is the credit rating for short-term investments held by the Fund based on Standard & Poor's credit ratings as of December 31, 2010 and 2009:

| Type of Short-Term Investment | Rating | % of Short-Term Investments |
|---|---|---|
| Government of Canada Treasury Bills | AAA | 100% |
| **Total** | | **100%** |

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

## 12. Future Accounting Policy Changes

The Fund was required to adopt International Financial Reporting Standards ("IFRS") for the year beginning on January 1, 2011. 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

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Brookfield Place
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Toronto, Ontario M5J 2V1

**Transfer Agent:**
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**Shares Listed:**
Toronto Stock Exchange
trading under
CDD.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

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Contact your broker directly for address changes.

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