



Hybrid Income Funds



Annual Report 2006

Mulvihill Government Strip Bond Fund

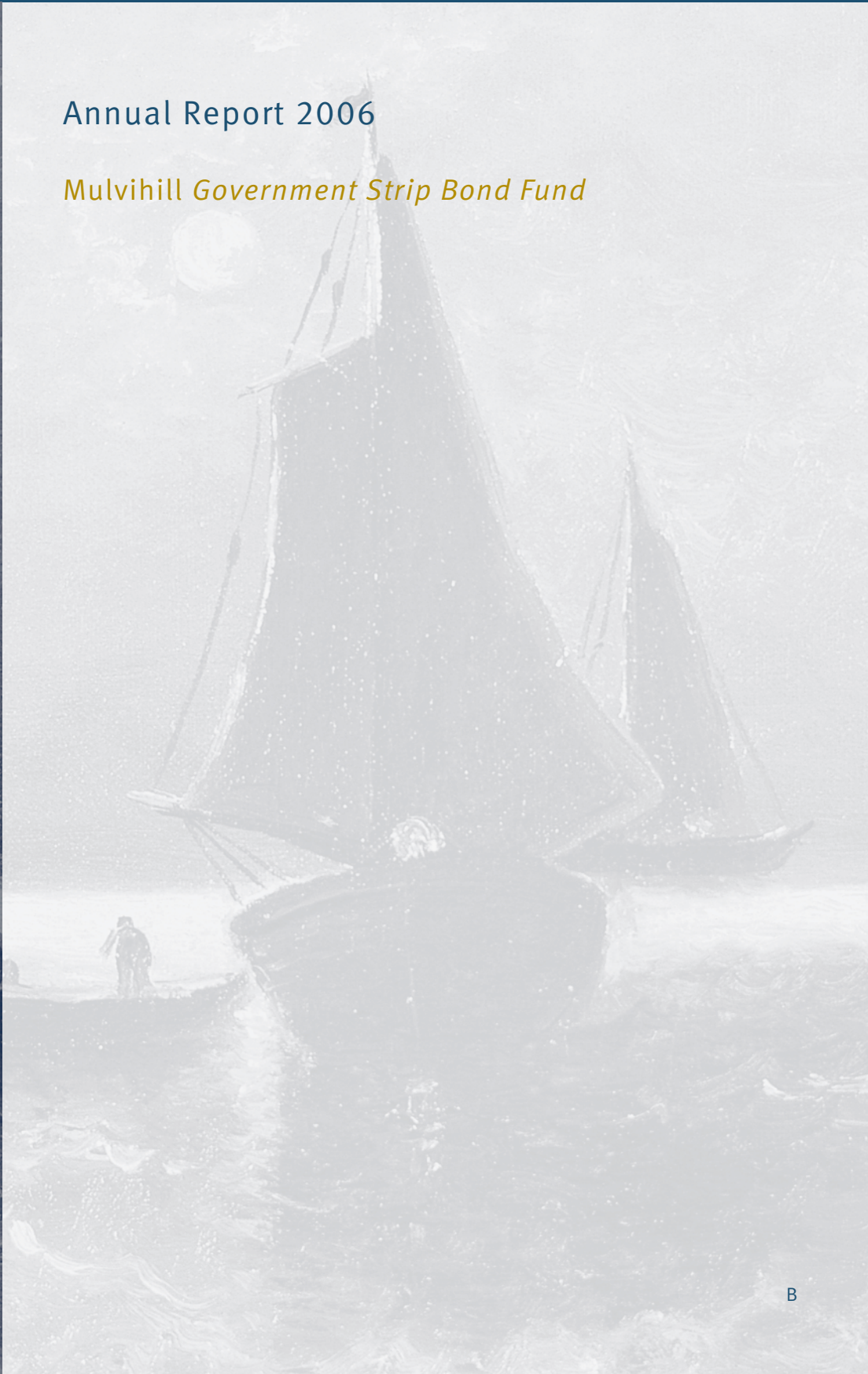




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Management Report on Fund Performance

This report, prepared in accordance with National Instrument 81-106 (Investment Fund Continuous Disclosure), contains the financial highlights for the year ended December 31, 2006 of Mulvihill Government Strip Bond Fund, formerly Mulvihill Pro-AMS Fund (the "Fund"). The annual financial statements of the Fund are attached.

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

Investment Objectives and Strategies

The Fund's original investment objectives were to pay monthly distributions and to return the original issue price of \$25.00 per unit to unitholders on the termination date of December 31, 2012. As of May 2006, the new Fund objective is to return at least \$25.75 per unit to unitholders on the termination date of December 31, 2012.

In May 2006, unitholders approved a proposal to provide further certainty to the net asset value at termination. The forward agreement was settled and the proceeds were used to purchase a portfolio of zero coupon debt securities issued by the Government of Canada or Canadian provincial governments. Accordingly, the investment strategy has been changed to invest in zero coupon bonds, as well as, sufficient cash and cash equivalents to cover all costs and expenses of the Fund until the termination date of December 31, 2012.

Risk

The primary risk associated with holding the Fund's units relates to the sensitivity of the Fund's net asset value to changes in the level of interest rates prevailing in the market. Changes to interest rates will inversely impact the Fund's net asset value. However, since zero coupon bonds carry little or no reinvestment risk and also constitute the primary investment holdings of the Fund, changes to current interest rates will not impact the final redemption value of the zero coupon bonds, currently in excess of \$25.75 per unit.

Summary of Investment Portfolio

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

Asset Mix and Portfolio Holdings

December 31, 2006

	% OF NET ASSETS
Provincial Bonds	95 %
Cash and Short-Term Investments	6 %
Other Assets (Liabilities)	(1)%
	100 %

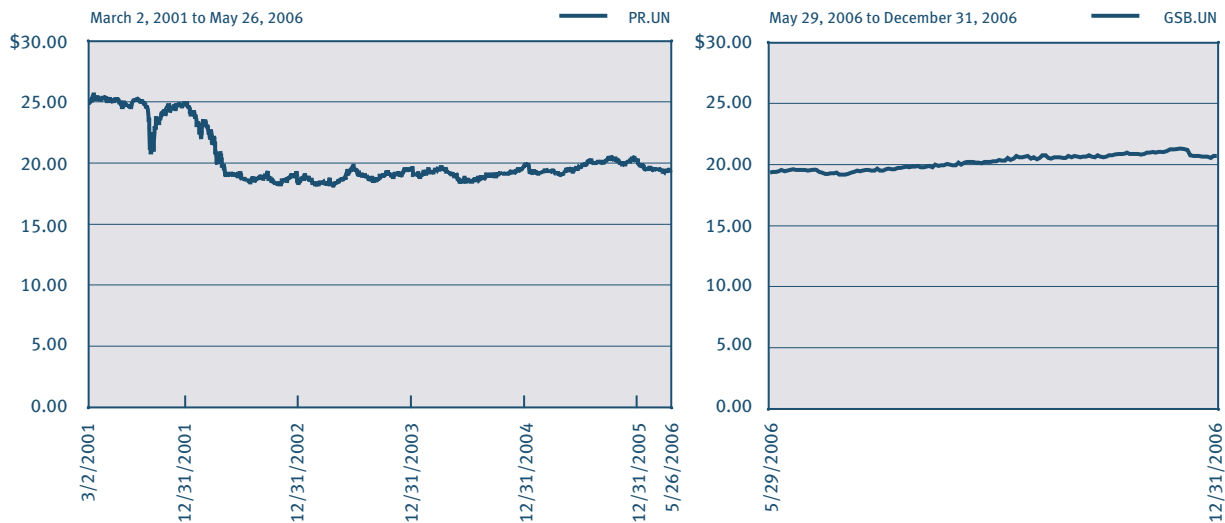
Distribution History

INCEPTION DATE: MARCH 2001	REGULAR DISTRIBUTION
Total for 2001	\$ 1.81200
Total for 2002	1.60419
Total for 2003	0.99996
Total for 2004	0.88331
Total for 2005	0.24000*
Total for 2006	0.00000
Total Distributions to Date	\$ 5.53946

* Distributions were suspended effective May 2005.

For complete distribution history and income tax information, please see our website at www.mulvihill.com.

Trading History



Results of Operations

For the year ended December 31, 2006, the net asset value of the Fund increased to \$21.33 per unit from \$20.73 per unit at December 31, 2005. The Fund’s units, listed on the Toronto Stock Exchange as GSB.UN, closed on December 29, 2006 at \$20.70 per unit, which represents a 3.0 percent discount to the net asset value.

No distributions were paid to unitholders during 2006. Distributions were suspended effective May 2005, at which time, all equity positions held in the managed portfolio were liquidated. The Fund has had no equity exposure since that time. The name of the Fund was changed in 2006 to Government Strip Bond Fund (formerly Pro-AMS Trust) to better reflect the new investment objectives of the Fund.

The one-year total return for the Fund was 2.9 percent. This return is reflective of portfolio assets consisting entirely of government strip bonds, the value of such assets is dependent on the level of interest rates. Interest rates generally rose during the first half of 2006; short-term rates leveled at this time and remained flat for the duration of the year. At the same time, long-term rates began to fall somewhat, which created an inverted yield curve in Canada, which persisted for most of the second half of 2006. This inversion was a modest benefit to the value of the Fund. Overall, the total return of long bonds in Canada, as represented by the Scotia Capital Universal Bond Index, was 4.1 percent during 2006.

During the year 2,237,982 units were redeemed by the Fund. The Fund facilitated these redemptions by selling a portion of the bonds held within the portfolio. These activities had no material impact on the Fund performance.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years. This information is derived from the Fund's audited annual financial statements.

Years ended December 31

	2006	2005	2004	2003	2002
THE FUND'S NET ASSET VALUE PER UNIT					
Net Asset Value, beginning of year⁽¹⁾	\$ 20.73	\$ 20.14	\$ 19.88	\$ 19.94	\$ 21.87
INCREASE (DECREASE) FROM OPERATIONS					
Total revenue	0.62	0.07	(0.03)	(0.01)	0.07
Total expenses	(0.28)	(0.40)	(0.39)	(0.39)	(0.40)
Realized gains (losses) for the period	1.72	3.08	2.03	1.26	(2.29)
Unrealized gains (losses) for the period	(1.62)	(1.99)	(0.56)	(0.01)	2.22
Total Increase (Decrease) from Operations⁽²⁾	0.44	0.76	1.05	0.85	(0.40)
DISTRIBUTIONS					
Non-taxable distributions	–	(0.24)	(0.88)	(1.00)	(1.60)
Total Annual Distributions⁽³⁾	–	(0.24)	(0.88)	(1.00)	(1.60)
Net Asset Value, as at December 31⁽¹⁾	\$ 21.33	\$ 20.73	\$ 20.14	\$ 19.88	\$ 19.94

(1) 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 of the Fund on that date divided by the number of units then outstanding.

(2) Total increase (decrease) from operations consists of interest and dividend revenue, net of withholding taxes and foreign exchange 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 asset value 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.

RATIOS / SUPPLEMENTAL DATA

Net Assets (\$millions) ⁽¹⁾	\$ 105.62	\$ 149.06	\$ 306.12	\$ 586.07	\$ 769.87
Number of units outstanding ⁽¹⁾	4,952,796	7,190,778	15,196,591	29,473,662	38,600,579
Management expense ratio ⁽²⁾	1.36%	1.92%	1.95%	1.94%	1.95%
Portfolio turnover rate ⁽³⁾	103.86%	69.59%	12.13%	43.07%	31.58%
Trading expense ratio ⁽⁴⁾	0.00%	0.02%	0.04%	0.03%	0.07%
Closing market price	\$ 20.70	\$ 20.20	\$ 19.34	\$ 19.15	\$ 18.74

(1) This information is provided as at December 31.

(2) Management expense ratio is the ratio of all fees and expenses, including goods and service taxes and charged to the Fund to average net assets. The management expense ratio for 2006 includes the special resolution expense. The management expense ratio for 2006 excluding the special resolution expense is 1.29%.

(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 an annualized percentage of daily average net assets during the period.

Management Fees

Mulvihill Capital Management ("MCM") is entitled to fees under the Investment Management Agreement calculated monthly as 1/12 of 0.50 percent of the net assets of the Fund at each month end. Prior to the restructuring approved May 23, 2006, the investment management fee was calculated monthly at 1/12 of 1.15 percent of the net assets of the Fund at each month end. The Investment Manager voluntarily agreed to defer payment of a portion of its Investment Management fees until the date of restructuring. From the time the Investment Manager voluntarily agreed to defer a portion of management fees, the Fund has experienced retractions of units reducing the number of units outstanding in the Fund. Therefore, the Investment Manager collected a portion of the accrued management fee in respect of units that have been retracted and cancelled from the Fund and which are no longer outstanding as at December 31, 2006. This amounted to \$2,578,593 of the previously accrued investment management fee that had been voluntarily deferred. The remaining portion of the accrued investment management fee voluntarily deferred of \$2,507,941 was collected in connection with the restructuring of the Fund.

Services received under the Investment Management Agreement include the making of all investment decisions in accordance with the investment objectives, strategy and criteria of the Fund. MCM also makes decisions as to the purchase and sale of securities comprising the portfolio and as to the execution of all portfolio and other transactions.

Mulvihill Fund Services is entitled to fees under the Management Agreement calculated monthly as 1/12 of 0.10 percent of the net assets of the Fund at each month end. Services received under the Management Agreement include providing or arranging for required administrative services to the Fund.

Recent Developments

In May 2006, unitholders approved a proposal to amend the investment objectives of the Fund, which in summary, will enhance the net asset value per unit on the termination date. The forward agreement was settled and the proceeds were used to purchase a portfolio of zero-coupon debt securities issued by the Government of Canada or Canadian provincial governments. The two key benefits of this change are: (1) elimination of the ongoing fees associated with managing the forward contract, which will save unitholders approximately \$0.73 per unit over the remaining life of the Fund, and (2) provide for an increase to the net asset value at termination to approximately \$25.75 per unit.

Accordingly, the investment strategy has been changed to invest in zero-coupon bonds and to maintain sufficient cash and cash equivalents to cover all costs and expenses of the Fund until the termination date. Also, the investment objective of the Fund has been changed to return at least \$25.75 per unit to unitholders upon termination of the Fund on December 31, 2012.

Reflective of the Fund’s revised operating mandate, the name of the Fund has been changed to Government Strip Bond Fund from Pro-AMS RSP Fund and trades on the Toronto Stock Exchange under the ticker symbol GSB.UN effective May 29, 2006.

The Bank of Canada is now in a holding pattern after raising interest rates 75 basis points to 4.25 percent; this was largely expected. We remain neutral to slightly positive going forward as we do not expect any significant interest rate moves at this point.

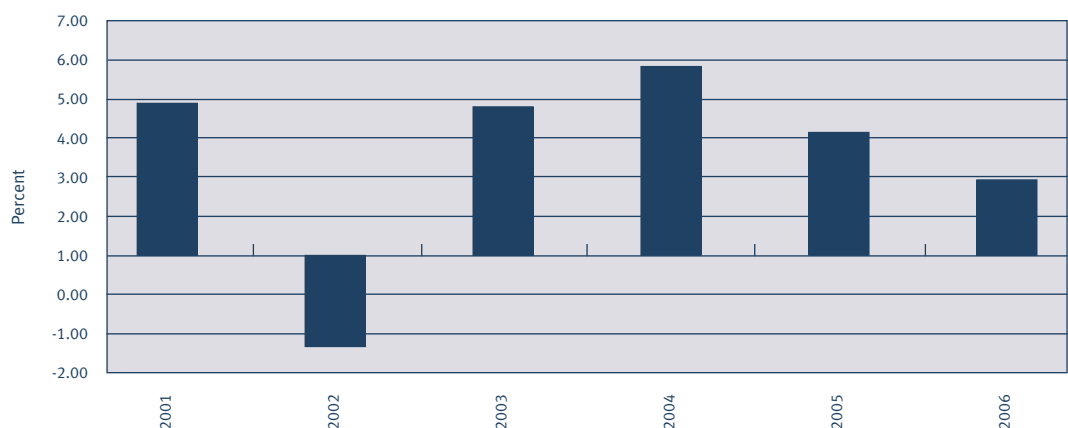
Past Performance

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

- (a) the information shown assumes that all distributions made by the Fund during these periods were reinvested in the Fund,
- (b) the information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and
- (c) 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 in each of the past six years has varied from year to year. The chart also shows, in percentage terms, how much an investment made on January 1 in each year or the date of inception in 2001 would have increased or decreased by the end of that fiscal year.



Annual Compound Returns

The following table shows the Fund's historical annual compound total return for the periods ended December 31 as compared to the performance of the S&P/TSX Composite Index, S&P 500 Index and Scotia Capital Universal Bond Index.

(In Canadian Dollars)	One Year	Three Years	Since Inception*
Mulvihill Government Strip Bond Fund	2.88%	4.29%	3.53%
In order to meet regulatory requirements, the performance of three broader based market indices have been included below.			
S&P/TSX Composite Index**	17.26%	18.55%	10.04%
S&P 500 Index***	15.74%	6.70%	(0.84)%
Scotia Capital Universal Bond Index****	4.06%	5.88%	6.55%

* From date of inception on March 2, 2001.

** The S&P/TSX Composite Index is a capitalization-weighted index designed to measure the market activity of stocks listed on the TSX.

*** The S&P 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure the performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

**** The Scotia Capital Universal Bond Index is designed to measure the performance of the Canadian fixed income market.

The performance of the Fund in the above table from the period of inception to May 23, 2006 was based on the investment objectives and strategy of the Fund as Mulvihill Pro-AMS RSP Fund. Under the original investment strategy the Fund entered into a forward purchase and sale agreement (the "Forward Agreement") pursuant to which the counterparty will pay to the Fund an amount equal to the original issue price for each unit outstanding on the termination date in exchange for the Fund delivering to the counterparty certain equity securities which it purchased with approximately 55 percent of the gross proceeds from the initial offering of units (the "Fixed Portfolio"). The balance of the net proceeds of the initial offering were invested in a diversified portfolio (the "Managed Portfolio") consisting principally of equity securities of companies selected from the S&P/TSX 60 Index and of companies with a market capitalization in excess of U.S. \$5.0 billion selected from the S&P 500 Index. In May of 2005 the Managed Portfolio was converted to cash and cash equivalents in order to provide greater certainty to the principal protection feature. As a result, the Fund's equity exposure was eliminated whereas its sensitivity to interest rate levels increased. On May 23, 2006 the unitholders approved a proposal resulting in a change in the investment objectives and strategy of the Fund. After May 23, 2006 the Fund settled its existing Forward Agreement and used the proceeds to invest in a portfolio of zero-coupon debt securities issued by Canadian provincial governments and/or the Government of Canada.

The equity performance benchmarks shown here provide 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 these indices; rather, its objectives were 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.

These investment strategies result in a rate of return for the Fund that differs from that of a conventional, fully-invested portfolio. During periods of strongly rising markets, the Fund's approach will tend to underperform a comparable fully-invested portfolio of the same stocks as the Fund is not fully invested and writing covered call options generally limits portfolio performance to the option premium received. In periods of declining markets, however, the Fund's defensive cash balances help to protect net asset value, and covered option writing income generally provides returns exceeding those of a conventional portfolio.

Related Party Transactions

Mulvihill Capital Management 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 February 15, 2001.

Mulvihill Fund Services Inc. (“Mulvihill”) is the Manager of the Fund pursuant to a Management Agreement made between the Fund and Mulvihill dated February 15, 2001, and as such, is responsible for providing or arranging for required administrative services to the Fund. Mulvihill is a wholly-owned subsidiary of MCM. These parties are paid the fees described under the Management Fees section of this report.

Forward-Looking Statements

This report may contain forward-looking statements about the Fund. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “estimates” or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also forward-looking. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to any divergence between what is anticipated and what actually occurs, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technology change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and you should avoid placing undue reliance on forward-looking statements. While the Fund currently anticipates that subsequent events and developments may cause the Fund’s views to change, the Fund does not undertake to update any forward-looking statements.

Management's Responsibility for Financial Reporting

The accompanying financial statements of Mulvihill Government Strip Bond Fund (formerly Pro-AMS Trust) (the "Fund") and all the information in this annual report are the responsibility of the management of Mulvihill Fund Services Inc. (the "Manager"), and have been reviewed by the 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 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 external auditors 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 external auditors' report. Deloitte & Touche LLP has full and unrestricted access to the Board.



John P. Mulvihill
Director
Mulvihill Fund Services Inc.
February 22, 2007



Sheila S. Szela
Director
Mulvihill Fund Services Inc.

To the Unitholders of Mulvihill Government Strip Bond Fund

We have audited the accompanying statement of investments of Mulvihill Government Strip Bond Fund (formerly Pro-AMS Trust) (the "Fund") as at December 31, 2006, the statements of net assets as at December 31, 2006 and 2005, and the statements of financial operations, of changes in net assets, and of net gain on sale of investments for the years then ended. These financial statements are the responsibility of the Fund's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund and its investments as at the dates indicated above, and the results of its operations, the changes in its net assets, and the net gain on sale of investments for the years indicated above in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Toronto, Ontario
February 22, 2007

Statements of Net Assets

December 31, 2006 and 2005

	2006	2005
ASSETS		
Investments - at market value (cost - \$99,645,546; 2005 - \$122,959,639)	\$ 100,895,788	\$ 135,103,321
Short-term investments - (cost - \$6,010,796; 2005 - \$32,599,647)	6,010,796	32,598,894
Cash	2,878	6,798
Interest receivable	22,878	60,155
Due from brokers - investments	30,800,196	-
Due from brokers - derivatives	-	132,183,841
TOTAL ASSETS	137,732,536	299,953,009
LIABILITIES		
Redemptions payable	32,028,512	145,924,425
Accrued management fees (Note 5)	70,183	4,516,826
Accrued liabilities	13,389	328,544
Accrued forward agreement fees	-	122,214
TOTAL LIABILITIES	32,112,084	150,892,009
NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY	\$ 105,620,452	\$ 149,061,000
Number of Units Outstanding (Note 4)	4,952,796	7,190,778
Net Asset Value per Unit	\$ 21.3254	\$ 20.7295

On Behalf of the Manager,
Mulvihill Fund Services Inc.



John P. Mulvihill, Director



Sheila S. Szela, Director

Statements of Financial Operations

Years ended December 31, 2006 and 2005

	2006	2005
REVENUE		
Dividends	\$ -	\$ 182,338
Interest, net of foreign exchange	4,175,706	892,897
Withholding taxes	-	(22,617)
TOTAL REVENUE	4,175,706	1,052,618
EXPENSES (Note 5)		
Management fees	1,203,694	3,746,067
Forward agreement fee	302,482	1,624,355
Administrative and other expenses	77,928	98,950
Custodian fees	33,994	54,482
Audit fees	29,842	23,799
Advisory board fees	20,427	20,127
Legal fees	7,879	815
Unitholder reporting costs	33,918	68,082
Goods and services tax	95,300	279,779
TOTAL EXPENSES	1,805,464	5,916,456
Net Investment Income (Loss)	2,370,242	(4,863,838)
Net gain (loss) on sale of investments	400,012	(5,353,040)
Net gain on sale of derivatives	11,199,317	51,271,773
Net change in unrealized appreciation/depreciation of investments	(10,892,631)	(29,721,774)
Net Gain on Investments	706,698	16,196,959
Special Resolution Expense	(94,384)	-
TOTAL RESULTS OF FINANCIAL OPERATIONS	\$ 2,982,556	\$ 11,333,121
TOTAL RESULTS OF FINANCIAL OPERATIONS PER UNIT (based on the weighted average number of units outstanding during the year of 6,726,136; 2005 - 14,915,642)	\$ 0.4434	\$ 0.7598

Statements of Changes in Net Assets

Years ended December 31, 2006 and 2005

	2006	2005
NET ASSETS, BEGINNING OF YEAR	\$ 149,061,000	\$ 306,116,711
Total Results of Financial Operations	2,982,556	11,333,121
Unit Transactions		
Amount paid for units redeemed	(46,423,104)	(164,802,331)
Distributions to Unitholders (Note 6)		
Non-taxable distributions	-	(3,586,501)
Changes in Net Assets during the Year	(43,440,548)	(157,055,711)
NET ASSETS, END OF YEAR	\$ 105,620,452	\$ 149,061,000

Statements of Net Gain on Sale of Investments

Years ended December 31, 2006 and 2005

	2006	2005
Proceeds from Sale of Investments	\$164,098,013	\$ 330,568,289
Cost of Investments Sold		
Cost of investments, beginning of year	122,959,639	270,147,006
Cost of investments purchased	129,184,591	137,462,189
	252,144,230	407,609,195
Cost of Investments, End of Year	(99,645,546)	(122,959,639)
	152,498,684	284,649,556
NET GAIN ON SALE OF INVESTMENTS	\$ 11,599,329	\$ 45,918,733

Statement of Investments

December 31, 2006

	Par Value	Average Cost	Market Value	% of Portfolio
SHORT-TERM INVESTMENTS				
Treasury Bills				
Government of Canada, 4.16% – February 22, 2007	5,850,000	\$ 5,793,196	\$ 5,793,196	
Government of Canada, 4.15% – March 22, 2007	220,000	217,600	217,600	
Total Treasury Bills		6,010,796	6,010,796	99.6%
Accrued Interest			22,878	0.4%
TOTAL SHORT-TERM INVESTMENTS		\$ 6,010,796	\$ 6,033,674	100.0%
INVESTMENTS				
Bonds				
Ontario Prov. Gen Residual Strip – December 2, 2012	30,000,000	\$ 23,229,262	\$ 23,463,090	
Ontario Prov. Gen Coupon Strip – December 2, 2012	98,825,000	76,416,284	77,432,698	
Total Bonds		99,645,546	100,895,788	100.0%
TOTAL INVESTMENTS		\$ 99,645,546	\$ 100,895,788	100.0%

1. Establishment and Restructuring of the Fund

Mulvihill Government Strip Bond Fund, formerly Pro-AMS Trust, (the “Fund”) is an investment trust established under the laws of the Province of Ontario on February 15, 2001. The Fund began operations on March 2, 2001. In May 2006, unitholders approved a proposal to amend the investment objectives of the Fund, which in summary, will enhance the net asset value per unit on the termination date. Reflective of the Fund’s revised operating mandate, the name of the Fund has been changed to Government Strip Bond Fund and trades on the Toronto Stock Exchange under the ticker symbol GSB.UN effective May 29, 2006. The Fund will terminate on December 31, 2012 and its assets will be distributed to unitholders unless unitholders determine to continue the Fund by a majority vote at a meeting called for such purpose.

The manager of the Fund is Mulvihill Fund Services Inc. (the “Manager”) and the Fund’s investment manager is Mulvihill Capital Management Inc. (the “Investment Manager”). RBC Dexia Investor Services (the “Trustee”) is the trustee and acts as custodian of the assets of the Fund.

On May 23, 2006, unitholders voted in favour of a proposal (the “Proposal”) to:

- (i) Settle its currently existing forward agreement and use the proceeds to acquire a portfolio of zero-coupon debt securities (“Zero Coupon Bonds”) issued by Canadian provincial governments and/or the Government of Canada. By settling the forward agreement, the Fund will no longer have to pay forward fees which will result in annual savings of approximately \$0.11 per unit or approximately \$0.73 per unit over the remaining term of the Fund. As a result, the Fund intends to return at least \$25.75 per unit to unitholders on the termination of the Fund on December 31, 2012 (the “Termination Date”) instead of \$25.00 per unit under the forward agreement;
- (ii) Amend the investment strategy and investment restrictions of the Fund. The Fund will invest in the Zero Coupon Bonds and will also hold cash and cash equivalents in an amount sufficient to cover all costs and expenses of the Fund until the Termination Date; and
- (iii) Amend the investment objectives of the Fund to provide that the Fund’s investment objective will be to return at least \$25.75 per unit to unitholders upon termination of the Fund on December 31, 2012.

In connection with the approval of the Proposal, the Fund has changed its name to Government Strip Bond Fund and Mulvihill Capital Management Inc., as Investment Manager, has agreed to reduce its investment management fee from 1.15 percent of the Fund’s net asset value (“NAV”) to 0.50 percent of the Fund’s NAV from and after May 23, 2006 until the Termination Date.

The manager of the Fund is Mulvihill Fund Services Inc. (the “Manager”) and the Fund’s investment manager is Mulvihill Capital Management Inc. (the “Investment Manager”). RBC Dexia Investor

Services (the “Trustee”) is the trustee and acts as custodian of the assets of the Fund.

The Fund settled its existing forward agreement for proceeds of \$125,286,790 which were used to acquire zero coupon bonds. The settlement of the forward agreement resulted in a gain on sale of \$10,526,921.

2. Investment Objectives of the Fund

The Fund’s original investment objectives were to pay monthly distributions and to return the original issue price of \$25.00 to unitholders on termination date of December 31, 2012. As of May 2006, the new Fund objective is to return at least \$25.75 per unit to unitholders on termination date of December 31, 2012.

In May 2006, unitholders approved a proposal to provide further certainty to the net asset value at termination. The forward agreement was settled and the proceeds were used to purchase a portfolio of zero coupon debt securities issued by the Government of Canada or Canadian provincial governments. Accordingly, the investment strategy has been changed to invest in zero coupon bonds, as well as, sufficient cash and cash equivalents to cover all costs and expenses of the Fund until termination date (December 31, 2012).

3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada, which include estimates and assumptions by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Actual results may differ from estimates. The significant accounting policies of the Fund are as follows:

Valuation of Investments

Investments and short-term bonds are recorded in the financial statements at their fair market value at the end of the period which is determined as follows:

Securities are valued at fair market value, which is determined by the closing sale price on the recognized stock exchange on which the securities are listed or principally traded. If no sale has taken place on that day, valuation will be at the average of the bid and the asked price.

Short-term investments are valued at cost plus accrued interest, which approximates market value.

Zero coupon bonds are valued at latest sale price (or at the average of the closing bid and offering price) as reported by a recognized investment dealer or valuation service.

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.

Interest income is recorded daily as it is earned. Zero coupon bonds are purchased at a discount. The amortization of the discount is recorded on a straight line basis and included in interest income.

Foreign Currency Translation

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

Foreign exchange gains (losses) on short-term investments are reflected as interest income (loss). Other foreign exchange gains (losses) are recorded as realized or unrealized gain (loss) on investments, as appropriate.

New Accounting Standards

The Canadian Institute of Chartered Accountants issued new accounting standards relating to Financial Instruments which will be effective for the Fund from January 1, 2007. These new standards will impact certain financial statement accounting and disclosure including the valuation of securities at bid price and accounting for transaction costs.

However, as a result of regulatory relief received from the Canadian Securities Administrators, on implementation of the new standards, the above changes will not impact the net asset value per unit used to transact units of the Fund which will continue to be based upon securities valued at the last sale price (or at the average of the bid and ask price).

4. 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 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 are issued only as fully paid and are non-assessable. Fractions of units are proportionately entitled to all of these rights except voting rights.

Units may be surrendered at any time for redemption but will be redeemed only on a monthly valuation date. Unitholders whose units are redeemed on a December valuation date will be entitled to receive a redemption price per unit equal to the net asset value per unit.

Unitholders whose units are redeemed on any other valuation date will be entitled to receive a redemption price per unit equal to the net asset value per unit less the lesser of (i) 4 percent of such net asset value per

unit and (ii) \$1.00. Under the terms of a Recirculation Agreement, the Fund may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any units tendered for redemption.

The following are the unit transactions for the year:

	2006	2005
Units outstanding, beginning of year	7,190,778	15,196,591
Units redeemed	(2,237,982)	(8,005,813)
Units outstanding, end of year	4,952,796	7,190,778

Under the terms of the Fund's normal course issuer bid that was renewed in June 2006, the Fund proposes to purchase, if considered advisable, up to a maximum of 648,853 units (2005 - 1,430,764 units), 10 percent of its public float as determined in accordance with the rules of the Toronto Stock Exchange. Purchases would be made in the open market through the facilities of the Exchange. The normal course issuer bid will remain in effect until the earlier of July 4, 2007 or until the Fund has purchased the maximum number of units permitted under the bid. As at December 31, 2006, no units (2005 - nil) have been purchased by the Fund.

Unitholders may obtain a copy of the Notice of Intention to make a normal course issuer bid, without charge, by writing to Investor Relations at: Mulvihill Government Strip Bond Fund, Investor Relations, 121 King Street West, Suite 2600, Toronto, Ontario, M5H 3T9.

5. Management Fees and Expenses

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 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.

Fees are payable to the Manager under the terms of the trustee agreement and to the Investment Manager under the terms of an investment management agreement. The fees are payable at annual rates of 0.10 percent and 0.50 percent, respectively, of the Fund's net asset value calculated and payable monthly, plus applicable taxes.

Prior to the restructuring approved May 23, 2006, the investment management fee was calculated monthly at $\frac{1}{12}$ of 1.15 percent of the net assets of the Fund at each month end. The Investment Manager voluntarily agreed to defer payment of a portion of its Investment Management fees until the date of restructuring. From the time the Investment Manager voluntarily agreed to defer a portion of management fees, the Fund has experienced retractions of units reducing the number of units outstanding in the Fund. Therefore, the Investment Manager collected a portion of the accrued management fee in respect of units that have been retracted and cancelled from the Fund and which are no longer outstanding as at December 31, 2006. This amounted to \$2,578,593 of the previously accrued investment management fee that had been voluntarily deferred. The remaining

portion of the accrued investment management fee voluntarily deferred of \$2,507,941 was collected in connection with the restructuring of the Fund.

6. Distributions

The Fund endeavours to make monthly cash distributions to unitholders of net income, net realized capital gains and option premiums on the last day of each month in each year. In order to provide greater certainty to the net asset value at termination, distributions were suspended effective May 2005.

The non-taxable distributions received by unitholders reduce the adjusted cost base of the unit for tax purposes.

7. Income Taxes

The Fund is a “mutual fund trust” as defined in the Income Tax Act (Canada) (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 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.

No amount is payable on account of income taxes in 2006 or 2005.

Accumulated non-capital losses of approximately \$28.1 million (2005 - \$28.1 million) and capital losses of approximately \$92.5 million (2005 - \$97.7 million) are available for utilization against net investment

income and realized gains on sale of investments, respectively, in future years. The non-capital losses have expiration dates extending to 2014 and capital losses can be carried forward indefinitely.

Issue costs of nil (2005 - \$2.1 million) remain undeducted for tax purposes at year end.

8. Commission Charges

Total commissions paid in 2006 in connection with portfolio transactions were nil (2005 - \$71,322). Of this amount nil (2005 - \$23,172) was directed for payment of trading related goods and services.

9. Financial Instruments and Risk Management

The Fund’s financial instruments consist of cash, investments and certain derivative contracts (forward agreement).

Risks of these contracts arise from the potential inability of the counterparties to meet the terms of their contracts and from future movement in stock values and interest rates. The maximum credit risk exposure is the aggregate of all contracts with a positive value as disclosed on the statement of investments. The Fund manages these risks through the use of various risk limits and trading strategies.

Investments and derivative contracts are carried at fair market values. Other financial instruments are carried at cost, which approximates fair value.

10. Comparative Figures

Certain comparative figures have been reclassified to conform with current year’s presentation.

Mulvihill Capital Management Inc.

Mulvihill Capital Management is a leading independent investment manager responsible for managing more than \$2.8 billion in segregated and pooled funds on behalf of institutional and high net worth clients. Founded by Canada Trust in 1985, Mulvihill Capital Management emerged in 1995 as an independent company. Today, Mulvihill is managed by a cohesive team of senior managers and owners who have worked together for more than a decade. Our scale and independent structure allow us to provide our clients with a uniquely customized approach to asset management.

Mulvihill Capital Management operates three main lines of business:

- Mulvihill Institutional Asset Management → provides asset growth management of pension funds, corporations, management companies, endowment foundations and mutual funds with a wide variety of investment mandates. Our reputation has been built on the ability to provide customized portfolios that meet the stated needs of our clients.
- Mulvihill Wealth Management → offers a comprehensive specialized approach tailored to a client's personal investment strategies. Personalized service and customized reporting ensure that our clients are fully aware of the progress they are making.
- Mulvihill Structured Products → is responsible for the development and management of Mulvihill Hybrid Income Funds tailored to meet very specific investment objectives. Assets are generally managed to meet absolute rather than relative returns.

Mulvihill's Hybrid Income Funds are exchange-traded, equity-based funds that are enhanced by virtue of their broad distribution, special structure and performance characteristics. The Hybrid Income Funds are prime examples of our customized approach to asset management.

MULVIHILL HYBRID INCOME FUNDS	SYMBOL	HIGH	LOW
		For the period January 1, 2006 to December 31, 2006	
MULVIHILL PLATINUM			
Mulvihill Government Strip Bond Fund	GSB.UN	\$ 21.44	\$ 19.20
Mulvihill Pro-AMS U.S. Fund	PAM.UN	\$ 22.44	\$ 20.44
Mulvihill Pro-AMS 100 Plus (Cdn \$) Fund	PRC.UN	\$ 19.20	\$ 16.05
Mulvihill Pro-AMS 100 Plus (U.S.\$) Fund	PRU.U	\$ 15.57	\$ 13.35
Mulvihill Pro-AMS RSP Split Share Fund	SPL.A/SPL.B	\$ 10.10/\$15.60	\$ 8.80/\$13.07
MULVIHILL PREMIUM			
Mulvihill Core Canadian Dividend Fund	CDD.UN	\$ 10.90	\$ 9.70
Mulvihill Premium Canadian Fund	FPI.UN	\$ 19.99	\$ 16.60
Mulvihill Premium Oil & Gas Fund	FPG.UN	\$ 14.21	\$ 10.95
Mulvihill Premium 60 Plus Fund	SIX.UN	\$ 18.75	\$ 16.15
Mulvihill Premium Global Plus Fund	GIP.UN	\$ 11.80	\$ 10.48
Mulvihill Premium Canadian Bank Fund	PIC.A/PIC.PR.A	\$ 11.70/\$16.94	\$ 9.82/\$15.51
Mulvihill Premium Split Share Fund	MUH.A/MUH.PR.A	\$ 8.65/\$16.00	\$ 6.87/\$15.14
Mulvihill Premium Global Telecom Fund	GT.A/GT.PR.A	\$ 0.28/\$12.70	\$ 0.08/\$10.75
Mulvihill Top 10 Canadian Financial Fund	TCT.UN	\$ 17.08	\$ 14.28
Mulvihill Top 10 Split Fund	TXT.UN/TXT.PR.A	\$ 12.74/\$13.75	\$ 8.45/\$12.42
Mulvihill World Financial Split Fund	WFS/WFS.PR.A	\$ 12.25/\$11.30	\$ 10.40/\$10.41

Board of Advisors

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Chairman & President,
Mulvihill Capital Management Inc.

Sheila S. Szela
Vice President, Finance & CFO,
Mulvihill Capital Management Inc.

Michael M. Koerner
Corporate Director

Robert W. Korthals
Corporate Director

C. Edward Medland
President, Beauwood Investments Inc.

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

Hybrid Income Funds

Managed by Mulvihill Structured Products

Mulvihill Platinum

Mulvihill Government Strip Bond Fund
Mulvihill Pro-AMS U.S. Fund
Mulvihill Pro-AMS 100 Plus (Cdn \$) Fund
Mulvihill Pro-AMS 100 Plus (U.S. \$) Fund
Mulvihill Pro-AMS RSP Split Share Fund

Mulvihill Premium

Mulvihill Core Canadian Dividend Fund
Mulvihill Premium Canadian Fund
Mulvihill Premium Oil & Gas Fund
Mulvihill Premium 60 Plus Fund
Mulvihill Premium Global Plus Fund
Mulvihill Premium Canadian Bank Fund
Mulvihill Premium Split Share Fund
Mulvihill Premium Global Telecom Fund
Mulvihill Top 10 Canadian Financial Fund
Mulvihill Top 10 Split Fund
Mulvihill World Financial Split Fund

Mutual Funds Managed by Mulvihill Capital Management

Mulvihill Canadian Money Market Fund
Mulvihill Canadian Bond Fund
Mulvihill Global Equity Fund
Premium Global Income Fund

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