

ANNUAL REPORT 2010

Government Strip Bond Trust



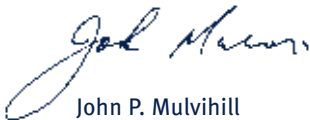
Letter to Unitholders

We are pleased to present the 2010 annual report containing the management report of fund performance and the financial statements for Government Strip Bond Trust (the “Fund”).

The Fund is a closed-end investment trust with the objective of returning \$25.75 per unit to investors on the termination date of December 31, 2012. The units are listed on the Toronto Stock Exchange under the ticker symbol GSB.UN. To accomplish its objective the Fund invests in a portfolio consisting of zero coupon debt securities.

The Fund ended the year with a net asset value per unit of \$25.62 up from \$25.06 per unit in the prior year. While the value of the Fund’s portfolio is subject to changes in interest rates, such changes will have no impact on the ability of the Fund to return the terminating value of \$25.75 per unit as the highly rated zero coupon securities mature immediately prior to the termination date. The Fund earned an annual total return of 2.2 percent and has earned a total compound return of 4.0 percent since inception. 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.

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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 Government Strip Bond 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 Objective and Strategy

The objective of the Fund is to return at least \$25.75 per unit to unitholders on the termination date of December 31, 2012.

The Fund invests 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

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 and Portfolio Holdings

December 31, 2010

	% OF NET ASSET VALUE
Provincial Bonds	134 %
Other Assets (Liabilities)	(34)%
	100 %

Results of Operations

Distributions

Pursuant to the unitholder vote in May 2006, the Fund adopted a strategy to purchase zero coupon bonds in order to pay \$25.75 per unit on termination of the Fund on December 31, 2012. No distributions have been paid to unitholders of the Fund since May 2005. Since inception in March 2001 and prior to the revised strategy, the Fund paid total cash distributions of \$5.54 per unit.

Revenues and Expenses

The Fund's total revenue per unit increased to \$1.05 per unit for the year ended December 31, 2010 from \$1.04 per unit for 2009, reflecting higher interest earned on a per average-unit basis. Overall expenses decreased from \$0.6 million in 2009 to \$0.5 million in 2010, mainly attributable to lower management fees on a lower aggregate net asset value and reduced unitholder reporting costs for fewer unitholders, partially offset by the unfavourable impact of the new harmonized sales tax in Ontario. However, total expenses per unit increased by \$0.02 per unit to \$0.23 per unit in 2010 due to a decreased number of units outstanding during the year. The Fund had a net realized and unrealized loss of \$0.25 per unit in 2010 as compared to a net realized and unrealized gain of \$0.07 per unit in 2009.

Net Asset Value

The net asset value per unit of the Fund increased by \$0.56 per unit, or 2.2 percent, from \$25.07 per unit at December 31, 2009 to \$25.63 per unit at December 31, 2010. The total net asset value of the Fund decreased \$12.9 million from \$54.7 million at December 31, 2009 to \$41.8 million at December 31, 2010, primarily as a result of annual redemptions in December totalling \$14.1 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 for the past five years. This information is derived from the Fund's audited annual financial statements.

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
THE FUND'S NET ASSETS PER UNIT					
Net Assets, beginning of year (based on bid prices) ⁽¹⁾	\$ 25.06	\$ 24.17	\$ 21.97	\$ 21.32 ⁽³⁾	\$ 20.73
INCREASE (DECREASE) FROM OPERATIONS					
Total revenue	1.05	1.04	1.05	1.04	0.62
Total expenses	(0.23)	(0.21)	(0.19)	(0.18)	(0.28)
Realized gain (loss) for the period	0.50	0.40	0.10	–	1.72
Unrealized gain (loss) for the period	(0.75)	(0.33)	1.24	(0.23)	(1.62)
Total Increase (Decrease) from Operations⁽²⁾	0.57	0.90	2.20	0.63	0.44
DISTRIBUTIONS					
Non-taxable distributions	–	–	–	–	–
Total Annual Distributions	–	–	–	–	–
Net Assets, as at December 31 (based on bid prices)⁽¹⁾	\$ 25.62	\$ 25.06	\$ 24.17	\$ 21.97	\$ 21.33

(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 of the Fund on that 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. The change to the use of bid prices is due to accounting standards set out by the Canadian Institute of Chartered Accountants adopted January 1, 2007 relating to Financial Instruments.

(2) Total increase (decrease) from operations consists of interest and dividend revenue, net of withholding taxes and foreign exchange gains (losses), 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) Net assets per unit has been adjusted for the change in accounting policy relating to the calculation of net asset value based on bid prices versus closing prices prior to 2007.

RATIOS/SUPPLEMENTAL DATA

Net Asset Value (\$millions) ⁽¹⁾	\$ 41.84	\$ 54.74	\$ 72.20	\$ 83.85	\$ 105.62
Number of units outstanding ⁽¹⁾	1,632,823	2,183,740	2,985,597	3,816,987	4,952,796
Management expense ratio ⁽²⁾	0.91%	0.86%	0.83%	0.83%	1.36%
Portfolio turnover rate ⁽³⁾	0.00%	0.00%	0.00%	0.00%	103.86%
Trading expense ratio ⁽⁴⁾	0.00%	0.00%	0.00%	0.00%	0.00%
Net Asset Value per Unit ⁽⁵⁾	\$ 25.63	\$ 25.07	\$ 24.18	\$ 21.97	\$ 21.33
Closing market price	\$ 24.93	\$ 24.25	\$ 23.05	\$ 21.60	\$ 20.70

(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, but excluding transaction fees and charged to the Fund divided by the average net asset value. The MER for 2006 includes the special resolution expense. The MER 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.

(4) Trading expense ratio represents total commissions expressed as a percentage of the daily average net asset value during the period.

(5) Net asset value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities and including the valuation of securities at closing prices divided by the number of units then outstanding.

Management Fees

Mulvihill Fund Services Inc. (the “Manager” or “Mulvihill”) amalgamated with Mulvihill Capital Management Inc. (the “Investment Manager” or “MCM”) on September 1, 2010. As successor, MCM became the Manager of the Fund. MCM is entitled to fees under the Investment Management Agreement calculated monthly as 1/12 of 0.50 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 in accordance with the investment objective and strategy 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, and therefore resulted in an increase in the management expense ratio.

Future Accounting Policy Changes

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, investment companies will adopt IFRS for its fiscal period beginning January 1, 2013 and will issue their initial financial statements in accordance with IFRS, with comparative information, for the interim period ending June 30, 2013. The Fund is scheduled to terminate before the initial adoption of IFRS.

Past Performance

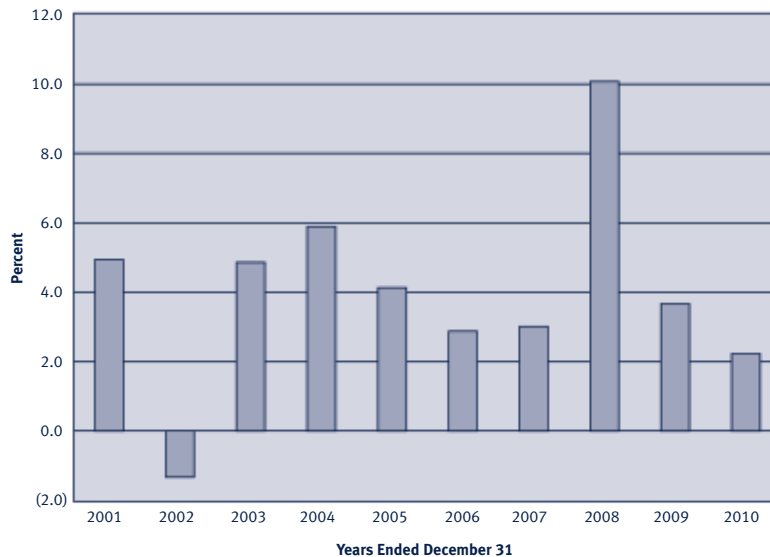
The chart below sets out the Fund’s year-by-year past performance. It is important to note that:

- (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 ten years. The chart also shows, in percentage terms, how much an investment made on January 1 in each year would have increased or decreased by the end of that 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 Composite Index, S&P 500 Index, Scotia Capital Short Term Bond Index and Bloomberg/EFFAS Bond Indices Canada 1-3 Year.

(In Canadian Dollars)	One Year	Three Years	Five Years	Ten Years
Government Strip Bond Trust	2.22 %	5.27 %	4.33 %	4.00 %
S&P/TSX Composite Index*	n/a	n/a	6.51 %	7.57 %
S&P 500 Index**	n/a	n/a	(0.93)%	(2.40)%
Scotia Capital Short Term Bond Index***	3.55 %	5.53 %	4.93 %	5.08 %
Bloomberg/EFFAS Bond Indices Canada 1-3 Year****	1.82 %	n/a	n/a	n/a

* The S&P Composite Index is a capitalization-weighted index designed to measure the market activity of stocks listed on the TSX. The benchmark is not applicable for the one and three year returns as the Fund had no equity exposure after May 2006.

** 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 benchmark is not applicable for the one and three year returns as the Fund had no equity exposure after May 2006.

*** The Scotia Capital Short Term Bond Index is designed to measure the performance of the 1 to 5 year term of the Canadian fixed income market. This Index has been selected as the remaining term of the Fund is less than 5 years. The Index used in 2005 and 2006 was the Scotia Capital Universal Bond Index. The Scotia Capital Universal Bond Index is designed to measure the performance of the broad market for all marketable bonds with an approximate average term of 10 years.

**** The Bloomberg/EFFAS Bond Indices Canada 1-3 Year is designed to measure the performance of the 1 to 3 year term Government of Canada bond market.

The Fund's sensitivity to changes in 1-5 year term interest rates and the shape of the yield curve was reduced as the term to maturity of the bonds was shortened in keeping with the December 31, 2012 termination date of the Fund. Commencing in 2009, the shorter-term Bloomberg/EFFAS Bond Indices Canada 1-3 Year was added to the performance benchmarks of the Fund.

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 Pro-AMS Trust. 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 performance benchmarks shown here provide an approximate indication of how the Fund's returns compare to a public market index. It is important to note that the Fund is not managed in order to match or exceed these indices; rather, its objective is to pay out \$25.75 at the termination date.

Portfolio Manager Report

The Fund is primarily invested in highly rated Government of Ontario zero coupon debt securities which have no reinvestment risk. Therefore changes to current interest rates will not impact the final redemption value of the zero coupon bonds, and will have very little impact on mark to market valuations as the duration of zero coupon bonds is approximately equal to the time left to maturity.

The Bank of Canada key lending rate started the year at 0.25 percent compared to 1.50 percent at the start of 2009. This historic low was maintained for the first half of the year. As the economy continued to show signs of recovery, the Bank of Canada chose to raise its key lending rate. There were three successive rate increases of 0.25 percent in June, July and September to bring the key rate to 1.00 percent where it remained for the rest of the year. Current consensus suggests that rates will remain unchanged through the first half of 2011.

Interest rates in the one to three year term moved higher in the first quarter, trended lower for the next six months before resuming a slight uptrend. The total return of mid-term bonds in Canada, as represented by the Bloomberg/EFFAS Bond Indices Canada 1-3 Year Index was 1.8 percent.

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 February 15, 2001.

MCM is the Manager of the Fund pursuant to a Management Agreement made between the Fund and MCM dated February 15, 2001, and as such, is responsible for providing or arranging for required administrative services to the Fund.

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

Independent Review Committee

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

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

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 forwardlooking statements.

Management's Responsibility for Financial Reporting

The accompanying financial statements of Government Strip Bond 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 Government Strip Bond Trust

We have audited the accompanying financial statements of Government Strip Bond 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 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 Government Strip Bond 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 - \$53,839,492; 2009 - \$70,629,416)	\$ 55,964,048	\$ 74,393,292
Short-term investments at fair value (cost - nil; 2009 - \$79,973)	-	79,973
Cash	38,085	41,328
Interest receivable	-	19
TOTAL ASSETS	56,002,133	74,514,612
LIABILITIES		
Redemptions payable	14,117,689	19,736,684
Accrued management fees	28,532	37,974
Accrued liabilities	24,134	18,279
TOTAL LIABILITIES	14,170,355	19,792,937
NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY	\$ 41,831,778	\$ 54,721,675
Number of Units Outstanding (Note 5)	1,632,823	2,183,740
Net Assets per Unit (Note 4)	\$ 25.6193	\$ 25.0587

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		
Interest	\$ 2,282,475	\$ 3,086,395
TOTAL REVENUE	2,282,475	3,086,395
EXPENSES (Note 6)		
Management fees	333,285	442,510
Administrative and other expenses	57,668	64,265
Custodian fees	22,906	25,846
Audit fees	15,334	16,716
Advisory board fees	19,631	19,631
Independent review committee fees	6,601	6,514
Legal fees	4,033	5,893
Unitholder reporting costs	18,311	20,643
Federal and provincial sales taxes	28,752	27,896
TOTAL EXPENSES	506,521	629,914
Net Investment Income	1,775,954	2,456,481
Net gain on sale of investments	1,091,158	1,182,099
Net change in unrealized appreciation/depreciation of investments	(1,639,320)	(994,275)
Net Gain (Loss) on Investments	(548,162)	187,824
NET INCREASE IN NET ASSETS FROM OPERATIONS	\$ 1,227,792	\$ 2,644,305
NET INCREASE IN NET ASSETS FROM OPERATIONS PER UNIT (based on the weighted average number of units outstanding during the year of 2,182,231; 2009 - 2,974,125)	\$ 0.5626	\$ 0.8891

Statements of Changes in Net Assets

Years ended December 31

	2010	2009
NET ASSETS, BEGINNING OF YEAR	\$ 54,721,675	\$ 72,159,954
Net Increase in Net Assets from Operations	1,227,792	2,644,305
Unit Transactions		
Value for units redeemed	(14,117,689)	(20,082,584)
Change in Net Assets during the Year	(12,889,897)	(17,438,279)
NET ASSETS, END OF YEAR	\$ 41,831,778	\$ 54,721,675

Statements of Net Gain on Sale of Investments

Years ended December 31

	2010	2009
Proceeds from Sale of Investments	\$ 20,137,374	\$ 19,930,130
Cost of Investments Sold		
Cost of investments, beginning of year	70,629,416	86,291,484
Amortization of bond discount	2,256,292	3,085,963
	72,885,708	89,377,447
Cost of Investments, End of Year	(53,839,492)	(70,629,416)
	19,046,216	18,748,031
NET GAIN ON SALE OF INVESTMENTS	\$ 1,091,158	\$ 1,182,099

Statement of Investments

As at December 31, 2010

	Par Value	Average Cost	Fair Value	% of Portfolio
INVESTMENTS				
Bonds				
Province of Ontario Residual Stripped From Ontario - December 2, 2012	30,000,000	\$ 27,804,677	\$ 28,902,763	
Province of Ontario Coupon Stripped From Ontario - December 2, 2012	28,100,000	26,034,815	27,061,285	
Total Bonds		53,839,492	55,964,048	100.0%
TOTAL INVESTMENTS		\$ 53,839,492	\$ 55,964,048	100.0%

1. Establishment of the Fund

Government Strip Bond Trust (the "Fund") is a closed-end investment trust established under the laws of the Province of Ontario on February 15, 2001 under the name Pro-AMS Trust. 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, enhanced the net asset value per unit on the termination date. Reflective of the Fund's revised operating mandate, the name of the Fund was changed to Government Strip Bond Trust and trades on the Toronto Stock Exchange under the ticker symbol GSB.UN. 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 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 Objective of the Fund

The objective of the Fund is to return at least \$25.75 per unit to unitholders on the termination date of December 31, 2012.

The Fund invests in zero coupon bonds and also holds sufficient cash and cash equivalents to cover all costs and expenses of the Fund until the termination date.

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 9.

The significant accounting policies of the Fund are as follows:

Valuation of Investments

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.

Zero coupon bonds are valued at bid or latest sale 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.

4. Net Asset Value

The net asset value 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)	\$25.6258	\$25.0686
Difference	(0.0065)	(0.0099)
Net Assets per unit (for financial statement purposes)	\$25.6193	\$25.0587

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 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 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.

Unit transactions during the year are as follows:

	2010	2009
Units outstanding, beginning of year	2,183,740	2,985,597
Units redeemed	(550,917)	(801,857)
Units outstanding, end of year	1,632,823	2,183,740

6. Management Fees and Expenses

Mulvihill amalgamated with MCM on September 1, 2010. As successor, MCM became the Manager and the Investment Manager of the Fund. Fees are payable to the Manager under the terms of the trust agreement and to the Investment Manager under the terms of an investment management agreement. The fees are payable at annual rates of 0.10 percent and 0.50 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 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.

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 2010 or 2009.

Accumulated non-capital losses of approximately \$4.5M (2009 - \$6.2M) and capital losses of approximately \$91.4M (2009 - \$92.5M) are available for utilization against net investment income and realized gains on sale of investments, respectively, in future years. The capital losses can be carried forward indefinitely. The non-capital losses expire as follows:

Expiration Date	Amount (in \$M)
2014	\$ 4.4
2027	0.1
Total	\$ 4.5

8. 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 the Fund does not have any externally imposed capital requirements.

9. Financial Instruments and Risk Management

The Fund's financial instruments consist of cash, zero coupon bonds, 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
Provincial Bonds	\$ 55,964,048	\$ -	\$ -	\$ 55,964,048
Total Investments	\$ 55,964,048	\$ -	\$ -	\$ 55,964,048

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	\$ -	\$ 79,992	\$ -	\$ 79,992
Provincial Bonds	74,393,292	-	-	\$ 74,393,292
Total Investments	\$ 74,393,292	\$ 79,992	\$ -	\$ 74,473,284

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 interest rate risk, liquidity risk and credit risk.

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

Interest Rate 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. The Fund holds zero coupon bonds that have a duration equal to the bond's time to maturity, which makes them sensitive to any changes in interest rates.

Approximately 134 percent (2009 - 136 percent) of the Fund's net assets held at December 31, 2010 were invested in zero coupon bonds. If interest rates increased or decreased by 100 basis points as at December 31, 2010, the net assets of the Fund would have decreased or increased by approximately \$0.8M (2009 - \$1.6M) respectively or 2.0 percent (2009 - 3.0 percent) of the net assets, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

The market price of the Units may be affected by the level of interest rates prevailing from time to time. In addition, any decrease in the net asset value of the Fund resulting from an increase in interest rates may also negatively affect the market price of the Units. To mitigate this risk, excess cash and cash equivalents are invested at short-term market interest rates.

Liquidity Risk

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required. The Fund holdings consist primarily of zero coupon bonds with a maturity date of December 2012. The Bonds are to be held for the life of the Fund to return a value to unitholders of at least \$25.75 per unit, are not actively managed and therefore represent minimal liquidity risk if units are held to maturity of the Fund. In addition, bonds held are traded in active markets and can be readily sold to meet its obligations when due. Liabilities are payable within one year.

Cash is required to fund redemptions. Unitholders must surrender units at least 5 business days prior to the last day of the month and receive payment on or before 10 business days following the month end valuation date. Therefore the Fund has a maximum of 15 business days to generate sufficient cash to fund redemptions mitigating liquidity issues.

Credit Risk

The Fund is exposed to the credit risk associated with the counterparty and the risk that the counterparty will not satisfy its obligation.

The following is the credit rating for the counterparty 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	Rating
Province of Ontario Bonds	AA

10. 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, investment companies will adopt IFRS for the year beginning on January 1, 2013 and will issue their initial statements on a comparative basis for the interim period ending June 30, 2013. The Fund is scheduled to terminate before the initial adoption of IFRS.

Board of Advisors

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Mulvihill Capital Management Inc.

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

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Corporate Director

Robert W. Korthals¹
Corporate Director

Robert G. Bertram¹
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Visit our website at www.mulvihill.com for additional information on all Mulvihill Investment Funds.

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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.

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