

SEMI-ANNUAL REPORT 2012

Government Strip Bond Trust




strathbridge
ASSET MANAGEMENT

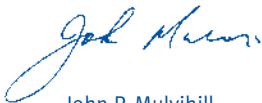
Government Strip Bond Trust

Letter to Unitholders

We are pleased to present the 2012 semi-annual report containing the management report of fund performance and the unaudited financial statements for Government Strip Bond Trust.

During the six months ended June 30, 2012, the net asset value decreased slightly from \$26.07 per unit at December 31, 2011 to \$26.06 per unit at June 30, 2012. 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 at least \$25.75 per unit as the highly rated zero coupon debt securities mature immediately prior to the termination date. 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 semi-annual report.



John P. Mulvihill
Chairman & CEO,
Strathbridge Asset Management Inc.

Government Strip Bond Trust

The Fund

The Fund is a closed-end investment trust with the objective of returning at least \$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.

Government Strip Bond Trust

Management Report of Fund Performance

Management Report of Fund Performance

This semi-annual management report of fund performance contains the financial highlights for the six months ended June 30, 2012 of Government Strip Bond Trust (the “Fund”). The unaudited semi-annual financial statements of the Fund are attached.

Copies of the Fund’s proxy voting policies and procedures, proxy voting disclosure record and quarterly portfolio disclosure may be obtained by calling 1-800-725-7172 toll-free, 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.strathbridge.com. You can also request annual and semi-annual reports at no cost by using one of the above methods.

Results of Operations

Distributions

No distributions were made for the six month periods ended June 30, 2012 and 2011.

Since inception in March 2001, the Fund has paid total cash distributions of \$5.54 per unit.

Revenue and Expenses

For the six months ended June 30, 2012, the Fund’s total revenue was \$0.51 per unit, unchanged from the prior year. Overall expenses decreased slightly as compared to the previous year. However, on a per average-unit basis, total expenses were \$0.16 per unit for the first six months of fiscal 2012, up \$0.02 per unit from last year due to a decreased average number of units outstanding during the period. The Fund had a net realized and unrealized loss of \$0.37 per unit in the first half of 2012 as compared to a net realized and unrealized loss of \$0.13 per unit a year earlier.

Management Report of Fund Performance

Net Asset Value

The net asset value per unit of the Fund declined slightly from \$26.07 per unit at December 31, 2011 to \$26.06 per unit at June 30, 2012. The total net asset value of the Fund was \$33.4 million at June 30, 2012, relatively unchanged from December 31, 2011.

During the six months ended June 30, 2012, the total return of the Fund was negative 0.1 percent. The total return of mid-term bonds in Canada, as represented by the Bloomberg/EFFAS Bond Indices Canada 1-3 Year Index was 0.5 percent for the first six months of 2012. The total return of Bloomberg/EFFAS Bond Indices Canada 1-3 Year Index is calculated without the deduction of management fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

Recent Developments

No recent developments occurred during the semi-annual period ending June 30, 2012.

Future Accounting Policy Changes

In January 2011, the Canadian Accounting Standards Board (“AcSB”) approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies (“AcG-18”). Subsequently, in December 2011, AcSB extended the deferral for another year to January 1, 2014. As a result, investment companies will adopt IFRS for its fiscal period beginning January 1, 2014 and will issue their initial financial statements in accordance with IFRS, with comparative information, for the semi-annual period ending June 30, 2014. The Fund is scheduled to terminate before the initial adoption of IFRS.

Government Strip Bond Trust

Management Report of Fund Performance

Related Party Transactions

On October 3, 2011, Mulvihill Capital Management Inc. (“MCM”), the Manager and Investment Manager of the Fund, announced a name change to Strathbridge Asset Management Inc. (“Strathbridge”).

Strathbridge, as the Investment Manager of the Fund pursuant to an Investment Management Agreement made between the Fund and MCM dated February 15, 2001 and amended as of May 23, 2006, manages the investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund.

Strathbridge is the Manager of the Fund pursuant to a Trust Agreement made between the Fund and MCM dated February 15, 2001 and amended as of May 23, 2006. As such, Strathbridge is responsible for providing or arranging for required administrative services to the Fund.

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

During the period, no recommendations or approvals were required to be sought from the Independent Review Committee (“IRC”) concerning related party transactions.

Management Report of Fund Performance

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 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.

Government Strip Bond Trust

Management Report of 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.

The information for the years ended December 31 is derived from the Fund's audited annual financial statements.

Information for the period ended June 30, 2012 is derived from the Fund's unaudited semi-annual financial statements.

	Six months ended June 30, 2012
NET ASSETS PER UNIT	
Net Assets, beginning of period (based on bid prices) ⁽¹⁾	\$ 26.07
INCREASE (DECREASE) FROM OPERATIONS	
Total revenue	0.51
Total expenses	(0.16)
Realized gain (loss) for the period	0.17
Unrealized gain (loss) for the period	(0.54)
Total Increase (Decrease) from Operations ⁽²⁾	(0.02)
Net Assets, end of period (based on bid prices) ⁽¹⁾	\$ 26.06

(1) Net Assets per unit is the difference between the aggregate value of the assets and the aggregate value of the liabilities, including the valuation of securities at bid prices, divided by the number of units then outstanding.

(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized and unrealized gain (loss), less expenses and is calculated based on the weighted average number of units outstanding during the period. The schedule is not intended to total to the

	Six months ended June 30, 2012
RATIOS/SUPPLEMENTAL DATA	
Net Asset Value (\$millions)	\$ 33.37
Number of units outstanding	1,280,735
Management expense ratio ⁽¹⁾	1.22% ⁽⁴⁾
Portfolio turnover rate ⁽²⁾	0.00%
Trading expense ratio ⁽³⁾	0.00%
Net Asset Value per unit ⁽⁵⁾	\$ 26.06
Closing market price	\$ 25.69

(1) The management expense ratio ("MER") is the sum of all fees and expenses for the stated period, including federal and provincial sales taxes but excluding transaction fees, divided by the average net asset value.

(2) 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.

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

Government Strip Bond Trust

Management Report of Fund Performance

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					
	2011	2010	2009	2008	2007
\$	25.62	\$ 25.06	\$ 24.17	\$ 21.97	\$ 21.32 ⁽³⁾
	1.02	1.05	1.04	1.05	1.04
	(0.26)	(0.23)	(0.21)	(0.19)	(0.18)
	0.34	0.50	0.40	0.10	–
	(0.64)	(0.75)	(0.33)	1.24	(0.23)
	0.46	0.57	0.90	2.20	0.63
\$	26.07	\$ 25.62	\$ 25.06	\$ 24.17	\$ 21.97

ending net assets as calculations are based on the weighted average number of units outstanding during the period.

(3) Net Assets per unit has been adjusted for the change in accounting policy relating to the calculation of net asset value based bid prices versus closing prices prior to 2007.

Years ended December 31					
	2011	2010	2009	2008	2007
\$	33.39	\$ 41.84	\$ 54.74	\$ 72.20	\$ 83.85
	1,280,735	1,632,823	2,183,740	2,985,597	3,816,987
	1.02%	0.91%	0.86%	0.83%	0.83%
	0.00%	0.00%	0.00%	0.00%	0.00%
	0.00%	0.00%	0.00%	0.00%	0.00%
\$	26.07	\$ 25.63	\$ 25.07	\$ 24.18	\$ 21.97
\$	25.35	\$ 24.93	\$ 24.25	\$ 23.05	\$ 21.60

(4) Annualized.

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

Government Strip Bond Trust

Management Report of Fund Performance

Management Fees

Strathbridge, as the Investment Manager of the Fund, 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 objectives, strategy and criteria of the Fund. Strathbridge 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.

Strathbridge, as the Manager of the Fund, 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.

Past Performance

The following chart 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 units of 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

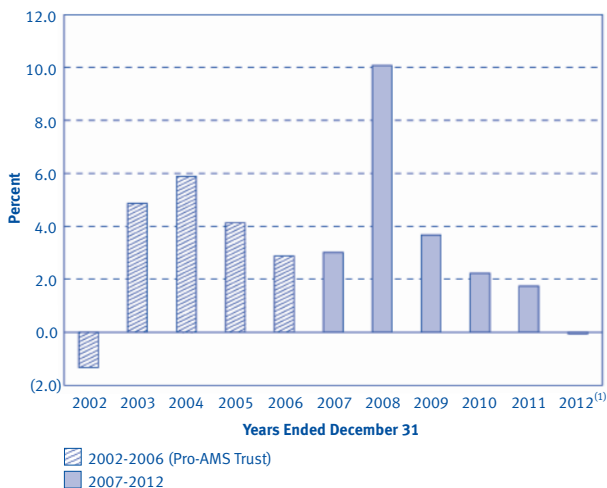
The following bar chart illustrates how the Fund's total return varied from year to year for each of the past ten years and for the six month period ended June 30, 2012. The chart also shows, in percentage terms how much an investment made on January 1 in

Government Strip Bond Trust

Management Report of Fund Performance

each year would have increased or decreased by the end of that fiscal year or June 30, 2012 for the six months then ended.

Annual Total Return



⁽¹⁾For the six months ended June 30, 2012.

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 has remained unchanged at 1.0 percent since September 2010.

The total return of mid-term bonds in Canada, as represented by the Bloomberg/EFAS Bond Indices Canada 1-3 Year Index, was 0.5 percent for the first six months of 2012. The Fund's total return for the six month period was negative 0.1 percent.

Government Strip Bond Trust

Management Report of Fund Performance

Summary of Investment Portfolio

The composition of the portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly portfolio summary, which includes the percentage of net asset value for each holding, is available on our website at www.strathbridge.com.

Asset Mix and Portfolio Holdings

June 30, 2012

	% of Net Asset Value
Provincial Bonds	100%

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 Government Strip Bond Trust (the "Fund") and all the information in this semi-annual report are the responsibility of the management of Strathbridge Asset 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 semi-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 for the year ended December 31, 2011.

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, the Fund's independent auditor, has full and unrestricted access to the Board.



John P. Mulvihill
Director
Strathbridge Asset Management Inc.



John D. Germain
Director
Strathbridge Asset Management Inc.

August 7, 2012

Government Strip Bond Trust

Notice to Unitholders

The Fund's independent auditor has not performed a review of these Semi-Annual Financial Statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

Government Strip Bond Trust

Financial Statements

Statements of Net Assets

As at June 30, 2012 (Unaudited) and December 31, 2011 (Audited)

	2012	2011
ASSETS		
Investments at fair value (cost - \$33,010,401; 2011 - \$41,441,561)	\$ 33,397,269	\$ 42,515,256
Cash	5,929	93,117
TOTAL ASSETS	33,403,198	42,608,373
LIABILITIES		
Accrued management fees	16,422	21,706
Accrued liabilities	14,831	18,435
Redemptions payable	-	9,179,885
TOTAL LIABILITIES	31,253	9,220,026
NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY	\$ 33,371,945	\$ 33,388,347
Number of Units Outstanding	1,280,735	1,280,735
Net Assets per Unit (Note 2)	\$ 26.0569	\$ 26.0697

Government Strip Bond Trust

Financial Statements

Statements of Financial Operations

Six months ended June 30 (Unaudited)

	2012	2011
REVENUE		
Interest	\$ 652,490	\$ 840,591
TOTAL REVENUE	652,490	840,591
EXPENSES		
Management fees	99,646	125,241
Administrative and other expenses	45,838	44,249
Custodian fees	10,440	10,888
Audit fees	8,002	7,884
Advisory board fees	10,445	10,445
Independent review committee fees	4,041	3,851
Legal fees	1,930	-
Unitholder reporting costs	10,454	13,429
Harmonized sales tax	13,619	15,805
TOTAL EXPENSES	204,415	231,792
Net Investment Income	448,075	608,799
Net gain on sale of investments	222,350	546,250
Net change in unrealized appreciation/ depreciation of investments	(686,827)	(746,440)
Net Loss on Investments	(464,477)	(200,190)
NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	\$ (16,402)	\$ 408,609
NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT (based on the weighted average number of units outstanding during the period of 1,280,735; 2011 - 1,632,823)	\$ (0.0128)	\$ 0.2502

Government Strip Bond Trust

Financial Statements

Statements of Changes in Net Assets

Six months ended June 30 (Unaudited)

	2012	2011
NET ASSETS, BEGINNING OF PERIOD	\$ 33,388,347	\$ 41,831,778
Net Increase (Decrease) in Net Assets from Operations	(16,402)	408,609
Changes in Net Assets during the Period	(16,402)	408,609
NET ASSETS, END OF PERIOD	\$ 33,371,945	\$ 42,240,387

Statements of Net Gain on Sale of Investments

Six months ended June 30 (Unaudited)

	2012	2011
Proceeds from Sale of Investments	\$ 9,306,000	\$ 14,469,000
Cost of Investments Sold		
Cost of investments, beginning of period	41,441,561	53,839,492
Amortization of bond discount	652,490	840,591
	42,094,051	54,680,083
Cost of Investments, End of Period	(33,010,401)	(40,757,333)
	9,083,650	13,922,750
NET GAIN ON SALE OF INVESTMENTS	\$ 222,350	\$ 546,250

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Financial Statements

Statement of Investments

As at June 30, 2012 (Unaudited)

	Par Value	Average Cost	Fair Value	% of Net Assets
INVESTMENTS				
Bonds				
Province of Ontario Residual Stripped from Ontario - December 2, 2012	30,000,000	\$ 29,517,718	\$ 29,863,006	
Province of Ontario Coupon Stripped from Ontario - December 2, 2012	3,550,000	3,492,683	3,534,263	
Total Bonds		\$ 33,010,401	\$ 33,397,269	100.1 %
TOTAL INVESTMENTS		\$ 33,010,401	\$ 33,397,269	100.1 %
OTHER NET LIABILITIES			(25,324)	(0.1)%
TOTAL NET ASSETS			\$ 33,371,945	100.0 %

Notes to Financial Statements

June 30, 2012

1. Basis of Presentation

The semi-annual financial statements for the Fund have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). However, not all disclosures required by GAAP for annual financial statements have been presented and, accordingly, these semi-annual financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended December 31, 2011.

These semi-annual financial statements follow the same accounting policies and method of application as the most recent financial audited statements for the year ended December 31, 2011.

2. 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:

	June 30, 2012	Dec. 31, 2011
Net Asset Value (for pricing purposes)	\$ 26.0580	\$ 26.0727
Difference	(0.0011)	(0.0030)
Net Assets (for financial statement purposes)	\$ 26.0569	\$ 26.0697

3. Financial Instruments and Risk Management

The various types of risks associated with financial instruments and the related risk management practices employed by the Fund remain unchanged from the prior year and are described in Note 9 of the annual financial statements for the year ended December 31, 2011.

Government Strip Bond Trust

Notes to Financial Statements

June 30, 2012

The following is a summary of the inputs used as of June 30, 2012 in valuing the Fund's investments 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	\$ 33,397,269	- \$	- \$	\$ 33,397,269
Total Investments	\$ 33,397,269	- \$	- \$	\$ 33,397,269

The following is a summary of the inputs used as of December 31, 2011 in valuing the Fund's investments 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	\$ 42,515,256	\$ - \$	- \$	\$ 42,515,256
Total Investments	\$ 42,515,256	\$ - \$	- \$	\$ 42,515,256

There were no transfers between Level 1 and Level 2 during the six months ended June 30, 2012 and during the year ended December 31, 2011.

Interest Rate Risk

Approximately 100 percent (December 31, 2011 - 127 percent) of the Fund's net assets held at June 30, 2012 were invested in zero coupon bonds. If interest rates increased or decreased by 100 basis points as at June 30, 2012, the net assets of the Fund would have decreased or increased by approximately \$0.2M (December 31, 2011 - \$0.3M) respectively or 0.5 percent (December 31, 2011 - 1.0 percent) of the net assets, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

Credit Risk

The following is the credit rating for the counterparty that the Fund dealt with during the current period and prior year, based on Standard & Poor's credit rating as of June 30, 2012 and December 31, 2011:

Dealer	Rating
Province of Ontario Bonds	AA

4. Future Accounting Policy Changes

The Fund was required to adopt International Financial Reporting Standards (“IFRS”) for the year beginning on January 1, 2011. In January 2011, the Canadian Accounting Standards Board (“AcSB”) approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies. Subsequently, in December 2011, AcSB extended the deferral for another year to January 1, 2014. As a result, investment companies will adopt IFRS for the year beginning on January 1, 2014 and will issue their initial statements, with comparative information, for the semi-annual period ending June 30, 2014. The Fund is scheduled to terminate before the initial adoption of IFRS.

Government Strip Bond Trust

Investment Funds Managed by
Strathbridge Asset 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

Premium Income Corporation
S Split Corp.
Top 10 Split Trust
World Financial Split Corp.

PRINCIPAL PROTECTED FUNDS

Government Strip Bond Trust

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