Mulvihill

Mulvihill Structured Products

Hybrid Income Funds

Annual Report 2007

Mulvihill *S Split Fund*

Message to Shareholders

We are pleased to present the annual financial results of Mulvihill S Split Fund (the “Fund”).

The following is a brief summary of the financial highlights and results of operations of the Fund. This is intended to provide you with a quick overview of the performance and is not intended to replace the more detailed financial information contained in the annual report.

The Fund was launched in 2007 with the objectives to:

(1) Provide holders of Preferred shares with fixed cumulative preferential monthly cash distributions in the amount of $0.04375 per Preferred share representing a yield on the issue price of the Preferred shares of 5.25 percent per annum; and

(2) Provide holders of Class A shares with regular monthly cash distributions targeted to be 6.0 percent per annum on the Net Asset Value of the Fund and to return the original issue price to holders of both Preferred shares and Class A shares at the time of redemption of shares on December 1, 2014 (the "Termination Date").

To accomplish these objectives, the net proceeds of the offering will be invested by the Fund in The Bank of Nova Scotia (“BNS”) shares. To generate additional returns above the dividend income earned on BNS shares. Accordingly, the distributions paid out by the Fund are funded from the dividend income earned on the portfolio, realized capital gains from the sale of securities and option premiums from the sale of covered call options. During the fiscal year ended 2007, the Fund earned a return for the period of negative 4.6 percent. Distributions amounting to $0.83278 per unit were paid during the period.

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

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

Mulvihill *S Split Fund* [SBN.UN]

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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 period ended December 31, 2007 of Mulvihill S Split 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 investment objectives are:

(i) to provide holders of Preferred shares with fixed cumulative preferential monthly cash distributions in the amount of $0.04375 per Preferred share ($0.525 per year) representing a yield on the issue price of the Preferred shares of 5.25 percent per annum and to return the issue price of $10.00 per Preferred Share to holders of Preferred Shares at the time of redemption of such shares on December 1, 2014; and

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

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

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

Risk

Investors should be aware that the primary risks associated with the Fund relate to the financial performance of The Bank of Nova Scotia ("BNS") shares, as well as the level of option volatility realized in undertaking the writing of covered call options. Additionally, investors in the Class A shares will receive leveraged exposure to the performance of The Bank of Nova Scotia.

In order to generate income, the Fund may write covered call options in respect of all or part of the BNS shares held in the portfolio. Since the inception of the Fund in May 2007, volatility levels in BNS have been in a moderate up-trend after a lengthy period of very stable levels. This coincided with the economic uncertainty in North America and credit crisis in the United States which emerged during the summer and broadly affected equity markets both in Canada and the U.S.

To offset a portion of the equity market risk, the Fund purchased protective put options to mitigate partially the potential impact of a severe market decline. While enabling the Fund to participate in market upside, not writing call options increases the risk that the Fund will not generate additional income for distribution.

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, 2007

	% OF NET ASSET VALUE*
Financials - The Bank of Nova Scotia	90%
Cash and Short-Term Investments	10%
	100%

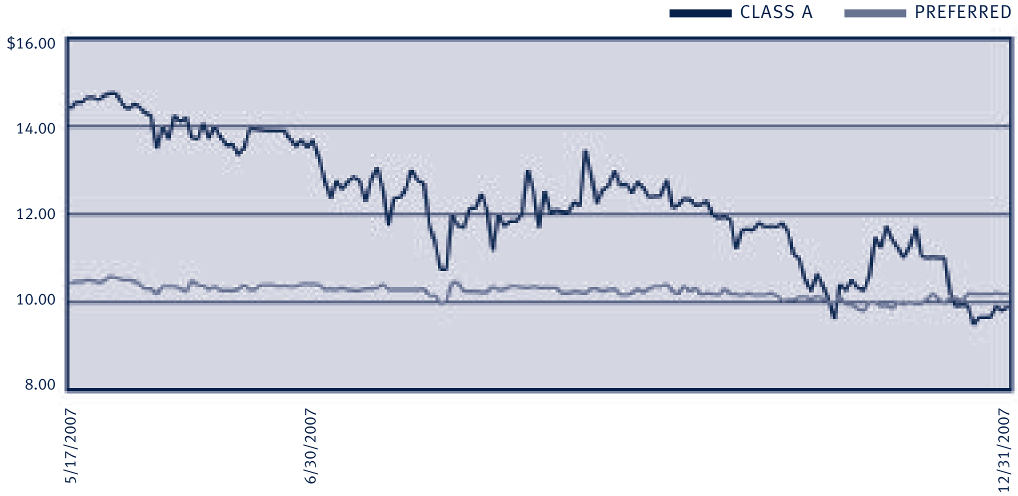
*The Net Asset Value excludes the Preferred share liability.

Distribution History

INCEPTION DATE: MAY 2007	CLASS A DISTRIBUTION	PREFERRED DISTRIBUTION
Total for 2007	**$ 0.50757**	**$ 0.32521**

Trading History

May 17, 2007 to December 31, 2007



Results of Operations

The net asset value of the Fund for pricing purposes based on closing prices on December 31, 2007 was $23.01 compared to $25.00 per unit at Fund inception on May 17, 2007. The Fund's Class A and Preferred Shares are listed on the Toronto Stock Exchange as SBN and SBN.PR.A, respectively. The Class A Shares closed on December 31, 2007 at $9.90 and the Preferred Shares closed at $10.19 which, when combined, represent a 12.7 percent discount to the actual net asset value.

Distributions totalling $0.50757 were paid to Class A Shareholders and $0.32521 were paid to Preferred Shareholders during the period ended December 31, 2007. The Fund's total return for the period ended December 31, 2007, including reinvestment of distributions, was negative 4.6 percent. This compares favourably with the total return on BNS shares during this period of negative 5.2 percent.

The Fund holds a portfolio of common shares of BNS. Investors in the Class A shares will receive leveraged exposure to the performance of The Bank of Nova Scotia, including increases or decreases in the value of BNS shares, and increases or decreases in the dividends paid on BNS shares. Investors in the Preferred Shares will receive monthly distributions on a fixed, cumulative and preferential basis.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance from its inception date on May 17, 2007.

For December 31, 2007, the Net Assets included in the Net Assets per Unit table is from the Fund's financial statements and calculated using bid prices while the Net Asset Value included in the Ratios/Supplemental Data table is for Fund pricing purposes and calculated using closing prices (see Note 4 to the Financial Statements). All other calculations for the purposes of this MRFP are made using Net Asset Value.

Period ended December 31

		2007[4]
THE FUND'S NET ASSETS PER UNIT		
Net Assets, beginning of period (based on bid prices)[1]	**$**	**25.00**
INCREASE (DECREASE) FROM OPERATIONS		
Total revenue		**0.64**
Total expenses		**(0.36)**
Realized gains (losses) for the period		**0.01**
Unrealized gains (losses) for the period		**(1.50)**
Total Increase (Decrease) from Operations[2]		**(1.21)**
DISTRIBUTIONS		
Class A Share		
From net investment income		**(0.07)**
Non-taxable distributions		**(0.44)**
Total Class A Share Distribution		**(0.51)**
Preferred Share		
From net investment income		**(0.33)**
Total Annual Distributions[3]		**(0.84)**
Net Assets, as at December 31 (based on bid prices)[1]	**$**	**22.96**

(1) Net Assets per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities excluding the liability for the Redeemable Preferred shares of the Fund on that date and including the valuation of securities at bid prices divided by the number of units then outstanding.
(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized and unrealized gains (losses), net of withholding taxes and foreign exchange gains (losses), less expenses excluding Preferred share distributions, and is calculated based on the weighted average number of units outstanding during the year. The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of units outstanding during the period.
(3) Distributions to shareholders are based on the number of units outstanding on the record date for each distribution and were paid in cash.
(4) For the period from inception on May 17, 2007 to December 31, 2007.

RATIOS/SUPPLEMENTAL DATA		
Net Asset Value, excluding liability for Redeemable Preferred shares ($millions)[1]	**$**	**108.61**
Net Asset Value ($millions)[1]		**61.41**
Number of units outstanding[1]		**4,719,300**
Management expense ratio[2]		**0.90%[5]**
Portfolio turnover rate[3]		**9.34%**
Trading expense ratio[4]		**0.05%[5]**
Net Asset Value, per unit[6]	**$**	**23.01**
Closing market price - Preferred	**$**	**10.19**
Closing market price - Class A	**$**	**9.90**

(1) This information is provided as at December 31. One Unit consists of one Class A and one Preferred share.
(2) Management expense ratio is the ratio of all fees and expenses, including goods and services taxes but excluding transaction fees and Class A share distributions, charged to the Fund to the average net asset value, excluding the liability for the Redeemable Preferred shares.
(3) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by the average value of the portfolio securities. The Fund employs an option overlay strategy which can result in higher portfolio turnover by virtue of option exercises, when compared to a conventional equity mutual fund.
(4) Trading expense ratio represents total commissions expressed as a percentage of the daily average net asset value during the period.
(5) Annualized.
(6) Net Asset Value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities and including the valuation of securities at closing prices divided by the number of units then outstanding.

Management Fees

Mulvihill Capital Management ("MCM") is entitled to fees under the Investment Management Agreement calculated monthly as 1/12 of 1.55 percent of the net asset value of the Fund at each month end, excluding the liability for the Redeemable Preferred shares. Services received under the Investment Management Agreement include the making of all investment decisions and writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. MCM also makes all decisions as to the purchase and sale of securities in the Fund's portfolio and 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 asset value of the Fund at each month end, excluding the liability for the Redeemable Preferred shares. Services received under the Management Agreement include providing or arranging required administrative services to the Fund.

Retraction Fee

If a retraction of a Class A Share or Preferred Share occurs prior to July 2014, a retraction fee payable to MCM by the retracting shareholder will be deducted by MCM from the amount otherwise receivable by the retracting shareholder to compensate MCM, in part, for paying the Agents' fees and expenses of the offering (see Note 5).

Recent Developments

During the period ended December 31, 2007, 30,700 units were redeemed by the Fund. The Fund facilitated these redemptions by selling a portion of the BNS shares held in the portfolio. These activities had no material impact on the Fund performance.

This Fund is a split share corporation offering an investment in the common shares of BNS through its Class A Shares and Preferred Shares and raised total gross proceeds of $118.8 million under the offering. The Class A Shares and the Preferred Shares are listed on the Toronto Stock Exchange under the symbols SBN and SBN.PR.A, respectively and began trading on May 17, 2007.

It was a difficult year for the big Canadian banks in general, however, The Bank of Nova Scotia delivered the second best stock price performance of the big six. Given the global liquidity crisis triggered by the U.S. sub-prime mortgage sector half way through the year, the Canadian banks actually did fairly well. BNS exposure to U.S. sub-prime is minimal so writedowns were not large compared to many U.S. banks. However, even the diversified and relatively more risk-averse Canadian banks are not immune to the liquidity crisis, which is affecting the entire developed world. Compared to the other big Canadian banks, BNS reported good credit quality and, therefore, had one of the smallest increases in loan loss provisions.

The liquidity crisis affects many business lines at diversified banks. The overall results were quite mixed across the banks due to the differences in business concentrations. On the Capital Markets business, BNS performed in the middle of the pack. On the retail banking business, BNS did not fair as well. Disruptions in the money market due to the crisis have compressed spreads and, therefore, lowered net interest income for most banks, especially in the fourth quarter. This is especially true for banks with large retail operations such as BNS. This phenomenon will likely be short-lived as margins will return to normal levels when markets stabilize.

The next year may be a difficult year for the banks, including BNS, as the problems stemming from the global liquidity crisis get slowly resolved and stability returns to the credit market. The BNS balance sheet is well positioned to weather this period and there seems to be little risk to the current dividend policy. The Bank of Nova Scotia was one of only two banks that increased their dividend in the fourth quarter.

Year-By-Year Returns, Annual Total Returns and Annual Compound Returns

The Fund has been operational for less than one year. No year-by-year returns, annual total returns or annual compound returns have been calculated.

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 April 26, 2007 .

Mulvihill Fund Services Inc. ("Mulvihill") is the Manager of the Fund pursuant to a Management Agreement made between the Fund and Mulvihill dated April 26, 2007, 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 forwardlooking statements.

Management's Responsibility for Financial Reporting

The accompanying financial statements of S Split Fund (operating as Mulvihill S Split Fund) (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 approved by the Board of Directors (the "Board").

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 of the annual financial statements.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Audit Committee meets periodically with management and 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 Audit Committee and the Board.

John P. Mulvihill
Director
Mulvihill Fund Services Inc.
February 21, 2008

Sheila S. Szela
Director
Mulvihill Fund Services Inc.

To the Shareholders of Mulvihill S Split Fund

We have audited the accompanying statement of investments and financial position of Mulvihill S Split Fund (the "Fund") as at December 31, 2007, and the statement of operations and deficit, of changes in net assets and of changes in investments for the period from May 17, 2007 to December 31, 2007. 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 audit.

We conducted our audit 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 as at December 31, 2007, and the results of its operations, the changes in its net assets, and its investments for the period then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
February 21, 2008

Statement of Financial Position

December 31, 2007

	2007
ASSETS	
Investments at fair value (cost - $103,714,227)	$ 96,615,115
Short-term investments at fair value (cost - $11,177,722)	11,178,525
Cash	4,406
Dividends receivable	907,340
Interest receivable	38,346
TOTAL ASSETS	$ 108,743,732
LIABILITIES	
Accrued management fees	$ 152,681
Accrued liabilities	111,064
Redemptions payable	98,398
Retraction fee payable (Note 5)	6,750
Redeemable Preferred shares (Note 5)	47,193,000
	47,561,893
EQUITY	
Class A and Class J shares (Note 5)	70,792,371
Deficit	(9,610,532)
	61,181,839
TOTAL LIABILITIES AND EQUITY	$ 108,743,732
Number of Units Outstanding (Note 5)	4,719,300
Net Assets per Unit	
Preferred Share	$ 10.0000
Class A Share	12.9642
	$ 22.9642

On Behalf of the Board of Directors,

John P. Mulvihill, Director

Robert W. Korthals, Director

Statement of Operations and Deficit

For the period from inception on May 17, 2007 to December 31, 2007

	2007
REVENUE	
Interest	$ 243,448
Dividends	2,798,700
	3,042,148
Net realized losses on investments	(577,559)
Net realized gains on derivatives	602,350
Total Net Realized Gains	24,791
TOTAL REVENUE	3,066,939
EXPENSES	
Management fees	1,174,455
Service fees	203,056
Administrative and other expenses	73,074
Transaction fees (Notes 3 and 8)	82,342
Custodian fees	18,423
Audit fees	30,058
Director fees	13,011
Independent review committee fees	715
Legal fees	2,131
Shareholder reporting costs	21,415
Goods and services tax	78,196
TOTAL EXPENSES	1,696,876
Net Realized Income before Distributions	1,370,063
Preferred share distributions	(1,543,623)
Net Realized Loss	(173,560)
Unrealized appreciation/depreciation of investments during the period	(7,099,112)
Unrealized appreciation/depreciation of short-term investments during the period	803
Total Unrealized Appreciation/Depreciation of Investments	(7,098,309)
NET LOSS FOR THE PERIOD	$ (7,271,869)
NET LOSS PER CLASS A SHARE	
(based on the weighted average number of Class A shares outstanding during the period of 4,732,488)	$ (1.5366)
DEFICIT	
Balance, beginning of period	$ –
Net allocations on retractions	70,660
Net loss for the period	(7,271,869)
Distributions on Class A Shares	(2,409,323)
BALANCE, END OF PERIOD	$ (9,610,532)

Statement of Changes in Net Assets

For the period from inception on May 17, 2007 to December 31, 2007

	2007
NET ASSETS, BEGINNING OF PERIOD	$ –
Net Realized Income before Distributions	1,370,063
Class A Share Capital Transactions	
Proceeds from shares issued	71,252,871
Amound paid for shares redeemed	(331,776)
Normal course issuer bid purchases	(58,064)
	70,863,031
Distributions	
Class A Share	
From net investment income	(347,737)
Non-taxable distributions	(2,061,586)
Preferred Share	
From net investment income	(1,543,623)
	(3,952,946)
Unrealized Appreciation/Depreciation of Investments	(7,098,309)
Changes in Net Assets during the Period	61,181,839
NET ASSETS, END OF PERIOD	$ 61,181,839

The statement of changes in net assets excludes cash flows pertaining to the Preferred shares as they are reflected as liabilities. During the period, proceeds from 4,750,000 Preferred shares issued amounted to $47,500,000. During the period, amounts paid for the redemption of 30,700 Preferred shares totalled $307,000 (see Note 5).

Statement of Changes in Investments

For the period from inception on May 17, 2007 to December 31, 2007

	2007
Cost of Investments Purchased during the Period	$ 113,488,891
Cost of Investments Sold during the Period	
Proceeds from sales	9,799,455
Net realized gains on sales	24,791
	9,774,664
Investments at Cost, End of Period	103,714,227
Unrealized Depreciation of Investments, End of Period	(7,099,112)
INVESTMENTS AT FAIR VALUE, END OF PERIOD	$ 96,615,115

Statement of Investments

December 31, 2007

	Par Value/ Number of Shares/ Number of Contracts	Average Cost/ Proceeds	Fair Value	% of Portfolio
SHORT-TERM INVESTMENTS				
Treasury Bills				
Government of Canada, 3.98% - February 21, 2008	605,000	$ 597,571	$ **597,571**	
Government of Canada, 3.91% - March 6, 2008	8,065,000	7,983,411	**7,983,411**	
Total Treasury Bills		**8,580,982**	**8,580,982**	76.5 %
Bonds				
Government of Canada, 3.750% - June 1, 2008	2,600,000	**2,596,740**	**2,597,543**	23.2 %
		11,177,722	**11,178,525**	**99.7 %**
Accrued Interest			**38,346**	**0.3 %**
TOTAL SHORT-TERM INVESTMENTS		**$ 11,177,722**	**$ 11,216,871**	**100.0 %**
INVESTMENTS				
Canadian Common Shares				
Financials				
The Bank of Nova Scotia	1,930,511	**$ 104,026,918**	**$ 96,834,432**	100.2 %
Total Canadian Common Shares		**$ 104,026,918**	**$ 96,834,432**	**100.2 %**
OPTIONS				
Purchased Put Options (100 shares per contract)				
The Bank of Nova Scotia - January 2008 @ $49	1,000	**$ 180,500**	**$ 22,349**	0.0 %
Written Covered Call Options (100 shares per contract)				
The Bank of Nova Scotia - January 2008 @ $53	(250)	(18,720)	**(3,646)**	
The Bank of Nova Scotia - January 2008 @ $54	(2,500)	(165,004)	**(2,270)**	
The Bank of Nova Scotia - February 2008 @ $51	(2,050)	(236,775)	**(235,750)**	
Total Written Covered Call Options		**(420,499)**	**(241,666)**	(0.2)%
TOTAL OPTIONS		**$ (239,999)**	**$ (219,317)**	**(0.2)%**
Adjustment for transaction fees (Note 3)		**$ (72,692)**		
TOTAL INVESTMENTS		**$ 103,714,227**	**$ 96,615,115**	**100.0 %**

1. Establishment of the Fund

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

The manager of the Fund is Mulvihill Fund Services Inc. (the "Manager") and the Fund's investment manager is Mulvihill Capital Management Inc. (the "Investment Manager"). RBC Dexia Investor Services acts as custodian of the assets of the Fund and is responsible for certain day-to-day administration of the Fund.

2. Summary Objectives of the Fund

The Fund's investment objectives are:

(i) to provide holders of Preferred shares with fixed cumulative preferential monthly cash distributions in the amount of $0.04375 per Preferred share ($0.525 per year) representing a yield on the issue price of the Preferred shares of 5.25 percent per annum and to return the issue price of $10.00 per Preferred Share to holders of Preferred Shares at the time of redemption of such shares on December 1, 2014; and

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

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

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

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 are recorded in the financial statements at their fair value determined as follows:

Securities are valued at fair value, which is determined by the closing bid price on the recognized stock exchange on which the securities are listed or principally traded. If no bid prices are available, the securities are valued at the closing sale price.

Short-term investments are included in the statement of investments at their cost including applicable foreign exchange translations. This value, together with accrued interest, approximates fair value at bid price.

Listed options are valued at fair values as reported on recognized exchanges. Over the counter options are valued using the Black-Scholes valuation model.

Transaction Fees

Transaction fees have been expensed as incurred and included in the transaction fees line in the Statement of Operations and Deficit. Transaction fees are costs that are directly attributable to portfolio transactions which include fees and commissions paid to brokers and dealers.

Investment Transactions and Income

Investment transactions are accounted for on a trade date basis. Realized gains and losses on the sale of investments and change in unrealized appreciation (depreciation) of investments are determined on an average cost basis. Realized gains and losses relating to written options may arise from:

(i) Expiration of written options whereby realized gains are equivalent to the premium received;

(ii) Exercise of written covered call options whereby realized gains or losses are equivalent to the premium received in addition to the realized gain or loss from disposition of the related investments at the exercise price of the option; and

(iii) Closing of written options whereby realized gains or losses are equivalent to the cost of purchasing options to close the positions, net of any premium received.

Realized gains and losses related to options are included in gains (losses) on derivatives.

Realized gains and losses relating to purchased put options may arise from:

(i) Expiration of purchased put options whereby realized losses are equivalent to the premium paid;

(ii) Settlement of purchased put options whereby realized gains are equivalent to the difference between the exercise price of the option less the premium paid; and

(iii) Sale of purchase put options whereby realized gains or losses are equivalent to the sale proceeds, net of any premium paid.

Option premiums received are reflected as deferred credits in investments so long as the options are outstanding. Any difference resulting from revaluation is included in the change in unrealized appreciation (depreciation) of investments. Premiums received on written put options that are exercised are included in the cost of the security purchased.

Dividend income is recorded on the ex-dividend date. Interest income is recorded daily as it is earned.

Cash Flow Statements

Cash flow statements have not been prepared as all relevant information has been included in the Statement of Changes in Net Assets, Statement of Changes in Investments and elsewhere in these financial statements

4. Net Asset Value and Net Assets

For financial statement reporting purposes, the Fund applies Canadian generally accepted accounting principles which requires the Fund to value its securities using bid price. However, pursuant to a temporary exemption provided by the Canadian securities regulatory authorities, the Fund can calculate its net asset value using last sale price.

The difference between the net asset value for pricing purposes and the net assets reflected in the financial statements is as follows:

	2007
Net Asset Value (for pricing purposes)	**$23.01**
Difference	**(0.05)**
Net Assets (for financial statement purposes)	**$22.96**

5. Share Capital

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

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

On May 17, 2007, the Fund issued 4,500,000 Class A Shares at a price of $15.00 per share and 4,500,000 Preferred Shares at a price of $10.00 per share for gross proceeds of $112,500,000. On May 31, 2007 an additional 250,000 Class A Shares at a price of $15.00 per share and 250,000 Preferred Shares at a price of $10.00 per share were issued for gross proceeds of $6,250,000. Total gross proceeds of the offering amounted to $118,750,000.

Class A Shares

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

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

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

Preferred Shares

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

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

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

Issued and Outstanding

	2007
4,719,300 Preferred Shares	**$ 47,193,000**
4,719,300 Class A shares	**$ 70,792,271**
100 Class J shares	**100**
	$ 70,792,371

During the year, 30,700 Units were redeemed by the Fund.

In July 2007, the Toronto Stock Exchange accepted a normal course issuer bid filed by the Fund. Under the terms of the normal course issuer bid, the Fund proposes to purchase, if considered advisable, up to a maximum of 475,000 Class A shares and 475,000 Preferred shares, 10 percent of its public float as determined in accordance with the rules of the Exchange. The purchases would be made in the open market through facilities of the Exchange. The normal course issuer bid will remain in effect until the earlier of July 11, 2008 or until the Fund has purchased the maximum number of shares permitted under the bid. As at December 31, 2007, 5,700 shares have been purchased by the Fund.

Shareholders may obtain a copy of the Notice of Intention to make a normal course issuer bid, without charge, by writing to Mulvihill Investors Services at: 121 King Street West, Suite 2600, Toronto, Ontario, M5H 3T9.

Retraction Fee

If a retraction of a Class A share or Preferred share occurs prior to July 2014, a retraction fee payable to Investment Manager by the retracting shareholder will be deducted by Investment Manager from the amount otherwise receivable by the retracting shareholder to compensate Investment Manager, in part, for paying the Agents' fees and expenses of the offering. Retraction fees in the amount of $41,445 were paid during the year.

The retraction fee is calculated as follows:

Time of Retraction	Retraction Fee per Unit
May 2007 to June 2008	$1.35
July 2008 to June 2009	$1.20
July 2009 to June 2010	$1.00
July 2010 to June 2011	$0.80
July 2011 to June 2012	$0.60
July 2012 to June 2013	$0.40
July 2013 to June 2014	$0.20
July 2014 to December 2014	Nil

6. Management Fees and Expenses

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

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 1.55 percent, respectively, of the Fund's net asset value, excluding the liability for the Redeemable Preferred shares, calculated and payable monthly, plus applicable taxes.

If Class A shares or Preferred shares are retracted prior to July 2014, MCM will receive a retraction fee from shareholders out of the proceeds paid to shareholders upon the retraction of Class A Shares or Preferred Shares.

The Fund will pay a service fee equal to 0.50 percent annually of the Class A shares net asset value of the Fund which it pays to dealers in connection with Class A shares held by clients of the sales representatives of such dealers, plus applicable taxes. This service fee is payable quarterly. No service fee will be paid in any calendar quarter if regular distributions are not paid to Class A shareholders in respect of each month in such calendar quarter. Service fees in the amount of $203,056 were paid during the year.

7. Income Taxes

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

No amount is payable on account of income taxes in 2007.

Non-capital losses of approximately $1.0 million are available for utilization against net investment income and realized gains on sale of investments, in future years. The non-capital losses expire in 2027.

8. Transaction Fees

Total transaction fees for the period ended December 31, 2007 in connection with portfolio transactions were $82,342. Of this amount $29,075 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. 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 market risk, interest rate risk, and derivative financial instruments risk.

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

Market Risk

The Fund's equity, debt securities and trading derivatives are susceptible to market price risk arising from uncertainties about future prices of the instruments. The Portfolio consist of only The Bank of Nova Scotia ("BNS") securities. Net Asset Value per Unit varies as the value of BNS shares varies. The Fund has no control over the factors that affect the value of the securities in the Portfolio, specifically factors that affect BNS securities. The Fund's market risk is managed by taking a long-term perspective.

Interest Rate Risk

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

Use of Options and Other Derivative Instruments

The Fund may from time to time write covered call options in respect of all or part of its position in the BNS Shares comprising the Portfolio. In addition, the Fund may write cash covered put options in respect of BNS securities. The Fund is subject to the full risk of its investment position in the BNS securities that are subject to outstanding call options and/or underlying put options written by the Fund, should the market price of the value of the BNS Shares decline. In addition, the Fund will not participate in any gain on the securities that are subject to outstanding call options above the strike price of such options. To mitigate risk due to market declines the Fund writes options to expire at varied points in time to reduce the risk associated with all options expiring on the same date.

In purchasing call or put options or entering into forward or future contracts, the Fund is subject to the credit risk that its counterparty (whether a clearing corporation, in the case of exchange traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its obligations. The maximum credit risk exposure is the aggregate of all contracts with a positive value as disclosed in the statement of investments. The Fund manages these risks through the use of various risk limits and trading strategies.

The following are credit ratings for the counterparties to derivative instruments the Fund deals with during the year, based on Standard & Poor's credit rating as at December 31, 2007:

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

10. Future Accounting Policy Changes

On December 1, 2006, the CICA issued two new accounting standards: Handbook Section 3862, "Financial Instruments - Disclosures", and Handbook Section 3863, "Financial Instruments - Presentation" which replaces Handbook Section 3861,"Financial Instruments - Disclosure and Presentation". These new standards became effective for the Fund on January 1, 2008. These two new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Statement of Corporate Governance Practices

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

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

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

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

The Fund maintains an Investor Relations line and web site to respond to inquiries from shareholders.

Independent Review Committee

On September 19, 2006, the Canadian Securities Administrators approved the final version of National Instrument 81-107 - Independent Review Committee for Investment Funds ("NI 81-107"). NI 81-107 requires all publicly offered investment funds to establish an independent review committee ("IRC") to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions.

In accordance with NI 81-107, the IRC became operational on November 1, 2007. Members of the IRC are Robert W. Korthals, C. Edward Medland, and Michael M. Koerner.

Mulvihill Capital Management is a leading independent investment manager responsible for managing more than $2.6 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, 2007 to December 31, 2007	
MULVIHILL PLATINUM			
Mulvihill *Government Strip Bond Fund*	GSB.UN	$ 22.40	$ 19.40
Mulvihill Pro-AMS *U.S. Fund*	PAM.UN	$ 22.62	$ 20.70
Mulvihill Pro-AMS *100 Plus (Cdn $) Fund*	PRC.UN	$ 19.40	$ 17.30
Mulvihill Pro-AMS *100 Plus (U.S. $) Fund*	PRU.U	$ 16.50	$ 14.01
Mulvihill Pro-AMS *RSP Split Share Fund*	SPL.A/SPL.B	$ 9.95/$ 15.50	$ 8.02/$ 13.31
MULVIHILL PREMIUM			
Mulvihill *Core Canadian Dividend Fund*	CDD.UN	$ 10.25	$ 7.63
Mulvihill Premium *Canadian Fund*	FPI.UN	$ 18.75	$ 15.32
Mulvihill Premium *60 Plus Fund*	SIX.UN	$ 17.99	$ 15.05
Mulvihill Premium *Global Plus Fund*	GIP.UN	$ 12.00	$ 9.87
Mulvihill Premium *Canadian Bank Fund*	PIC.A/PIC.PR.A	$ 11.68/$ 16.32	$ 8.00/$ 14.41
Mulvihill Premium *Split Share Fund*	MUH.A/MUH.PR.A	$ 7.87/$ 15.55	$ 5.40/$ 14.77
Mulvihill Premium *Global Telecom Fund*	GT.A/GT.PR.A	$ 0.30/$ 14.10	$ 0.10/$ 12.40
Mulvihill *S Split Fund*	SBN/SBN.PR.A	$ 15.00/$ 10.61	$ 9.25/$ 9.55
Mulvihill *Top 10 Canadian Financial Fund*	TCT.UN	$ 15.80	$ 13.40
Mulvihill *Top 10 Split Fund*	TXT.UN/TXT.PR.A	$ 10.99/$ 14.25	$ 7.75/$ 12.47
Mulvihill *World Financial Split Fund*	WFS/WFS.PR.A	$ 12.93/$ 10.95	$ 7.87/$ 9.40

Board of Directors

John P. Mulvihill
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.

**Audit Committee/Independent Review Committee*

Information

Auditors:
Deloitte & Touche LLP
Brookfield Place
181 Bay Street, Suite 1400
Toronto, Ontario M5J 2V1

Transfer Agent:
Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1

Shares Listed:
Toronto Stock Exchange
trading under
SBN/SBN.PR.A

Custodian:
RBC Dexia Investor Services
Royal Trust Tower
77 King Street West, 11th Floor
Toronto, Ontario M5W 1P9

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 *60 Plus Fund*
Mulvihill Premium *Global Plus Fund*
Mulvihill Premium *Canadian Bank Fund*
Mulvihill Premium *Split Share Fund*
Mulvihill Premium *Global Telecom Fund*
Mulvihill *S Split 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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e-mail: hybrid@mulvihill.com

Contact your broker directly for address changes.

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