

ANNUAL INFORMATION FORM

GOVERNMENT STRIP BOND TRUST

March 30, 2009

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THE FUND

Government Strip Bond Trust (the “Fund”), formerly Pro-AMS Trust, is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement dated as of February 15, 2001, as amended from time to time (the “Trust Agreement”) between Mulvihill Fund Services Inc. (“Mulvihill” or the “Manager”), as manager, and RBC Dexia Investor Services Trust (the “Trustee”), as trustee. Mulvihill is a wholly owned subsidiary of Mulvihill Capital Management Inc. (“MCM” or the “Investment Manager”), the investment manager of the Fund.

On March 2, 2001, the Fund completed its initial public offering of 42,000,000 units (“Units”) at a price of \$25.00 per Unit. On March 23, 2001, the Fund completed an additional offering of 3,200,000 Units at a price of \$25.00 per Unit pursuant to the exercise of an over-allotment option granted to the Fund’s agents in connection with the Fund’s initial public offering. The outstanding Units are listed on the Toronto Stock Exchange (“TSX”) under the symbol GSB.UN.

The principal office of the Fund, of Mulvihill and of MCM is located at 121 King Street West, Standard Life Centre, Suite 2600, Toronto, Ontario, M5H 3T9. The phone number, website address and e-mail address of Mulvihill is (416) 681-3900 or toll-free at 1-800-725-7172, www.mulvihill.com and hybrid@mulvihill.com.

Reorganization

The Trust Agreement was amended on May 23, 2006 to effect a reorganization (the “Reorganization”) of the Fund. The Reorganization was approved at a meeting of holders of Units (“Unitholders”) on May 23, 2006 and involved the following changes:

- (a) a change in the name of the Fund to “Government Strip Bond Trust”;
- (b) the settlement of the Fund’s existing forward agreement and use of the proceeds therefrom to acquire a portfolio of zero coupon debt securities (“Zero Coupon Bonds”) issued by Canadian provincial governments and/or the Government of Canada;
- (c) an amendment to the investment strategy and investment restrictions of the Fund to permit the Fund to invest in the Zero Coupon Bonds and hold cash and cash equivalents in an amount sufficient to cover all costs and expenses of the Fund until December 31, 2012 (the “Termination Date”);
- (d) an amendment to the investment objectives of the Fund; and
- (e) a reduction in the fees payable to MCM from 1.15% per annum on the net asset value (“NAV”) of the Fund to 0.50% per annum on the NAV of the Fund from and after May 23, 2006.

INVESTMENT OBJECTIVES AND STRATEGY

The Fund’s investment objective is to return at least \$25.75 per Unit to Unitholders upon termination of the Fund on the Termination Date. In order to achieve this objective, the Fund invests in a portfolio of Zero Coupon Bonds issued by Canadian provincial governments and/or the Government of Canada. The Fund may also hold cash and cash equivalents at any time and intends to hold cash and cash equivalents in an amount sufficient to cover all costs and expenses of the Fund until the Termination Date.

STATUS OF THE FUND

While the Fund is technically considered to be a mutual fund under the securities legislation of certain provinces of Canada, the Fund is not a conventional mutual fund and has obtained exemptions from certain requirements of Canadian securities laws relating to mutual funds.

The Fund differs from conventional mutual funds in a number of respects, most notably as follows: (a) while the Units of the Fund may be surrendered at any time for redemption, the redemption price is payable monthly whereas the securities of most conventional mutual funds are redeemable daily; (b) the Units of the Fund have a stock

exchange listing whereas the securities of most conventional mutual funds do not; and (c) unlike most conventional mutual funds, the Units are not offered on a continuous basis.

DESCRIPTION OF THE UNITS

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Fund.

All Units have equal rights and privileges. Each whole Unit is entitled to one vote at all meetings of Unitholders and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains, and distributions upon the termination of the Fund. Units are issued only as fully paid and are non-assessable. Fractions of Units are proportionately entitled to all of these rights except voting rights.

The provisions or rights attaching to the Units may only be modified, amended or varied with the consent of Unitholders given in accordance with provisions contained in the Trust Agreement as described herein under the heading “Unitholder Matters — Acts Requiring Unitholder Approval”.

On December 16, 2004, the *Trust Beneficiaries’ Liability Act, 2004* (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust if, when the act or default occurs or the liability arises, (a) the trust is a reporting issuer under the *Securities Act* (Ontario), and (b) the trust is governed by the laws of Ontario. The Fund is a reporting issuer under the *Securities Act* (Ontario) and it is governed by the laws of Ontario by virtue of the provisions of the Trust Agreement.

The Fund does not currently intend to issue additional Units, except (a) by way of a rights offering to existing Unitholders, provided the net proceeds per Unit issued pursuant to the exercise of such rights is not less than the most recently calculated NAV per Unit prior to the issue of such rights, (b) by way of Unit distributions, or (c) with the approval of Unitholders.

Redemption of Units

Units may be surrendered at any time for redemption to Computershare Investor Services Inc., the Fund’s registrar and transfer agent, but will be redeemed only on the monthly Valuation Date (as defined below). Units surrendered for redemption by a Unitholder at least five business days prior to the last day of a month (a “Valuation Date”) will be redeemed on such Valuation Date and the Unitholder will receive payment on or before the tenth business day following such Valuation Date (the “Redemption Payment Date”). If a Unitholder makes such surrender after 5:00 p.m. (Toronto time) on the fifth business day immediately preceding a Valuation Date, the Units will be redeemed on the Valuation Date in the following month and the Unitholder will receive payment for the Units on the Redemption Payment Date in respect of such Valuation Date. The NAV per Unit will vary depending on a number of market factors, including interest rates and volatility in the equity markets.

Unitholders whose Units are redeemed on the December Valuation Date in each year will be entitled to receive a redemption price per Unit (the “Unit Redemption Price”) equal to the NAV per Unit determined as of such Valuation Date. Unitholders whose Units are redeemed on any other Valuation Date will be entitled to receive a redemption price per Unit equal to the NAV per Unit determined as of such other Valuation Date, less the lesser of (a) 4% of the NAV per Unit as of such other Valuation Date and (b) \$1.00.

Unitholders who redeem their Units prior to the Termination Date will receive a Unit Redemption Price determined with reference to the NAV.

The redemption right must be exercised by causing written notice to be given within the notice periods prescribed herein and in the manner described under “Book-Entry Only System”. Such surrender will be irrevocable upon the delivery of notice to CDS Clearing and Depository Services Inc. (“CDS”) through a participant in the CDS book-entry only system (a “CDS Participant”), except with respect to those Units which are not paid for by the Fund on the relevant Redemption Payment Date.

Resale of Units Tendered for Redemption

The Fund has entered into an agreement (a “Recirculation Agreement”) with RBC Dominion Securities Inc. (the “Recirculation Agent”) whereby the Recirculation Agent has agreed to use commercially reasonable efforts to find purchasers for any Units tendered for redemption prior to the relevant Valuation Date, provided that the holder of the Units so tendered has not withheld consent thereto. The Fund may, but is not obligated to, require the Recirculation Agent to seek such purchasers and, in such event, the amount to be paid to the Unitholder on the Redemption Payment Date will be an amount equal to the proceeds of the sale of the Units less any applicable commission, provided that such amount will not be less than the Unit Redemption Price described above.

Subject to the Fund’s right to require the Recirculation Agent to use commercially reasonable efforts to find purchasers for any Units tendered for redemption prior to the relevant Valuation Date, any and all Units which have been surrendered to the Fund for redemption are deemed to be outstanding until (but not after) the close of business on the relevant Valuation Date, unless not redeemed thereon, in which event such Units will remain outstanding.

Suspension of Redemptions

Mulvihill may, with the prior permission of the securities regulatory authorities, direct the Trustee to suspend the redemption of Units or payment of redemption proceeds: (a) during any period when normal trading is suspended on the Toronto or New York stock exchanges; or (b) for any period not exceeding 120 days during which Mulvihill determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Trustee to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All holders of Units making such requests shall be advised by Mulvihill of the suspension and that the redemption will be effected at a price determined on the first Valuation Date following the termination of the suspension. All such Unitholders shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by Mulvihill shall be conclusive.

Purchase for Cancellation

Subject to applicable law, the Fund may at any time or times purchase Units for cancellation at prices not exceeding the NAV per Unit on the Valuation Date immediately prior to such purchase.

Normal Course Issuer Bids

Under the terms of a normal course issuer bid that expired on July 11, 2008, the Fund could purchase up to a maximum of 487,243 Units. No Units were purchased by the Fund pursuant to the bid. Near the end of July, 2008, the Fund made another normal course issuer bid. Pursuant to the bid, the Fund can purchase, if it considers advisable, up to a maximum of 376,427 Units (representing approximately 10% of the Fund’s public float as of July 17, 2008). The Fund may not purchase more than 75,285 of its Units (representing approximately 2% of the Fund’s 3,764,270 issued and outstanding Units as of July 17, 2008) in any 30-day period under the bid. The bid will remain in effect until the earlier of July 22, 2009, the termination of the bid by the Fund or the Fund purchasing the maximum number of Units permitted under the bid. As at March 30, 2009, no Units had been purchased by the Fund pursuant to the bid.

BOOK-ENTRY ONLY SYSTEM

Registration of interests in and transfers of the Units are made only through the book-entry only system (the “book-entry only system”) administered by CDS. Units must be purchased, transferred and surrendered for redemption through a CDS Participant. All rights of an owner of Units must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS or the CDS Participant through which the owner holds such Units. Upon purchase of any Units, the owner will receive only the customary confirmation. References in this annual information form to a holder of Units means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such owner's interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

An owner of Units who desires to exercise redemption privileges thereunder must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the owner a written notice of the owner's intention to redeem Units, no later than 5:00 p.m. (Toronto time) on the relevant notice date. An owner who desires to redeem Units should ensure that the CDS Participant is provided with notice (the "Redemption Notice") of his intention to exercise his redemption privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. The Redemption Notice will be available from a CDS Participant or Computershare Investor Services Inc., the Fund's registrar and transfer agent. Any expense associated with the preparation and delivery of Redemption Notices will be for the account of the owner exercising the redemption privilege.

By causing a CDS Participant to deliver to CDS a notice of the owner's intention to redeem Units, an owner shall be deemed to have irrevocably surrendered his Units for redemption and appointed such CDS Participant to act as his exclusive settlement agent with respect to the exercise of the redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any Redemption Notice which CDS determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect and the redemption privilege to which it relates shall be considered for all purposes not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with the owner's instructions will not give rise to any obligations or liability on the part of the Fund to the CDS Participant or to the owner.

The Fund has the option to terminate registration of the Units through the book-entry only system in which case certificates for Units in fully registered form would be issued to beneficial owners of such Units or to their nominees.

UNITHOLDER MATTERS

Acts Requiring Unitholder Approval

Pursuant to the Trust Agreement, the following matters require the approval of Unitholders by a two-thirds majority of the Unitholders voting thereon (other than items (e), (f) and (k) which require approval by a simple majority vote) at a meeting called and held for such purpose:

- (a) a change in the fundamental investment objectives and strategy of the Fund as described under "Investment Objectives and Strategy";
- (b) a change in the investment criteria of the Fund as described under "Investment Restrictions";
- (c) any change in the basis of calculating fees or other expenses that are charged to the Fund which could result in an increase in charges to the Fund;
- (d) a change of the manager of the Fund, other than a change resulting in an affiliate of such person assuming such position or, except as described herein, a change in the investment manager or trustee of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (e) a decrease in the frequency of calculating the NAV per Unit or of redeeming Units;
- (f) a change of the auditors of the Fund;
- (g) a reorganization with, or transfer of assets to, another mutual fund, if:
 - (i) the Fund ceases to continue after the reorganization or transfer of assets; and

- (ii) the transaction results in Unitholders becoming securityholders in the other mutual fund;
- (h) a reorganization with, or acquisition of assets of, another mutual fund, if:
 - (i) the Fund continues after the reorganization or acquisition of assets;
 - (ii) the transaction results in the securityholders of the other mutual fund becoming Unitholders of the Fund; and
 - (iii) the transaction would be a material change to the Fund;
- (i) a termination of the Investment Management Agreement (except as described under “Investment Management Agreement”);
- (j) a termination of the Fund prior to the Termination Date;
- (k) an extension of the Fund beyond the Termination Date; and
- (l) an amendment, modification or variation in the provisions or rights attaching to the Units.

Mulvihill and the Trustee may, without the approval of or notice to Unitholders, amend the Trust Agreement for certain limited purposes specified therein, including to:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Trust Agreement and any provisions of any law or regulation applicable to or affecting the Fund;
- (b) make any change or correction in the Trust Agreement which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Trust Agreement into conformity with NI 81-102 or other applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities industry, provided that any such amendment does not adversely affect the pecuniary value of the interest of any Unitholder;
- (d) maintain the status of the Fund as a “mutual fund trust” for the purposes of the Tax Act; or
- (e) provide added protection to Unitholders.

Except for changes to the Trust Agreement which require the approval of Unitholders or changes described above which do not require approval of or prior notice to Unitholders, the Trust Agreement may be amended from time to time by Mulvihill and the Trustee upon not less than 30 days’ prior written notice to Unitholders.

Reporting to Unitholders

The Fund will deliver to each Unitholder annual and semi-annual financial statements of the Fund.

INVESTMENT RESTRICTIONS

The Fund is subject to certain investment criteria that, among other things, limit the securities the Fund may acquire for the portfolio. The Fund’s investment criteria may not be changed without the approval of the Unitholders by a two-thirds majority vote of those Unitholders who attend and vote at a meeting called for such purpose. The Fund’s investment criteria provide that the Fund may:

- (a) purchase Zero Coupon Bonds;
- (b) hold its assets in cash and cash equivalents;

- (c) not enter into any arrangement (including the acquisition of securities) where the result is a dividend rental arrangement for the purposes of the Tax Act;
- (d) not make or hold any investments that would result in the Fund failing to qualify as a “mutual fund trust” or a “unit trust” within the meaning of the Tax Act;
- (e) not invest in the securities of any non-resident corporation or trust or other non-resident entity if the Fund would be required to mark its investment in such securities to market in accordance with proposed section 94.2 of the Tax Act or to include any significant amounts in income pursuant to proposed sections 94.1 or 94.3 of the Tax Act nor invest in any interest in a non-resident trust other than an “exempt trust” as defined in proposed section 94 of the Tax Act, as set forth in the revised draft amendments to the Tax Act released by the Minister of Finance (Canada) on July 18, 2005 (or such proposals as amended or enacted, or successor provisions thereto); and
- (f) not make or hold any investment that would result in more than 10% (by fair market value) of the Fund’s property being “taxable Canadian property” or other “specified property” as described in proposed amendments to the Tax Act released by the Minister of Finance (Canada) on September 16, 2004.

In addition, but subject to these investment restrictions, the Fund has adopted the standard investment restrictions and practices set forth in NI 81-102. A copy of such standard investment restrictions and practices will be provided by the Manager to any person on request.

The Fund has obtained an exemption from certain of the provisions of NI 81-102 including:

- (a) Section 10.3 – to permit the Fund to calculate the redemption price as disclosed in “Redemption of Units”;
- (b) Section 10.4 – to permit the Fund to make payment for redeemed securities within ten business days as disclosed in this annual information form;
- (c) Subsection 12.1(1) – to exempt the Fund from the requirement in this subsection to file a compliance report; and
- (d) Section 13.1 – to permit the Fund to calculate its NAV on a weekly basis.

CALCULATION OF NET ASSET VALUE AND NET ASSET VALUE PER UNIT

The NAV of the Fund on a particular date will be equal to the aggregate value of the assets of the Fund, less the aggregate value of the liabilities of the Fund, including any income, net realized capital gains or other amounts payable to Unitholders on or before such date expressed in Canadian dollars at the applicable exchange rate on such date. The “NAV per Unit” on any day is obtained by dividing the NAV of the Fund on such day by the number of Units then outstanding.

The NAV per Unit will be calculated once each week at the close of business. In the last week of the month, the NAV per Unit will be calculated on the last day of the month at the close of business. Such information will be provided by Mulvihill to Unitholders on request.

In determining the NAV of the Fund at any time:

- (a) the value of common shares and other securities will be the last board lot sale price of such common shares or other securities on the principal stock exchange on which they are traded prior to the determination of the NAV of the Fund or, if no such sale price is available at that time, the closing price quoted for the security provided that where bid and ask quotes are available, at the average of the bid and the asked price instead of at the quoted closing price;
- (b) the value of any cash on hand or on deposit, prepaid expenses, cash dividends declared and interest accrued and not yet received, shall be deemed to be the face amount thereof unless the Trustee determines that any

such asset is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Trustee determines to be the fair value thereof;

- (c) money-market instruments shall be valued at cost plus accrued interest at the calculation time;
- (d) if a Valuation Date is not a business day, then the securities comprising the Fund's portfolio and other Fund property will be valued as if such Valuation Date were the preceding business day;
- (e) the value of all assets of the Fund quoted or valued in terms of foreign currency, the value of all funds on deposit and contractual obligations payable to the Fund in foreign currency and the value of all liabilities and contractual obligations payable by the Fund in foreign currency shall be determined using the applicable rate of exchange current at, or as nearly as practicable to, the date as of which the NAV is computed; and
- (f) if an investment cannot be valued under the foregoing rules or if the foregoing rules are at any time considered by the Trustee to be inappropriate under the circumstances, then notwithstanding such rules, the Trustee shall make such valuation as it considers fair and reasonable. The discretion to deviate from the foregoing rules has not been exercised within the past three years.

The above principles are used to calculate the net asset value of the Fund for all purposes other than financial reporting. This valuation policy differs from the valuation method required for financial statement reporting purposes under the Canadian Institute of Chartered Accountants Handbook (the "CICA Handbook"). The CICA Handbook requires that portfolio securities in an active market be valued using the latest available bid price. The primary differences between the valuation policy of the Fund and the approach in the CICA Handbook is that the Fund will generally determine the fair value of its equity securities traded on a stock exchange by using the closing price on the exchange. For bonds, debentures and other debt obligations (excluding money-market instruments), the Fund will generally use the average of the bid and ask prices to determine the fair value.

RESPONSIBILITY FOR OPERATIONS

The Manager

Pursuant to the Trust Agreement, Mulvihill is the manager of the Fund and, as such, is responsible for providing or arranging for required administrative services to the Fund including, without limitation: authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements (including interim and annual financial statements) and other reports as are required by applicable law from time to time; ensuring that the Fund complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Fund's reports to Unitholders and the Canadian securities regulatory authorities; providing the Trustee with information and reports necessary for it to fulfil its fiduciary responsibilities; determining the amount of distributions to be made by the Fund; and negotiating contractual agreements with third-party providers of services, including registrars, transfer agents, auditors and printers.

Mulvihill shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of Unitholders, and in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

Mulvihill may resign as manager of the Fund upon 60 days' notice to the Fund and to the Unitholders or upon such lesser notice period as the Trustee may accept. If Mulvihill resigns it may appoint its successor but, unless its successor is an affiliate of Mulvihill, its successor must be approved by Unitholders. If Mulvihill is in material default of its obligations under the Trust Agreement and such default has not been cured within 30 days after notice of same has been given to Mulvihill, the Trustee shall give notice thereof to Unitholders and the Unitholders may direct the Trustee to remove Mulvihill and appoint a successor manager.

Mulvihill is entitled to fees for its services under the Trust Agreement and will be reimbursed for all reasonable costs and expenses incurred by Mulvihill on behalf of the Fund. In addition, Mulvihill and each of its directors,

officers, employees and agents will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against Mulvihill or any of its officers, directors, employees or agents in the exercise of its duties as manager, except those resulting from Mulvihill's wilful misconduct, bad faith, negligence or breach of its obligations under the Trust Agreement.

The management services of Mulvihill under the Trust Agreement are not exclusive and nothing in the Trust Agreement prevents Mulvihill from providing similar management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities.

The Investment Manager

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 (the "Investment Management Agreement") made between Mulvihill as manager and on behalf of the Fund and MCM dated February 15, 2001, as amended on May 23, 2006.

MCM was incorporated in 1984 by The Canada Trust Company under the name CT Investment Counsel Inc. ("CTIC") to manage the institutional pension fund business of The Canada Trust Company. In 1985, The Canada Trust Company and The Canada Permanent Trust Company amalgamated resulting in all of the pension assets managed by The Canada Permanent Trust Company being transferred to CTIC management. In addition, the investment professionals of The Canada Permanent Trust Company joined the CTIC team.

In February 1995, John P. Mulvihill purchased 100% of CTIC from The Canada Trust Company and changed CTIC's name to Mulvihill Capital Management Inc.

Investment Management Agreement

The services provided by MCM pursuant to the Investment Management Agreement include making all investment decisions for the Fund, all in accordance with the investment objectives, strategy and criteria of the Fund. Decisions as to the purchase and sale of securities and as to the execution of all portfolio and other transactions will be made by MCM. In the purchase and sale of securities for the Fund, MCM will seek to obtain overall services and prompt execution of orders on favourable terms.

Under the Investment Management Agreement, MCM is required to act at all times on a basis which is fair and reasonable to the Fund, to act honestly and in good faith with a view to the best interests of the Unitholders of the Fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment Management Agreement provides that MCM shall not be liable in any way for any default, failure or defect in any of the securities of the Fund, nor shall it be liable if it has satisfied the duties and standard of care, diligence and skill set forth above. MCM will, however, incur liability in cases of wilful misfeasance, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

The Investment Management Agreement, unless terminated as described below, will continue in effect until the termination of the Fund on the Termination Date. The Trustee may terminate the Investment Management Agreement if MCM has committed certain events of bankruptcy or insolvency or is in material breach or default of the provisions thereof and such breach has not been cured within 30 days after notice thereof has been given to MCM by the Trustee. Except as described above, MCM cannot be terminated as investment manager of the Fund.

Except as set out below, MCM may not terminate the Investment Management Agreement or assign the same except to an affiliate of MCM, without Unitholder approval. MCM may terminate the Investment Management Agreement if the Fund is in material breach or default of the provisions thereof and such breach or default has not been cured within 30 days of notice of same to the Trustee or if there is a material change in the fundamental investment objectives, strategy or criteria of the Fund.

If the Investment Management Agreement is terminated, Mulvihill will promptly appoint a successor investment manager to carry out the activities of MCM until a meeting of Unitholders is held to confirm such appointment.

MCM is entitled to fees for its services under the Investment Management Agreement and will be reimbursed for all reasonable costs and expenses incurred by MCM on behalf of the Fund. In addition, MCM and each of its directors, officers, employees and agents will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against MCM or any of its officers, directors, employees or agents in the exercise of its duties as investment manager, except those resulting from MCM's wilful misconduct, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

Independent Review Committee

National Instrument 81-107 – *Independent Review Committee for Investment Funds* (“NI 81-107”) requires all publicly offered investment funds, including the Fund, to establish an independent review committee to whom the manager of the fund must refer all 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, maintain records in respect of those matters and provide assistance to the independent review committee in carrying out its functions. The independent review committee is required to conduct regular assessments and provide reports to the manager and securityholders in respect of its activities.

The members of the independent review committee (the “IRC”) of the Fund and the other Mulvihill funds are Michael M. Koerner, Robert W. Korthals and Robert G. Bertram. Mr. Bertram replaced C. Edward Medland as a member of the IRC effective January 1, 2009, following the passing of the latter. The aggregate compensation paid by the Fund to the members of the IRC for the year ended December 31, 2008 was \$4,266.75.

The Advisory Board

The Fund has established an advisory board (the “Advisory Board”) currently consisting of five members appointed by Mulvihill to assist Mulvihill in performing its services under the Trust Agreement. The following are the names, municipalities of residence and principal occupations of each member of the Advisory Board of the Fund:

<i>Name and Municipality of Residence</i>	<i>Principal Occupation</i>
John P. Mulvihill Toronto, Ontario	Chairman and President, MCM
Michael M. Koerner ⁽¹⁾ Toronto, Ontario	Corporate Director
Robert W. Korthals ⁽¹⁾ Toronto, Ontario	Corporate Director
Robert G. Bertram ⁽¹⁾ Aurora, Ontario	Corporate Director
Sheila Szela Toronto, Ontario	Vice-President, Finance and Chief Financial Officer, MCM

(1) Independent of the Manager.

During the past five years all of the Advisory Board members have held the principal occupations noted opposite their respective names, or other occupations with their current employer or a predecessor company with the exception of Robert G. Bertram, who served as Executive Vice President of the Ontario Teachers Pension Plan Board from 1990 until 2008. The independent Advisory Board members are paid an annual fee of \$5,000 and a fee for each Advisory Board meeting attended of \$300. All fees and expenses of the Advisory Board are paid by the Fund.

Each member of the Advisory Board, other than Ms. Szela and Mr. Bertram, has served as a member of the Advisory Board since its initial public offering. Ms. Szela became an Advisory Board member on November 23, 2004 and Mr. Bertram became an Advisory Board member on January 1, 2009. Each member of the Advisory Board has been appointed by the Manager and will serve until his or her successor is appointed.

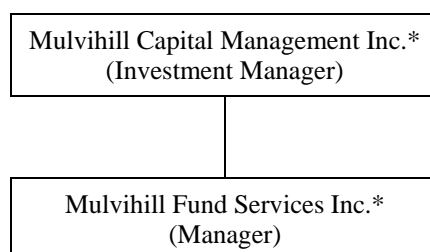
Directors and Officers of the Manager

The name and municipality of residence, position held with Mulvihill and current principal occupation of each of the directors and officers of Mulvihill are as follows:

<i>Name and Municipality of Residence</i>	<i>Office or Position with Mulvihill</i>	<i>Principal Occupation</i>
John P. Mulvihill Toronto, Ontario	Chairman, President and Director	Chairman and President, MCM
Sheila Szela Toronto, Ontario	Chief Financial Officer and Director	Vice-President, Finance and Chief Financial Officer, MCM

Mr. Mulvihill has held his current positions with Mulvihill and MCM for the past five years. Ms. Szela was appointed as Chief Financial Officer and a director of Mulvihill in November, 2004. She joined MCM in June 2002 as Vice-President, Finance and was appointed to the position of Chief Financial Officer in November 2004.

MCM owns the sole outstanding share of Mulvihill, as shown below.



* Fees received by these entities from the Fund are disclosed in the audited financial statements of the Fund.

As of March 26, 2009, John P. Mulvihill owned of record and beneficially 95,073 shares (100%) of MCM Group Holdings Inc., the sole shareholder of MCM.

Directors and Officers of the Investment Manager

The name and municipality of residence and position of each of the directors and officers of MCM are as follows:

<i>Name and Municipality of Residence</i>	<i>Office or Position with MCM</i>
John P. Mulvihill Toronto, Ontario	Chairman, President, Chief Executive Officer, Secretary and Director
Donald Biggs Ancaster, Ontario	Senior Vice-President

<i>Name and Municipality of Residence</i>	<i>Office or Position with MCM</i>
John Germain Toronto, Ontario	Vice-President
Supriya Kapoor Toronto, Ontario	Vice-President
Peggy Shiu Toronto, Ontario	Vice-President
Sheila Szela Toronto, Ontario	Vice-President, Finance and Chief Financial Officer
Jack Way Toronto, Ontario	Vice-President

Except as indicated below, each of the foregoing has held his or her current office or has held a similar office in MCM during the five years preceding the date hereof. Prior to joining MCM in October 2004, Ms. Kapoor was Director, Compliance Operations from October 2002 to October 2004 for Assante Advisory Services and Manager, Regulatory Affairs & Compliance from October 2000 to October 2002 for BMO Investments Inc.

All the individuals on the team responsible for investment management at MCM have significant experience in managing investment portfolios. The officers of MCM who are primarily responsible for the management of the Fund's portfolio are John P. Mulvihill and Donald Biggs. Also assisting in the management of the portfolio are: Jack Way, John Germain, Jeff Dobson and Dylan D'Costa.

John P. Mulvihill, Chairman of MCM, is the senior portfolio manager of MCM and has over 30 years of investment management experience. Prior to purchasing CTIC from The Canada Trust Company in 1995, Mr. Mulvihill had been Chairman of CTIC since 1988. At CTIC he had primary responsibility for the asset allocation and portfolio management of CTIC's pension and mutual fund assets.

Donald Biggs, Senior Vice-President of MCM, has extensive experience in managing derivative instruments. Prior to joining MCM in 1997, Mr. Biggs was Vice-President, Bonds and Cash Management at OMERS where he had overall responsibility for Derivative Products.

Jack Way has been with MCM since August 1998 and brings an extensive background in asset management with over 23 years of experience as an investment manager during which he spent considerable time working in the U.S. market.

John Germain has been with MCM and the Structured Products Team since March 1997. Prior to joining MCM, he had been employed at Merrill Lynch Canada Inc. since 1992. For the last two years of his employment at Merrill Lynch Canada Inc., he was a member of the Fixed Income Trading Group.

Jeff Dobson, Portfolio Manager, joined MCM in April 2001 after nearly 16 years at Scotia Capital. He brings extensive experience in portfolio management, especially in the use of equity options. His most recent position prior to joining MCM involved managing a portfolio comprised of equity options, their underlying stocks, as well as equity index derivatives.

Dylan D'Costa, Portfolio Manager, has been with MCM and the Structured Products Team since January 2001 where he has worked extensively on valuing, pricing and trading equity options. Prior to joining MCM, he had been employed at CIBC Mellon where he worked with the valuations group.

CORPORATE GOVERNANCE

The Advisory Board of the Fund is responsible for the overall stewardship of the Fund's business and affairs. Mulvihill, the Fund's manager, administers many functions associated with the operations of the Fund pursuant to

the Trust Agreement. Under this agreement, the Manager is responsible for certain day to day operations of the Fund including attending to the redemption of Units in accordance with their terms.

The Advisory Board consists of five members, three of whom are independent of the Manager. The Fund believes that the number of Advisory Board members is appropriate for the Fund and only members independent of the Manager 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 member of the Advisory Board. Individual members may engage an outside advisor at the expense of the Fund in appropriate circumstances subject to the approval of the Fund.

The Advisory 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 website to respond to inquiries from Unitholders.

Mulvihill has adopted policies, procedures and guidelines concerning the governance of the Fund and to ensure the proper management of the Fund. These policies, procedures and guidelines aim to monitor and manage the business, risks and internal conflicts of interest relating to the Fund, and to ensure compliance with regulatory and corporate requirements.

In addition, MCM has an asset mix committee consisting of the following senior officers: John Mulvihill, Donald Biggs, Peggy Shiu, Jack Way and John Germain. The investment process for the Fund begins at the asset mix committee. Members of this committee meet monthly to examine macro-economic variables and relationships among dominant economic factors. This process culminates in an outlook for the various capital markets around the world and provides the fundamental basis for MCM's long-term market outlook. These views are integrated into the investment decision making process at the portfolio management level. The asset mix committee of MCM oversees investment decisions made by the portfolio managers of the Fund and reports to John Mulvihill, the sole director and chairman, president, chief executive officer and secretary of MCM.

Because Unitholders may only redeem their Units on notice for payment not more frequently than monthly, they cannot engage in short-term trading of the Fund's securities with the Fund and the Fund has no policies and procedures in relation to such activities.

Proxy Voting Policy

The Fund has adopted the following proxy guidelines (the "Proxy Guidelines") with respect to the voting of proxies received by it relating to voting securities held by the Fund. The Proxy Guidelines establish standing policies and procedures for dealing with routine matters, as well as the circumstances under which deviations may occur from such standing policies. A general description of certain such policies is outlined below.

(a) *Auditors*

The Fund will generally vote for proposals to ratify auditors except where non-audit-related fees paid to such auditors exceed audit-related fees.

(b) *Board of Directors*

The Fund will vote for nominees of management on a case-by-case basis, examining the following factors: independence of the board and key board committees, attendance at board meetings, corporate governance positions, takeover activity, long-term company performance, excessive executive compensation, responsiveness to shareholder proposals and any egregious board actions. The Fund will generally withhold votes from any nominee who is an insider and sits on the audit committee or the compensation committee. The Fund will also withhold support from those individual nominees who have attended fewer than 75% of the board meetings held within the past year without a valid excuse for these absences.

(c) *Compensation Plans*

The Fund will vote on matters dealing with share-based compensation plans on a case-by-case basis. The Fund will review share-based compensation plans with a primary focus on the transfer of shareholder wealth. The Fund will generally vote for compensation plans only where the cost is within the industry maximum except where (i) participation by outsiders is discretionary or excessive or the plan does not include reasonable limits on participation or (ii) the plan provides for option re-pricing without shareholder approval. The Fund will generally also vote against any proposals to re-price options, unless such re-pricing is part of a broader plan amendment that substantially improves the plan and provided that (i) a value-for-value exchange is proposed; (ii) the top five paid officers are excluded; and (iii) exercised options do not go back into the plan or the company commits to an annual burn rate cap.

(d) *Management Compensation*

The Fund will vote on employee stock purchase plans (“ESPPs”) on a case-by-case basis. The Fund will generally vote for broadly based ESPPs where all of the following apply: (i) there is a limit on employee contribution; (ii) the purchase price is at least 80% of fair market value; (iii) there is no discount purchase price with maximum employer contribution of up to 20% of employee contribution; (iv) the offering period is 27 months or less; and (v) potential dilution is 10% of outstanding securities or less. The Fund will also vote on a case-by-case basis for shareholder proposals targeting executive and director pay, taking into account the issuer’s performance, absolute and relative pay levels as well as the wording of the proposal itself. The Fund will generally vote for shareholder proposals requesting that the issuer expense options or that the exercise of some, but not all options be tied to the achievement of performance hurdles.

(e) *Capital Structure*

The Fund will vote on proposals to increase the number of securities of an issuer authorized for issuance on a case-by-case basis. The Fund will generally vote for proposals to approve increases where the issuer’s securities are in danger of being de-listed or if the issuer’s ability to continue to operate is uncertain. The Fund will generally vote against proposals to approve unlimited capital authorization.

(f) *Constating Documents*

The Fund will generally vote for changes to constating documents that are necessary and can be classified as “housekeeping”. The following amendments will be opposed:

- (i) the quorum for a meeting of shareholders is set below two persons holding 25% of the eligible vote (this may be reduced in the case of a small organization where it clearly has difficulty achieving quorum at a higher level, but the Fund will oppose any quorum below 10%);
- (ii) the quorum for a meeting of the board of directors should not be less than 50% of the number of directors; and
- (iii) the chair of the board has a casting vote in the event of a deadlock at a meeting of directors if that chair is not an independent director.

The Proxy Guidelines also include policies and procedures pursuant to which the Fund will determine how to cause proxies to be voted on non-routine matters including shareholder rights plans, proxy contests, mergers and restructurings and social and environmental issues.

The Proxy Guidelines apply to proxy votes that present a conflict between the interests of Mulvihill, MCM or an entity related thereto, on the one hand, and the interests of the securityholders of the Fund, on the other.

The Fund has retained ISS Governance Services, a subsidiary of RiskMetrics Group to administer and implement the Proxy Guidelines for the Fund.

The Proxy Guidelines are available upon request at no cost by calling toll-free at 1-800-725-7172 or by e-mail at hybrid@mulvihill.com.

The Fund maintains annual proxy voting records for the period beginning July 1 and ending June 30 of each year. These records are available after August 31 of each year at no cost by calling toll-free 1-800-725-7172 or on Mulvihill's website at www.mulvihill.com.

BROKERAGE ARRANGEMENTS

The Investment Manager has been delegated authority to determine the brokerage arrangements of the Fund. Decisions that the Investment Manager may make as to the purchase and sale of portfolio securities and the execution of portfolio transactions for the Fund, including the selection of markets and dealers and the negotiation of commissions, are based on elements such as price, speed of execution, certainty of execution and total transactions costs.

TRUSTEE AND CUSTODIAN

RBC Dexia Investor Services Trust, as successor to The Royal Trust Company, is the trustee of the Fund and acts as custodian of the assets of the Fund under the Trust Agreement. Pursuant to the terms of the Trust Agreement, the assets of the Fund may also be held by subcustodians.

The Trustee is responsible for certain aspects of the day-to-day administration of the Fund as described in the Trust Agreement, including executing instruments on behalf of the Fund, processing redemptions, calculating NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund.

The Trustee may resign upon 60 days' notice to Unitholders and Mulvihill or such lesser notice as Mulvihill may accept. The Trustee may be removed with the approval of a two-thirds majority vote cast at a meeting of Unitholders called for such purpose or by Mulvihill in the event the Trustee has committed certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Trust Agreement which breach has not been cured within 30 days after notice thereof has been given to the Trustee. Any such resignation or removal shall become effective only upon the acceptance of appointment by a successor. If the Trustee resigns or is removed by Mulvihill, its successor may be appointed by Mulvihill. The successor must be approved by Unitholders if the Trustee is removed by Unitholders. If no successor has been appointed within 60 days, the Trustee or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor.

The address of the Trustee is 77 King Street West, 7th Floor, Toronto, Ontario, M5W 1P9.

The Trustee receives fees from the Fund for acting as trustee and custodian of the assets of the Fund and performing certain administrative services under the Trust Agreement and is reimbursed for all expenses and liabilities which are properly incurred by the Trustee in connection with the activities of the Fund.

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc. at its principal offices in Toronto is the registrar and transfer agent for the Units. The register of the Fund is kept in Toronto, Ontario.

AUDITORS

The auditors of the Fund are Deloitte & Touche LLP, Bay Wellington Tower - Brookfield Place, 181 Bay Street, Suite 1400, Toronto, Ontario, M5J 2V1.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the principal Canadian federal income tax considerations generally relevant to holders of Units who are individuals (other than trusts) and who, for purposes of the Tax Act, are resident in Canada, deal at arm's length with the Fund and hold their Units as capital property (each a "Holder"). This summary is based on the current provisions of the Tax Act, the regulations thereunder, and the Fund's understanding of the current administrative and assessing practices of the Canada Revenue Agency (the "CRA") and all specific proposals to

amend the Tax Act and regulations thereunder publicly announced by the Minister of Finance (Canada) prior to the date hereof (the “Proposed Amendments”). No assurances can be given that the Proposed Amendments will become law as proposed or at all.

This summary is based on the following assumptions:

- (a) the Fund will not make or hold any investment that would result in the Fund becoming a “SIFT trust” for purposes of the Tax Act. Among other requirements, in order for the Fund to so qualify:
 - (i) the Fund must not hold “securities” of a “subject entity”, other than a “portfolio investment entity” (as defined in the Tax Act) if such securities have a total fair market value that is greater than 10% of the fair market value of all of the issued and outstanding shares or interests in such entity; and
 - (ii) the Fund must not hold “securities” of a “subject entity”, other than a “portfolio investment entity” (as defined in the Tax Act) if, together with all of the securities that the Fund holds of entities affiliated with the particular subject entity, such securities have a total fair market value that is greater than 50% of the fair market value of all of the issued and outstanding Units of the Fund;
- (b) none of the issuers of the securities acquired or held by the Fund will be foreign affiliates of the Fund or of any Holder;
- (c) none of the securities acquired or held by the Fund will be a “tax shelter investment” within the meaning of section 143.2 of the Tax Act; and
- (d) none of the securities acquired or held by the Fund will be a “participating interest”, other than an “exempt interest”, in a “foreign investment entity” or a “tracking entity”, or an interest in a non-resident trust other than an “exempt foreign trust” under tax proposals relating to foreign investment entities and non-resident trusts.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Units and does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, other than the Proposed Amendments. This summary does not deal with foreign, provincial or territorial income tax considerations, which may differ from the federal considerations summarized herein.

This summary is of a general nature only and does not constitute legal or tax advice to any particular investor. Investors are advised to consult their own tax advisors with respect to the tax consequences to them of an investment in Units in their individual circumstances.

Status of the Fund

This summary is based on the assumption that the Fund will qualify at all times as a “mutual fund trust” within the meaning of the Tax Act. To so qualify, the sole undertaking of the Fund must be the investing of its funds in property (other than real property or interests in real property), the Units must be redeemable at the demand of the Unitholders and the Fund must comply on a continuous basis with certain requirements relating to the qualification of the Units for distribution to the public, the number of Unitholders and the dispersal of ownership of Units. If the Fund were not to qualify as a mutual fund trust, the income tax considerations described below would in some respects be materially different.

An additional condition to qualify as a mutual fund trust for purposes of the Tax Act is that the Fund may not be established or maintained primarily for the benefit of non-resident persons unless, at all times, substantially all of its property consists of property other than “taxable Canadian property” within the meaning of the Tax Act. If certain Tax Proposals released on September 16, 2004 are enacted as proposed, the Fund would cease to qualify as a mutual fund trust for purposes of the Tax Act if, at any time after 2004, the fair market value of all Units held by non-residents, or partnerships that are not “Canadian partnerships” for the purpose of the Tax Act, or any combination of the foregoing, is more than 50% of the fair market value of all issued and outstanding Units unless no more than

10% (based on fair market value) of the Fund's property is at any time "taxable Canadian property" within the meaning of the Tax Act and certain other types of specified property. Bill C-52, which received Royal Assent on June 22, 2007, amended the relevant provision of the Tax Act such that a trust is deemed not to be a mutual fund trust after any time when it can be reasonably considered that the trust was established or maintained primarily for the benefit of non-resident persons, unless at that time all or substantially all of its property is property other than taxable Canadian property. It is not clear whether this amendment supersedes the Tax Proposals released on September 16, 2004.

Under the Tax Act, trusts or partnerships (defined as "SIFT trusts" and "SIFT partnerships", respectively) the securities of which are listed or traded on a public market and that hold one or more "non-portfolio properties" (as defined in the Tax Act) are effectively taxed on income and capital gains in respect of such non-portfolio properties at combined rates comparable to the rates that apply to income earned and distributed by Canadian public corporations. Distributions of such income received by unitholders of SIFT trusts (and allocations of such income made to members of SIFT partnerships) are treated as eligible dividends from a taxable Canadian corporation. This summary assumes that the Fund will at no time be a SIFT trust.

Taxation of the Fund

The Fund will be subject to tax in each taxation year under Part I of the Tax 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. The Fund intends to deduct in computing its income in each taxation year the full amount available for deduction in each year and, therefore, provided the Fund makes deductions in each year of its net income and net realized capital gains as described under the heading "Description of the Units – Monthly Distributions", it will generally not be liable in such year for income tax under Part I of the Tax Act.

The Fund has elected in accordance with the Tax Act to have each of its Canadian securities treated as capital property. Such an election will ensure that gains or losses realized by the Fund on the sale of Canadian securities are taxed as capital gains or capital losses.

The Tax Act provides for a special tax on designated income of certain trusts which have designated beneficiaries. This special tax does not apply to a trust for a taxation year if the trust is a mutual fund trust throughout such year. Accordingly, provided that the Fund qualifies as a mutual fund trust throughout a taxation year, it will not be subject to the special tax for such taxation year.

Taxation of Holders

A Holder will generally be required to include in computing income for a taxation year the amount of the Fund's net income for the taxation year, including net realized taxable capital gains, paid or payable to the Holder in the taxation year. The non-taxable portion of the Fund's net realized capital gains paid or payable to a Holder in a taxation year will not be included in the Holder's income for the year. Any other amount in excess of the Fund's net income for a taxation year paid or payable to the Holder in the year will not generally be included in the Holder's income. Such amount, however, will generally reduce the adjusted cost base of the Holder's Units, except to the extent such amount is the non-taxable portion of a capital gain of the Fund the taxable portion of which was designated to the Holder.

Provided that appropriate designations are made by the Fund, such portion of (i) the net realized taxable capital gains of the Fund, (ii) the foreign source income of the Fund, and (iii) the taxable dividends received by the Fund on shares of taxable Canadian corporations, as is paid or payable to a Holder will effectively retain its character and be treated as such in the hands of the Holder for purposes of the Tax Act. To the extent that amounts are designated as taxable dividends (including "eligible dividends") from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply.

Any loss of the Fund for purposes of the Tax Act cannot be allocated to, and cannot be treated as the loss of, a Holder. Under the Tax Act, a trust is permitted to deduct in computing its income for a taxation year an amount which is less than the amount of its distributions for the year. This will enable the Fund to utilize, in a taxation year, losses from prior years without affecting the ability of the Fund to distribute its income annually. The amount

distributed to a Holder but not deducted by the Fund will not be included in the Holder's income. However, the adjusted cost base of the Holder's Units will be reduced by such amount.

The NAV per Unit will reflect any income and gains of the Fund that have accrued or been realized but have not been made payable at the time Units are acquired. Accordingly, a Holder who acquires Units may become taxable on the Holder's share of income and gains of the Fund that accrued or were realized before the Units are acquired and not made payable at such time.

On the disposition or deemed disposition of Units, the Holder will realize a capital gain (or capital loss) to the extent that the Holder's proceeds of disposition (other than any amount payable by the Fund which represents an amount that is otherwise required to be included in the computation of the Holder's income as described above) exceed (or are exceeded by) the aggregate of the adjusted cost base of the Units and any reasonable costs of disposition. If the Fund distributes property in specie on the termination of the Fund, a Holder's proceeds of disposition will generally be equal to the aggregate of the fair market value of the property and the amount of any cash received and the Holder's cost of the property will generally be equal to such fair market value. For the purpose of determining the adjusted cost base to a Holder of Units, when a Unit is acquired, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Holder as capital property at that time.

One-half of any capital gain ("taxable capital gain") realized on the disposition of Units will be included in the Holder's income and one-half of any capital loss realized may be deducted from taxable capital gains in accordance with the provisions of the Tax Act.

In general terms, net income of the Fund paid or payable to a Holder that is designated as net realized taxable capital gains or eligible dividends or net capital gain realized on the disposition of Units may increase the Holder's liability for alternative minimum tax.

Eligibility for Investment

Provided that the Fund qualifies as a mutual fund trust within the meaning of the Tax Act or that Units continue to be listed on the TSX or any other "designated stock exchange" (as defined in the Tax Act), Units will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered disability savings plans, registered education savings plans and tax-free savings accounts.

RISK FACTORS

The following are certain considerations relating to an investment in Units which investors should consider, along with other factors in relation to an investment in the Fund's Units.

No Assurances on Achieving Objectives

There is no assurance that the Fund will return to investors at least \$25.75 per Unit on the Termination Date.

Current Economic Conditions

During recent months, both domestic and foreign financial markets have been characterized by increased volatility. This has been due, in part, to a revaluation of assets on the balance sheets of international financial institutions, as well as the securities of those issuers. Access to public financing has been negatively affected and no assurance can be made that the combined impact of the significant revaluations and constraints on the availability of credit will not materially and adversely affect economies around the world in the near to medium term. If such heightened levels of volatility and current market turmoil continue, the value of the Fund's investments could be adversely affected.

Sensitivity to Interest Rates

Any decrease in the NAV of the Fund resulting from an increase in interest rates may negatively affect the market price of the Units. Unitholders who wish to redeem or sell their Units prior to the Termination Date will therefore be exposed to the risk that NAV per Unit or the market price of the Units will be negatively affected by interest rate fluctuations.

Fluctuations in Net Asset Value

The NAV per Unit will vary according, among other things, to the value of the securities acquired by the Fund and the dividends paid and interest earned thereon. Fluctuations in the market values of the securities in which the Fund invests may occur for a number of reasons beyond the control of the Manager, MCM or the Fund.

Units may trade in the market at a premium or discount to NAV per Unit and there can be no assurance that Units will trade at a price equal to NAV per Unit.

Reliance on Investment Manager

MCM manages the portfolio of the Fund in a manner consistent with the investment objectives, strategy and criteria of the Fund. The officers of MCM who are primarily responsible for the management of the Fund's portfolio have extensive experience in managing investment portfolios. There is no certainty that such individuals will continue to be employees of MCM throughout the term of the Fund.

Significant Redemptions

Units are redeemable annually and monthly for a price based on NAV per Unit (which represents the value that the Fund is able to obtain in the market when it sells portfolio securities to fund the redemption). The purpose of the annual redemption right is to prevent the Units from trading at a substantial discount to this value and to provide Unitholders with the right to realize their investment once per year without any trading discount to such value. While the annual redemption right provides Unitholders the option of annual liquidity, there can be no assurance that it will reduce trading discounts. If a significant number of Units are redeemed, the trading liquidity of the Units could be significantly reduced. In addition the expenses of the Fund would be spread among fewer Units potentially resulting in lower NAV.

Taxation of the Fund

Currently, a trust will be deemed not to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is property other than taxable Canadian property as defined in the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released Proposed Amendments which propose that a trust would lose its status as a mutual fund trust if at any time after 2004 the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships, or any combination thereof, is more than 50% of the aggregate fair market value of all units issued by the trust where, at that time or any previous time, more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of specified property (the "September 16th Proposed Amendments"). If these circumstances applied to the Fund, the Fund would thereafter cease to be a mutual fund trust and the income tax considerations as described under "Canadian Federal Income Tax Considerations" and "Eligibility for Investment" would in some respects be materially different. The September 16th Proposed Amendments do not currently provide any means of rectifying a loss of mutual fund trust status. Bill C-52, which received Royal Assent on June 22, 2007, amended the relevant provision of the Tax Act such that a trust is deemed not to be a mutual fund trust after any time when it can be reasonably considered that the trust was established or maintained primarily for the benefit of non-resident persons, unless at that time all or substantially all of its property is property other than taxable Canadian property. It is not clear whether this amendment supersedes the September 16th Tax Proposals.

Under the Tax Act, trusts or partnerships (defined as "SIFT trusts" and "SIFT partnerships", respectively) the securities of which are listed or traded on a public market and that hold one or more "non-portfolio properties" (as defined in the Tax Act) are effectively taxed on income and capital gains in respect of such non-portfolio properties at combined rates comparable to the rates that apply to income earned and distributed by Canadian public corporations. Distributions of such income received by unitholders of SIFT trusts (and allocations of such income made to members of SIFT partnerships) are treated as eligible dividends from a taxable Canadian corporation. If the Fund were to qualify as a SIFT trust within the meaning of the Tax Act, the income tax considerations described under the heading "Canadian Federal Income Tax Considerations" would be materially and adversely different in certain respects.

MATERIAL CONTRACTS

The following contracts can reasonably be regarded as material to holders of Units:

- (a) the Trust Agreement; and
- (b) the Investment Management Agreement.

Copies of the foregoing agreements may be inspected during business hours at the principal office of the Fund.

ADDITIONAL INFORMATION

Additional information about the Fund is available in the Fund's management reports of fund performance and financial statements.

You can get a copy of these documents at no cost by calling toll-free at 1-800-725-7172 or by e-mail at hybrid@mulvihill.com.

These documents and other information about the Fund, such as information circulars and material contracts, are also available at www.sedar.com.

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GOVERNMENT STRIP BOND TRUST