Mulvihill Structured Products

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Hybrid Income Funds

Annual Report 2008

Mulvihill *Government Strip Bond Fund*

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Message to Unitholders

We are pleased to present the annual financial results of Mulvihill Government Strip Bond Fund, formerly Mulvihill Pro-AMS Fund (the "Fund").

The following is intended to provide you with the financial highlights of the Fund and we hope you will read the more detailed information contained within the report.

The Fund was launched in 2000 with the original objectives to:

(1) Pay monthly distributions and to return the original issue price of $25.00 to unitholders on the termination date of December 31, 2012.

As of May 2006, the new Fund objective is to:

(1) Return at least $25.75 per unit to unitholders on termination date of December 31, 2012.

In May 2006, unitholders approved a proposal to provide further certainty to the net asset value at Termination. The forward agreement was settled and the proceeds were used to purchase a portfolio of zero coupon debt securities issued by the Government of Canada or Canadian provincial governments. Accordingly, the investment strategy has been changed to invest in zero coupon bonds, as well as, sufficient cash and cash equivalents to cover all costs and expenses of the Fund until the termination date (December 31, 2012). During the fiscal year ended 2008, the Fund earned an annual total return of 10.07 percent, resulting in an overall increase in the net asset value from $21.97 per unit as at December 31, 2007 to $24.18 per unit as at December 31, 2008.

The longer-term financial highlights of the Fund for the years ended December 31 are as follows:

	2008	2007	2006	2005	2004
Annual Total Fund Return	10.07%	3.02%	2.88%	4.13%	5.89%
Distribution Paid	$ –	$ –	$ –	$ 0.24000	$ 0.88331
Ending Net Asset Value per Unit (initial issue price was $25.00 per unit)	$ 24.18	$ 21.97	$ 21.33	$ 20.73	$ 20.14

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

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

Mulvihill *Government Strip Bond Fund* [GSB.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 year ended December 31, 2008 of Mulvihill Government Strip Bond Fund, formerly Mulvihill Pro-AMS Fund (the "Fund"). The annual financial statements of the Fund are attached.

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

Investment Objectives and Strategies

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

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

Risk

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

Summary of Investment Portfolio

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

Asset Mix and Portfolio Holdings

December 31, 2008

	% OF NET ASSET VALUE
Provincial Bonds	126 %
Other Assets (Liabilities)	(26)%
	100 %

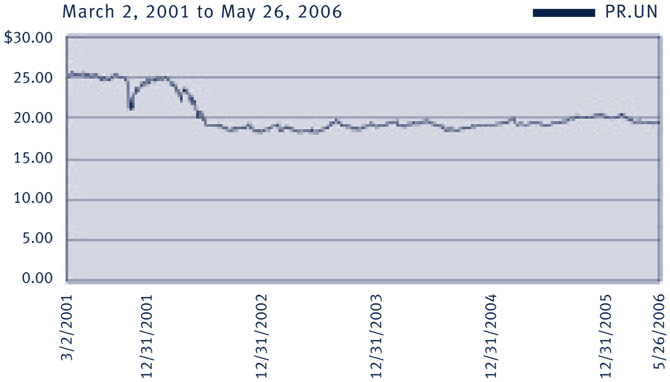
Distribution History

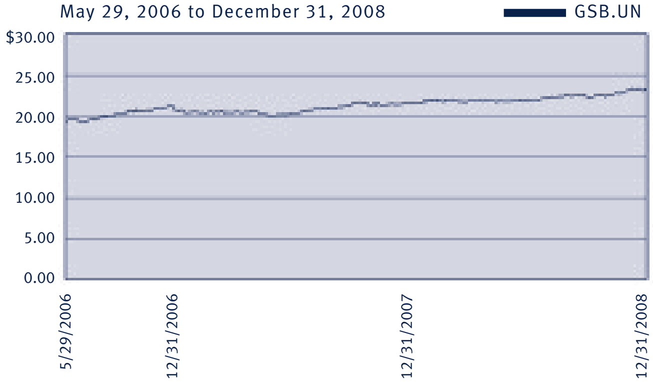
INCEPTION DATE: MARCH 2001	REGULAR DISTRIBUTION
Total for 2001	**$ 1.81200**
Total for 2002	**1.60419**
Total for 2003	**0.99996**
Total for 2004	**0.88331**
Total for 2005	**0.24000***
Total for 2006	**0.00000**
Total for 2007	**0.00000**
Total for 2008	**0.00000**
Total Distributions to Date	**$ 5.53946**

* Distributions were suspended effective May 2005.

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

Trading History





Results of Operations

For the year ended December 31, 2008, the net asset value of the Fund for pricing purposes based on closing prices increased to $24.18 per unit (see Note 4 to the financial statements) from $21.97 per unit at December 31, 2007. The Fund's units, listed on the Toronto Stock Exchange as GSB.UN, closed on December 31, 2008 at $23.05 per unit, which represents a 4.7 percent discount to the net asset value.

No distributions were paid to unitholders during 2008. The one year compound return for the Fund was 10.1 percent. This return is reflective of portfolio assets consisting entirely of government strip bonds, the value of which is dependent on the level of interest rates. Interest rates in the three to five year term trended lower through much of the year, especially in the fourth quarter. This period of rate easing was a benefit to the value of the Fund. The total return of mid-term bonds in Canada, as represented by the Bloomberg Canada Government 3-5 Year Index was 11.97 percent. The underperformance of the Fund compared to this Index is due to a dramatic increase in credit spreads during the year.

For more detailed information on investment returns, please see the Annual Total Return bar graph on page 5 and the Annual Compound Returns table on page 6 of this report.

Financial Highlights

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

For December 31, 2008 and 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 Notes 3 and 4 to the Financial Statements). All other calculations for the purposes of this MRFP are made using Net Asset Value.

Years ended December 31

	2008	2007	2006	2005	2004
THE FUND'S NET ASSETS PER UNIT					
Net Assets, beginning of year (based on bid prices)(1)	**$ 21.97**	**$ 21.32(4)**	**$ 20.73**	**$ 20.14**	**$ 19.88**
INCREASE (DECREASE) FROM OPERATIONS					
Total revenue	**1.05**	1.04	0.62	0.07	(0.03)
Total expenses	**(0.19)**	(0.18)	(0.28)	(0.40)	(0.39)
Realized gains (losses) for the period	**0.10**	–	1.72	3.08	2.03
Unrealized gains (losses) for the period	**1.24**	(0.23)	(1.62)	(1.99)	(0.56)
Total Increase (Decrease) from Operations(2)	**2.20**	**0.63**	**0.44**	**0.76**	**1.05**
DISTRIBUTIONS					
Non-taxable distributions	**–**	–	–	(0.24)	(0.88)
Total Annual Distributions(3)	**–**	**–**	**–**	**(0.24)**	**(0.88)**
Net Assets, as at December 31 (based on bid prices)(1)	**$ 24.17**	**$ 21.97**	**$ 21.33**	**$ 20.73**	**$ 20.14**

(1) Net Assets per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities of the Fund on that date and including the valuation of securities at bid prices divided by the number of units then outstanding. For years prior to 2007, securities were valued at closing prices. The change to the use of bid prices is due to accounting standards set out by the Canadian Institute of Chartered Accountants adopted January 1, 2007 relating to Financial Instruments. Refer to Note 3 to the financial statements for further discussion.
(2) Total increase (decrease) from operations consists of interest and dividend revenue, net of withholding taxes and foreign exchange gains (losses), realized and unrealized gains (losses), less expenses, and is calculated based on the weighted average number of units outstanding during the year. The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of units outstanding during the year.
(3) Distributions to unitholders are based on the number of units outstanding on the record date for each distribution and were paid in cash.
(4) Net Assets per unit has been adjusted for the Transition Adjustment (see Note 3 to the Financial Statements).

RATIOS/SUPPLEMENTAL DATA

	2008	2007	2006	2005	2004
Net Asset Value ($millions)(1)	**$ 72.20**	$ 83.85	$ 105.62	$ 149.06	$ 306.12
Number of units outstanding(1)	**2,985,597**	3,816,987	$ 4,952,796	7,190,778	15,196,591
Management expense ratio(2)	**0.83%**	0.83%	1.36%	1.92%	1.95%
Portfolio turnover rate(3)	**0.00%**	0.00%	103.86%	69.59%	12.13%
Trading expense ratio(4)	**0.00%**	0.00%	0.00%	0.02%	0.04%
Net Asset Value per Unit(5)	**$ 24.18**	$ 21.97	$ 21.33	$ 20.73	$ 20.14
Closing market price	**$ 23.05**	$ 21.60	$ 20.70	$ 20.20	$ 19.34

(1) This information is provided as at December 31.
(2) Management expense ratio is the ratio of all fees and expenses, including goods and service, but excluding transaction fees and charged to the Fund to the average net asset value. The management expense ratio for 2006 includes the special resolution expense. The management expense ratio for 2006 excluding the special resolution expense is 1.29%.
(3) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by the average value of the portfolio securities. The Fund employs an option overlay strategy which can result in higher portfolio turnover by virtue of option exercises, when compared to a conventional equity mutual fund.
(4) Trading expense ratio represents total commissions expressed as a percentage of the daily average net asset value during the period.
(5) Net Asset Value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities and including the valuation of securities at closing prices divided by the number of units then outstanding.

Management Fees

Mulvihill Capital Management Inc. ("MCM") is entitled to fees under the Investment Management Agreement calculated monthly as 1/12 of 0.50 percent of the net assets of the Fund at each month end. Prior to the restructuring approved May 23, 2006, the investment management fee was calculated monthly at 1/12 of 1.15 percent of the net asset value of the Fund at each month end.

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

Mulvihill Fund Services Inc. 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. Services received under the Management Agreement include providing or arranging for required administrative services to the Fund.

Recent Developments

The Bank of Canada reduced its key rate at five of the eight scheduled meeting dates plus an extra rate cut at a special meeting in October. The rate was taken from 4.25 percent at the beginning of the year down by 2.75 percent to end the year at 1.50 percent. The rate cuts at the beginning of the year were driven by inflation concerns, however, by the end of year the global credit crisis had spurred most central banks to lower rates to help stimulate liquidity in the banking system.

The ongoing credit crisis, which has produced dramatic central bank action around the world, as well as, significant government stimulus spending in North America and Europe, has created unusually high levels of volatility in fixed income yields and prices during the year.

During the year 831,390 units were redeemed by the Fund. The Fund facilitated these redemptions by selling a portion of the bonds held within the portfolio. These activities had no material impact on the Fund performance.

Past Performance

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

(1) the information shown assumes that all distributions made by the Fund during these periods were reinvested in the Fund,

(2) the information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

(3) the past performance of the Fund does not necessarily indicate how it will perform in the future.

Year-By-Year Returns

The bar chart below illustrates how the Fund's annual total return in each of the past eight years has varied from year to year. The chart also shows, in percentage terms, how much an investment made on January 1 in each year or the date of inception in 2001 would have increased or decreased by the end of that fiscal year.

Annual Total Return

Annual Compound Returns

The following table shows the Fund's historical annual compound total return for the periods ended December 31, 2008 as compared to the performance of the S&P Composite Index, S&P 500 Index and Scotia Capital Short Term Bond Index.

(In Canadian Dollars)	One Year	Three Years	Five Years	Since Inception*
Mulvihill Government Strip Bond Fund	**10.07 %**	5.27 %	5.16 %	4.26 %
In order to meet regulatory requirements, the performance of three broader based market indices have been included below.				
S&P Composite Index**	**(33.00)%**	(4.80)%	4.16 %	3.40 %
S&P 500 Index***	**(21.92)%**	(6.85)%	(3.24)%	(4.99)%
Scotia Capital Short Term Bond Index****	**8.55 %**	5.53 %	4.80 %	5.34 %

* From date of inception on March 2, 2001.
** The S&P Composite Index is a capitalization-weighted index designed to measure the market activity of stocks listed on the TSX.
*** The S&P 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure the performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
**** The Scotia Capital Short Term Bond Index is designed to measure the performance of the 1 to 5 year term of the Canadian fixed income market. This Index has been selected as the remaining term of the Fund is now less than 5 years. The Index used in the prior year was the Scotia Capital Universal Bond Index. The Scotia Capital Universal Bond Index is designed to measure the performance of the broad market for all marketable bonds with an approximate average term of 10 years.

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

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

Related Party Transactions

Mulvihill Capital Management Inc. (“MCM”) manages the Fund’s investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and MCM dated February 15, 2001.

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

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, Michael M. Koerner, and effective January 1, 2009, Robert G. Bertram.

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 Mulvihill Government Strip Bond 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 Advisors (the "Board").

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

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

The Board meets periodically with management and external auditors to discuss internal controls, the financial reporting process, various auditing and financial reporting issues, and to review the annual report, the financial statements and the external auditors' report. Deloitte & Touche LLP has full and unrestricted access to the Board.

John P. Mulvihill
Director
Mulvihill Fund Services Inc.
February 17, 2009

Sheila S. Szela
Director
Mulvihill Fund Services Inc.

To the Unitholders of Mulvihill Government Strip Bond Fund

We have audited the accompanying statement of investments of Mulvihill Government Strip Bond Fund (the "Fund") as at December 31, 2008, the statements of net assets as at December 31, 2008 and 2007, and the statements of financial operations, of changes in net assets, and of net gain on sale of investments for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Fund's 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, 2008 and 2007, and the results of its operations, the changes in its net assets, and the net gain on sale of investments for the years then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
February 17, 2009

Statements of Financial Position

December 31, 2008 and 2007

	2008	2007
ASSETS		
Investments - at fair value (cost - $86,291,484; 2007 - $104,578,622)	**$ 91,049,635**	$ 104,654,854
Short-term investments - at fair value (cost - nil; 2007 - $2,419,613)	**–**	2,419,613
Cash	**4,686**	3,916
Interest receivable	**–**	3,807
TOTAL ASSETS	**91,054,321**	**107,082,190**
LIABILITIES		
Redemptions payable	**18,829,325**	23,149,087
Accrued management fees (Note 6)	**46,283**	54,557
Accrued liabilities	**18,759**	24,926
TOTAL LIABILITIES	**18,894,367**	**23,228,570**
NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY	**$ 72,159,954**	**$ 83,853,620**
Number of Units Outstanding (Note 5)	**2,985,597**	**3,816,987**
Net Assets per Unit (Note 4)	**$ 24.1694**	**$ 21.9685**

On Behalf of the Manager,
Mulvihill Fund Services Inc.

John P. Mulvihill, Director

Sheila S. Szela, Director

The notes are an integral part of the Financial Statements.

Statements of Financial Operations

Years ended December 31, 2008 and 2007

	2008	2007
REVENUE		
Interest	$ 3,955,508	$ 5,112,784
TOTAL REVENUE	3,955,508	5,112,784
EXPENSES (Note 6)		
Management fees	522,618	630,239
Administrative and other expenses	66,992	91,198
Custodian fees	27,026	28,853
Audit fees	17,509	21,779
Advisory board fees	17,317	20,727
Independent review committee fees	4,267	739
Legal fees	5,517	4,700
Unitholder reporting costs	23,625	25,156
Goods and services tax	32,588	45,562
TOTAL EXPENSES	717,459	868,953
Net Investment Income	3,238,049	4,243,831
Net gain on sale of investments	372,063	–
Net change in unrealized appreciation of investments	4,681,919	(1,144,846)
Net Gain (Loss) on Investments	5,053,982	(1,144,846)
NET INCREASE IN NET ASSETS FROM OPERATIONS	$ 8,292,031	$ 3,098,985
NET INCREASE IN NET ASSETS FROM OPERATIONS PER UNIT (based on the weighted average number of units outstanding during the year of 3,773,610; 2007 - 4,892,688)	$ 2.1974	$ 0.6334

The notes are an integral part of the Financial Statements.

Statements of Changes in Net Assets

Years ended December 31, 2008 and 2007

	2008	2007
NET ASSETS, BEGINNING OF YEAR	$ 83,853,620	$ 105,620,452
Transition Adjustment (Note 3)	–	(29,164)
Net Increase in Net Assets from Operations	8,292,031	3,098,985
Unit Transactions		
Amounts paid for units redeemed (Note 5)	(19,985,697)	(24,836,653)
Change in Net Assets during the Year	(11,693,666)	(21,766,832)
NET ASSETS, END OF YEAR	$ 72,159,954	$ 83,853,620

Statements of Net Gain on Sale of Investments

Years ended December 31, 2008 and 2007

	2008	2007
Proceeds from Sale of Investments	$ 22,606,385	$ –
Cost of Investments Sold		
Cost of investments, beginning of year	104,578,622	99,645,546
Amortization of bond discount	3,947,184	4,933,076
	108,525,806	104,578,622
Cost of Investments, End of Year	(86,291,484)	(104,578,622)
	22,234,322	–
NET GAIN ON SALE OF INVESTMENTS	$ 372,063	$ –

The notes are an integral part of the Financial Statements.

Statement of Investments

December 31, 2008

	Par Value	Average Cost	Fair Value	% of Portfolio
INVESTMENTS				
Bonds				
Province of Ontario Residual Stripped from Ontario - December 2, 2012	30,000,000	$ 25,518,536	**$ 26,879,100**	
Province of Ontario Coupon Stripped from Ontario - December 2, 2012	71,500,000	60,772,948	**64,170,535**	
Total Bonds		**86,291,484**	**91,049,635**	100.0%
TOTAL INVESTMENTS		**$ 86,291,484**	**$ 91,049,635**	**100.0%**

The notes are an integral part of the Financial Statements.

1. Corporate Information

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

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

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

(i) Settle its currently existing forward agreement and use the proceeds to acquire a portfolio of zero-coupon debt securities ("Zero Coupon Bonds") issued by Canadian provincial governments and/or the Government of Canada. By settling the forward agreement, the Fund will no longer have to pay forward fees which will result in annual savings of approximately $0.11 per unit or approximately $0.73 per unit over the remaining term of the Fund. As a result, the Fund intends to return at least $25.75 per unit to unitholders on the termination of the Fund on December 31, 2012 (the "Termination Date") instead of $25.00 per unit under the forward agreement;

(ii) Amend the investment strategy and investment restrictions of the Fund. The Fund will invest in the Zero Coupon Bonds and will also hold cash and cash equivalents in an amount sufficient to cover all costs and expenses of the Fund until the Termination Date; and

(iii) Amend the investment objectives of the Fund to provide that the Fund's investment objective will be to return at least $25.75 per unit to unitholders upon termination of the Fund on December 31, 2012.

In connection with the approval of the Proposal, Mulvihill Capital Management Inc., as Investment Manager, agreed to reduce its investment management fee from 1.15 percent of the Fund's net asset value ("NAV") to 0.50 percent of the Fund's NAV from and after May 23, 2006 until the Termination Date.

2. Investment Objectives of the Fund

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

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

3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which include estimates and assumptions by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Actual results may differ from estimates.

The Fund has adopted, effective January 1, 2007, the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855 "Financial Instruments - Recognition and Measurement". The standard requires that the fair value of securities which are traded in active markets be measured based on bid price and transaction fees, such as brokerage commissions, incurred in the purchase or sale of securities by the Fund be charged to net income in the period incurred. The standard has been adopted retrospectively with no restatement of prior periods' comparative amounts.

As a result of the adoption of the standard, the Fund recorded a transition adjustment to the 2007 opening net assets in the amount of $29,164. This transition adjustment represents the adjustment to fair value of investments from the closing sale price to the closing bid price as of December 31, 2006.

The significant accounting policies of the Fund are as follows:

Valuation of Investments

Investments and short-term bonds are recorded in the financial statements at their fair value determined as follows:

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

Zero coupon bonds are valued at bid or latest sale price as reported by a recognized investment dealer or valuation service.

Investment Transactions and Income

Investment transactions are accounted for on a trade date basis. Realized gains and losses on the sale of investments and change in unrealized appreciation/depreciation of investments are determined on an average cost basis.

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

New Accounting Standards

Commencing January 1, 2008, the Fund adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862 "Financial

Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation". The new standards replaced Section 3861 "Financial Instruments - Disclosure and Presentation". The new disclosure standards increase the emphasis on the disclosure on the nature and extent of risks associated with financial instruments and how those risks are managed by the Fund. The previous requirements related to presentation of financial instruments have been carried forward relatively unchanged. Adoption of the new standards does not impact the net asset value for pricing purposes, nor the calculation of net assets. These expanded disclosures are found in Note 8.

Effective January 1, 2008, the Fund also adopted CICA Handbook Section 1535, "Capital Disclosures" which specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The adoption of Section 1535 did not have a significant impact on the Fund's disclosures as: (i) the Fund's bjectives, policies and processes for managing capital are described in Note 2; (ii) information on the Fund's unitholders' equity is described in Note 5; and (iii) the Fund does not have any externally imposed capital requirements.

4. Net Asset Value

The Canadian securities regulatory authorities have published amendments to NI 81-106 that remove the requirement that net asset value be calculated in accordance with Canadian GAAP effective September 8, 2008. As a result of the amendments, the Net Asset Value of investment Funds will continue to be calculated using the fair value of investments using the close or last trade price ("Net Asset Value"). The adoption of these new rules will result in a different Net Assets per unit for financial reporting purposes and Net Asset Value per unit due to the use of different valuation techniques. The Net Asset Value per unit at December 31 is as follows:

	2008	2007
Net Asset Value (for pricing purposes)	**$24.18**	$21.97

5. Unitholders' Equity

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

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

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

Unitholders whose units are redeemed on any other valuation date will be entitled to receive a redemption price per unit equal to the net asset value per unit less the lesser of (i) 4 percent of such net asset value per unit and (ii) $1.00. Under the terms of a Recirculation Agreement, the Fund may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any units tendered for redemption.

Unit transactions during the year are as follows:

	2008	2007
Units outstanding, beginning of year	**3,816,987**	4,952,796
Units redeemed	**(831,390)**	(1,135,809)
Units outstanding, end of year	**2,985,597**	**3,816,987**

Under the terms of the Fund's normal course issuer bid that was renewed in July 2008, the Fund proposes to purchase, if considered advisable, up to a maximum of 376,427 units (2007 - 487,243 units), 10 percent of its public float as determined in accordance with the rules of the Toronto Stock Exchange. Purchases would be made in the open market through the facilities of the Toronto Stock Exchange. The normal course issuer bid will remain in effect until the earlier of July 22, 2009 or until the Fund has purchased the maximum number of units permitted under the bid. As at December 31, 2008, nil units (2007 - nil) have been purchased by the Fund.

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

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 Manager in the ordinary course of business relating to the Fund's operations. The Fund is also responsible for commissions and other costs of portfolio transactions and any extraordinary expenses of the Fund which may be incurred from time to time.

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

Prior to the restructuring approved May 23, 2006, the investment management fee was calculated monthly at 1/12 of 1.15 percent of the net assets of the Fund at each month end.

7. Income Taxes

The Fund is a "mutual fund trust" as defined in the Income Tax Act (Canada) (the "Act"). The Fund is subject to tax in each taxation year under Part I of the Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to unitholders in the year. Income tax paid by the Fund on any net realized capital gains not paid or payable is recoverable by the Fund to the extent and in the circumstances provided in the Act.

Given the investment and distribution policies of the Fund and taking into account expenses, the Fund does not expect to bear any appreciable non-refundable income tax.

No amount is payable on account of income taxes in 2008 or 2007.

Accumulated non-capital losses of approximately $16.4 million (2007 - $28.2 million) and capital losses of approximately $92.2 million (2007 - $92.5 million) are available for utilization against net investment income and realized gains on sale of investments, respectively, in future years. The capital losses can be carried forward indefinitely. The non-capital losses expire as follows:

Expiration Date	Amount
2009	$ 10.1
2014	6.2
2027	0.1
Total	**$ 16.4**

8. Financial Instruments and Risk Management

The Fund's financial instruments consist of zero coupon bonds, receivables, payables and cash. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include interest rate risk, liquidity risk and credit risk.

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

Interest Rate Risk

The primary risk associated with holding the Fund's units relates to the sensitivity of the Fund's net asset value to changes in the level of interest rates prevailing in the market. Changes to interest rates will inversely impact the Fund's net asset value. The Fund holds zero coupon bonds that have a duration equal to the bond's time to maturity, which makes them sensitive to any changes in interest rates.

Approximately 126 percent of the Fund's net assets held at December 31, 2008 were invested in zero coupon bonds. If interest rates increased or decreased by 100 basis points as at December 31, 2008, the net assets of the Fund would have decreased or increased by approximately $2.9M respectively or 4.0 percent of the net assets, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

However, since zero coupon bonds carry little or no reinvestment risk and also constitute the primary investment holdings of the Fund, changes to current interest rates will not impact the final redemption value of the zero coupon bonds.

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

Liquidity Risk

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required. The Fund holdings consist primarily of zero coupon bonds with a maturity date of December 2012. The Bonds are to be held for the life of the Fund to return a value to unitholders of at least $25.75 per unit, are not actively managed and therefore represent minimal liquidity risk if units are held to maturity of the Fund.

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

Credit Risk

In purchasing bonds, the Fund is exposed to the credit risk associated with the counterparty (Province of Ontario) and the risk that the counterparty will not satisfy its obligation.

The following is the credit rating for the counterparty that the Fund dealt with at year end, based on Standard & Poor's credit ratings as of December 31, 2008:

Dealer	Rating
Province of Ontario Bonds	AA

9. Future Accounting Policy Changes

The Manager is developing a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants ("CICA") for changeover to International Financial Reporting Standards ("IFRS"). The key elements of the plan include disclosures of the qualitative impact in the 2008 annual financial statements, the disclosures of the quantitative impact, if any, in the 2009 and 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS with comparatives. The current impact based on the Fund's management's understanding of IFRS on accounting policies and implementation decisions will mainly be in the areas of additional note disclosures in the financial statements of the Fund.

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, 2008 to December 31, 2008	
MULVIHILL PLATINUM			
Mulvihill *Government Strip Bond Fund*	GSB.UN	$ 23.55	$ 20.08
Mulvihill Pro-AMS *U.S. Fund*	PAM.UN	$ 24.50	$ 21.70
Mulvihill Pro-AMS *RSP Split Share Fund*	SPL.A/SPL.B	$ 9.11/$17.94	$ 7.15/$14.48
MULVIHILL PREMIUM			
Mulvihill *Core Canadian Dividend Fund*	CDD.UN	$ 9.94	$ 4.02
Mulvihill Premium *Canadian Fund*	FPI.UN	$ 17.99	$ 10.00
Mulvihill Premium *60 Plus Fund*	SIX.UN	$ 16.50	$ 9.19
Mulvihill Premium *Global Plus Fund*	GIP.UN	$ 10.05	$ 5.56
Mulvihill Premium *Canadian Bank Fund*	PIC.A/PIC.PR.A	$ 8.89/$15.49	$ 1.87/$10.58
Mulvihill Premium *Split Share Fund*	MUH.A/MUH.PR.A	$ 6.34/$15.65	$ 1.20/$10.28
Mulvihill *S Split Fund*	SBN/SBN.PR.A	$ 11.48/$10.48	$ 4.01/$ 7.51
Mulvihill *Top 10 Canadian Financial Fund*	TCT.UN	$ 14.00	$ 8.01
Mulvihill *Top 10 Split Fund*	TXT.UN/TXT.PR.A	$ 8.15/$13.51	$ 1.31/$10.00
Mulvihill *World Financial Split Fund*	WFS/WFS.PR.A	$ 8.70/$10.75	$ 1.19/$ 6.66

Board of Advisors

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

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

Michael M. Koerner[1]
Corporate Director

Robert W. Korthals[1]
Corporate Director

Robert G. Bertram[1,2]
Corporate Director

[1] *Independent Review Committee*
[2] *Effective January 1, 2009*

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

Hybrid Income Funds Managed by Mulvihill Structured Products

Mulvihill Platinum
Mulvihill *Government Strip Bond Fund*
Mulvihill Pro-AMS *U.S. Fund*
Mulvihill Pro-AMS *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 *S Split Fund*
Mulvihill *Top 10 Canadian Financial Fund*
Mulvihill *Top 10 Split Fund*
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