ANNUAL REPORT 2010

# Premier Canadian Income Fund

## Letter to Unitholders

We are pleased to present the 2010 annual report containing the management report of fund performance and the financial statements for Premier Canadian Income Fund (the “Fund”).

The Fund is a closed-end investment trust designed to maximize total returns for unitholders and to pay unitholders monthly tax efficient distributions in an amount targeted to be 6.5 percent per annum on the net asset value of the Fund. The units are listed on the Toronto Stock Exchange under the ticker symbol PCU.UN. To accomplish its objectives the Fund invests in a portfolio principally consisting of common shares selected from the Energy, Financials and Materials sectors of the S&P/TSX 60 Index. In addition, the Fund may invest up to 20 percent of its net assets in equity securities of other issuers selected from the S&P/TSX Composite Index. To generate additional returns above the dividend income earned on the Fund’s investment portfolio, the Fund may, from time to time, write covered call options on up to 25 percent of the securities in the portfolio. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

Effective June 30, 2010, the Fund merged with First Premium Income Trust (“FPI”). The merger was approved at a special meeting of unitholders of each Fund on June 4, 2010. In connection with the merger, holders of units of FPI became holders of units of Premier Canadian Income Fund, the continuing Fund. In conjunction with the merger, the trading symbol of the Fund changed from “GIP.UN” to “PCU.UN”.

During the fiscal year ended 2010, the annual total return of the Fund, including reinvestment of distributions, was negative 6.5 percent. Distributions of $0.31 per unit were paid to unitholders during the year, contributing to the overall decline in the net asset value from $5.14 per unit as at December 31, 2009 to $4.50 per unit as at December 31, 2010. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

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

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

Premier Canadian Income Fund [PCU.UN]

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## Management Report of Fund Performance

This annual management report of fund performance contains the financial highlights for the year ended December 31, 2010 of Premier Canadian Income Fund (formerly Global Plus Income Trust) (the “Fund”). The annual financial statements of the Fund are attached.

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

## Investment Objectives and Strategies

The Fund’s investment objectives are to:

(i) maximize total returns for unitholders including both long-term appreciation in net asset value (“NAV”) per unit and distributions; and

(ii) pay unitholders monthly tax efficient distributions in an amount targeted to be 6.5 percent per annum on the NAV of the Fund.

The Fund invests in a portfolio principally consisting of common shares selected from the Energy, Financials and Materials sectors of the S&P/TSX 60 Index. In addition, the Fund may invest up to 20 percent of its net assets in equity securities of other issuers selected from the S&P/TSX Composite Index.

To generate additional returns, the Fund may, from time to time, write covered call options on up to a maximum of 25 percent of the securities in the portfolio. In addition, the Fund may write cash covered put options in respect of securities in which the Fund is permitted to invest.

## Risk

Risks associated with an investment in the units of the Fund are discussed in the Fund’s 2010 annual information form, which is available on the Fund’s website at www.mulvihill.com or on SEDAR at www.sedar.com. There were no changes to the Fund over the year that materially affected the risks associated with an investment in the units of the Fund.

## Summary of Investment Portfolio

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

### Asset Mix

December 31, 2010

| | % OF NET ASSET VALUE |
|---|---|
| Energy | 43 % |
| Materials | 29 % |
| Financials | 19 % |
| Cash and Short-Term Investments | 8 % |
| Information Technology | 4 % |
| Other Assets (Liabilities) | (3)% |
| | 100 % |

## Portfolio Holdings

December 31, 2010

| | % OF NET ASSET VALUE |
|---|---|
| Canadian Natural Resources Ltd. | 9% |
| Barrick Gold Corporation | 9% |
| Cash and Short-Term Investments | 8% |
| Talisman Energy Inc. | 8% |
| Cenovus Energy Inc. | 7% |
| Cameco Corporation | 6% |
| National Bank of Canada | 6% |
| Goldcorp Inc. | 5% |
| Crescent Point Energy Corp. | 5% |
| Agnico-Eagle Mines Limited | 5% |
| TransCanada Corp. | 4% |
| The Bank of Nova Scotia | 4% |
| Research In Motion Limited | 4% |
| Bank of Montreal | 4% |
| Suncor Energy Inc. | 4% |
| First Quantum Minerals Ltd. | 3% |
| Teck Resources Ltd. | 3% |
| Sun Life Financial Inc. | 3% |
| Manulife Financial Corporation | 2% |
| Alamos Gold Inc. | 2% |
| Inmet Mining Corporation | 2% |

## Results of Operations

### Distributions

For the year ended December 31, 2010, cash distributions of $0.31 per unit were paid to unitholders compared to $0.69 per unit in 2009. Since the inception of the Fund in September 1999, the Fund has paid total cash distributions of $15.90 per unit, of which $0.90 per unit were special distributions.

### Revenues and Expenses

The Fund's total revenue was $0.11 per unit for the year ended December 31, 2010, up $0.20 per unit from a year ago primarily attributable to higher dividend income earned during the year. Additionally, the prior year was negatively impacted by foreign exchange losses on short-term investments. Total expenses (excluding restructuring costs) per unit decreased from $0.33 per unit in 2009 to $0.17 per unit in 2010, primarily reflecting the synergies from the merger with First Premium Income Trust ("FPI") in June 2010. The Fund had a net realized and unrealized gain of $0.29 per unit in 2010 as compared to a net realized and unrealized gain of $0.02 per unit in 2009.

### Net Asset Value

The net asset value per unit of the Fund decreased by $0.64 per unit, or 12.5 percent, from $5.14 per unit at December 31, 2009 to $4.50 per unit at December 31, 2010. The total net asset value of the Fund increased $11.2 million, from $2.9 million at December 31, 2009 to $14.1 million at December 31, 2010, largely reflecting the transfer of assets from the merger with FPI, net of value for units redeemed during the year.

## Financial Highlights

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

Since 2007 the net assets per unit presented in the financial statements differs from the net asset value per unit calculated weekly, primarily as a result of investments being valued at bid prices for financial statements purposes and at closing prices for weekly net asset value purposes.

Years ended December 31

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| **THE FUND'S NET ASSETS PER UNIT** | | | | | |
| **Net Assets, beginning of year (based on bid prices)[1]** | **$ 5.12** | **$ 6.74** | **$ 10.55** | **$ 11.73[4]** | **$ 11.43** |
| INCREASE (DECREASE) FROM OPERATIONS | | | | | |
| Total revenue | **0.11** | (0.09) | 0.86 | 0.41 | 0.31 |
| Total expenses | **(0.20)** | (0.86)[5] | (0.32) | (0.33) | (0.27) |
| Realized gain (loss) for the period | **(0.03)** | (0.07) | (3.91) | 1.70 | 0.23 |
| Unrealized gain (loss) for the period | **0.32** | 0.09 | 0.64 | (1.56) | 1.41 |
| **Total Increase (Decrease) from Operations[2]** | **0.20** | **(0.93)** | **(2.73)** | **0.22** | **1.68** |
| DISTRIBUTIONS | | | | | |
| Non-taxable distributions | **(0.31)** | (0.69) | (1.10) | (1.40) | (1.40) |
| **Total Annual Distributions[3]** | **(0.31)** | **(0.69)** | **(1.10)** | **(1.40)** | **(1.40)** |
| **Net Assets, as at December 31 (based on bid prices)[1]** | **$ 4.49** | **$ 5.12** | **$ 6.74** | **$ 10.55** | **$ 11.75** |

(1) Net assets per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities of the Fund on that date and including the valuation of securities at bid prices divided by the number of units then outstanding. For years prior to 2007, securities were valued at closing prices. The change to the use of bid prices is due to accounting standards set out by the Canadian Institute of Chartered Accountants adopted January 1, 2007 relating to Financial Instruments.
(2) Total increase (decrease) from operations consists of interest and dividend revenue, net of withholding taxes and foreign exchange gains (losses), realized and unrealized gains (losses), less expenses, and is calculated based on the weighted average number of units outstanding during the year. The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of units outstanding during the year.
(3) 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 change in accounting policy relating to the calculation of net asset value based on bid prices versus closing prices prior to 2007.
(5) Total expenses for 2009 include restructuring expenses in the amount of $337,500. See Note 6 to the Financial Statements.

| **RATIOS/SUPPLEMENTAL DATA** | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Net Asset Value ($millions)[1] | **$ 14.10** | $ 2.90 | $ 4.46 | $ 8.77 | $ 11.55 |
| Number of units outstanding[1] | **3,137,400** | 563,646 | 662,340 | 830,734 | 982,326 |
| Management expense ratio[2] | **3.89%** | 14.43% | 3.45% | 2.82% | 2.35% |
| Portfolio turnover rate[3] | **333.20%** | 243.98% | 128.83% | 66.70% | 143.77% |
| Trading expense ratio[4] | **0.51%** | 0.63% | 0.26% | 0.12% | 0.37% |
| Net Asset Value per Unit[5] | **$ 4.50** | $ 5.14 | $ 6.74 | $ 10.56 | $ 11.75 |
| Closing market price | **$ 4.31** | $ 4.67 | $ 6.39 | $ 10.00 | $ 11.80 |

(1) This information is provided as at December 31.
(2) The management expense ratio ("MER") is the sum of all fees and expenses, including federal and provincial sales taxes but excluding transaction fees, divided by the Fund to the average net asset value. The MER for 2010 and 2009 includes the restructuring expenses. The MER for 2010 and 2009 excluding the restructuring expenses is 3.37% and 5.20% respectively.
(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 Fund Services Inc. (the "Manager" or "Mulvihill") amalgamated with Mulvihill Capital Management Inc. (the "Investment Manager" or "MCM") on September 1, 2010. As successor, MCM became the Manager of the Fund. MCM is entitled to fees under the Investment Management Agreement calculated monthly as 1/12 of 1.00 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 and writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. MCM also makes all decisions as to the purchase and sale of securities in the Fund's portfolio and as to the execution of all portfolio and other transactions.

MCM, as the Manager, is entitled to fees under the Trust Agreement calculated monthly as 1/12 of 0.10 percent of the net asset value of the Fund at each month end. Services received under the Trust Agreement include providing or arranging for required administrative services to the Fund.

## Recent Developments

Effective June 30, 2010, the Fund merged with First Premium Income Trust ("FPI"). The merger was approved at a special meeting of unitholders of each Fund on June 4, 2010. In connection with the merger, holders of units of FPI became holders of units of Premier Canadian Income Fund, the continuing Fund. The merger was effected by transferring the net assets of FPI to the Fund in exchange for units of the Fund and each unitholder of FPI received a number of units of the Fund based on an exchange ratio calculated by reference to the relative net asset values of the units of each respective Fund at the close of trading on June 29, 2010. FPI unitholders were issued 2,985,545 units of the Fund in exchange for net assets of $13,185,962. In conjunction with the merger, the trading symbol of the Fund changed from "GIP.UN" to "PCU.UN".

Mulvihill amalgamated with MCM on September 1, 2010. As successor, MCM became the Manager of the Fund. Management fees previously paid to Mulvihill will be paid to MCM from and after the effective date of the amalgamation.

The Government of Ontario harmonized its provincial sales tax with the federal goods and services tax effective July 1, 2010. Implementation of the proposed changes increased the amount of taxes paid by the Fund on its expenses incurred after July 1, 2010, including but not limited to management fees.

### Future Accounting Policy Changes

The Manager has developed 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 changeover plan was prepared to address the requirements and includes disclosures of the qualitative and quantitative impact, if any, of the changeover to IFRS in the 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS with comparatives. However, the Canadian Accounting Standards Board approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies ("AcG-18"). As a result, the Fund will adopt IFRS for its fiscal period beginning January 1, 2013 and will issue its initial financial statements in accordance with IFRS, with comparative information, for the interim period ending June 30, 2013.

The key elements of the changeover plan deal with the requirements for financial reporting, net asset value per unit calculations, systems and processes, and training. The plan also sets out the timeline for implementation of the changes and the required technical training or support required for a smooth transition.

As at December 31, 2010, some anticipated changes to financial reporting include:

- Compliance with the full body of IFRS without industry specific exemptions. Unlike Canadian Generally Accepted Accounting Principles ("Canadian GAAP") where investment fund accounting was based upon guidance in AcG-18;
- Implementation of cash flow statements
- Presentation of comparative information; and,
- Additional financial statement note disclosures on the recognition and classification of financial instruments.

Due to anticipated changes in IFRS prior to the transition to IFRS, the Manager cannot conclusively determine the impact of the Fund's financial results at this time. Based on the Manager's current understanding and analysis of IFRS to the current accounting policies under Canadian GAAP, the Manager does not anticipate the transition to IFRS will have a material impact on the Fund's net assets per unit, systems and processes, and it is expected that it will mainly result in additional note disclosure in the financial statements.

Implementation of the changeover plan is progressing as scheduled. The Manager will continue to monitor ongoing changes to IFRS and adjust the changeover plan accordingly.

## Past Performance

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

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

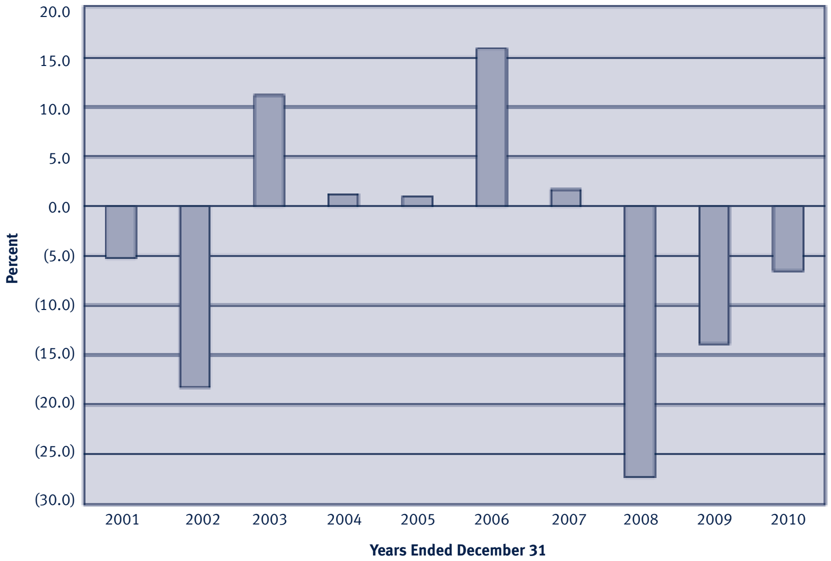
(2) the information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

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

### Year-By-Year Returns

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

## Annual Total Return




## Annual Compound Returns

The following table shows the Fund's historical annual compound return (net of expenses) for the periods ended December 31, 2010 as compared to the performance of the S&P 100 Index, MSCI EAFE Index and S&P/TSX 60 Index.

| (In Canadian Dollars) | One Year | Three Years | Five Years | Ten Years |
|---|---|---|---|---|
| Premier Canadian Income Fund | **(6.49)%** | (13.36)% | (7.18)% | (4.89)% |
| S&P 100 Index* | **n/a** | (3.58)% | (0.92)% | (3.88)% |
| MSCI EAFE Index** | **n/a** | (6.33)% | (0.27)% | (0.25)% |
| S&P/TSX 60 Index *** | **13.84 %** | n/a | n/a | n/a |

* The S&P 100 Index is a capitalization-weighted index based on 100 highly capitalized stocks for which options are listed.
** The MSCI EAFE Index comprises 21 MSCI country indices, representing the developed markets outside of North America: Europe, Australia and the Far East.
*** The S&P/TSX 60 Index is a capitalization-weighted index based on 60 highly capitalized stocks for which options are listed.

The performance of the Fund from the period of inception to October 26, 2009 was based on the investment objectives and strategy of the Fund as Global Plus Income Trust which invested in a diversified portfolio consisting primarily of common shares selected from the S&P 100 Index and American Depository Receipts ("ADRs") of the top 100 corporations selected on the basis of market capitalization whose ADRs are trading on the New York Stock Exchange or NASDAQ. On October 26, 2009 unitholders approved a proposal resulting in a change in the investment objectives and strategy of the Fund. Since October 26, 2009 the Fund invests in a portfolio principally consisting of common shares selected from the Energy, Financials and Materials sectors of the S&P/TSX 60 Index.

The equity performance benchmarks shown here provide an approximate indication of how the Fund's returns compare to a public market index for similar securities. It is important to note that the Fund is not managed in order to match or exceed these indices; rather, its objectives are to pay out quarterly dividends and return the original invested amount at the termination date. As a result, the Fund has, from time to time, maintained cash balances in an effort to provide greater net asset value stability and employs a covered option writing strategy to generate the distributions.

The use of options may have the effect of limiting or reducing the total returns of the Fund, particularly in a rising market since the premiums associated with writing covered call options may be outweighed by the foregone opportunity of remaining fully invested in the securities comprising the portfolio. The Manager believes that in a flat or downward trending market, a portfolio that is subject to covered call option writing will generally provide higher relative returns and lower volatility than one on which no options are written.

## Portfolio Manager Report

The Global economy continues to grow at a sustainable pace led by high growth emerging economies in the Asia Pacific and Latin/South American regions. This growth along with the loose monetary policies by the developed markets central banks has pushed commodity prices higher. These higher prices bode very well for the Materials and Energy sectors in Canada resulting in strong cash flows and margin expansion for producers of hard assets.

The Canadian economy grew at a quick pace in the first half of 2010 but had slower gross domestic product growth in the third quarter of 1.00 percent. The Bank of Canada raised the benchmark overnight rate in June, July and September from the unusually low 0.25 percent to 1.00 percent in quarter point increments. The Canadian currency traded in a fairly narrow range for most of the year and the Canadian banks used the stronger dollar to make inroads into the U.S. with the Bank of Montreal and The Toronto-Dominion Bank announcing acquisitions in December.

The S&P/TSX 60 Index had an annual total return of 13.8 percent for the year. Among the three major sectors the Fund invests in, the Materials sector was the standout performer with an annual total return of 36.5 percent most of which was attributed to the second half of the year. While the Energy sector had an annual total return of 13.5 percent, the Financials lagged with an annual total return of 10.5 percent. The annual total return of the Fund, including reinvestment of distributions, for the year ended December 31, 2010 was negative 6.5 percent. The underperformance can best be explained by looking at the performance before and after the merger. During the first half of the year the Fund had a total return of negative 11.2 percent of which approximately 7.2 percent was attributable to fixed expenses on a small notional value Fund and expenses related to the merger. Net of expenses the Fund's performance was more inline with S&P/TSX 60 Index of negative 3.2 percent. During the second half of the year, post-merger, the Fund had a total return of 5.3 percent compared with that of the S&P/TSX 60 Index of 17.7 percent. Among the primary contributors to the underperformance of the Fund was an underweight position in Materials sector while being overweight in Financials. To a lesser extent the cost of buying protective puts in the Fund contributed to some underperformance.

During the course of the year, volatility reached its peak in the middle of May before gradually decreasing with intermittent spikes towards the end of the year. While option writing activity generated premiums, it also had the effect of reducing the total returns of the Fund particularly in a rising market in the latter half of the year. The Manager believes that in a flat or downward trending market, a portfolio that is subject to covered call option writing will generally provide higher returns and lower volatility than one on which no options are written.

## Related Party Transactions

The manager and investment manager of the Fund is MCM ("Manager " or "Investment Manager"). MCM became the Manager of the Fund on September 1, 2010 as successor by amalgamation with Mulvihill Fund Services Inc.

MCM manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and MCM dated August 30, 1999 amended as of October 26, 2009.

MCM is the Manager of the Fund pursuant to a Management Agreement made between the Fund and MCM dated August 30, 1999 amended as of October 26, 2009, and as such, is responsible for providing or arranging for required administrative services to the Fund.

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

### Independent Review Committee

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

On April 29, 2010, Mulvihill, as then Manager, presented a merger proposal of First Premium Income Trust ("FPI") and Premium Canadian Income Fund ("PCU") to the IRC for a recommendation. In connection with the proposed merger, holders of units of FPI would become holders of units of PCU, the continuing Fund. The merger would be effected by transferring the net assets of FPI to PCU in exchange for units of PCU and each unitholder of FPI would receive a number of units of PCU based on an exchange ratio calculated by reference to the relative net asset values of units of each respective Fund. The IRC reviewed the merger proposal and recommended that the merger proposal be put to unitholders for their consideration on the basis that it would achieve a fair and reasonable result for each Fund. Unitholders of the Funds approved the merger proposal of the Funds at a meeting on June 4, 2010.

**Forward-Looking Statements**

This report may contain forward-looking statements about the Fund. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also forward-looking. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to any divergence between what is anticipated and what actually occurs, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technology change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and you should avoid placing undue reliance on forward-looking statements. While the Fund currently anticipates that subsequent events and developments may cause the Fund's views to change, the Fund does not undertake to update any forward-looking statements.

## Management's Responsibility for Financial Reporting

The accompanying financial statements of Premier Canadian Income Fund (formerly Global Plus Income Trust) (the "Fund") and all the information in this annual report are the responsibility of the management of Mulvihill Capital Management Inc. (the "Manager"), and have been approved by the Fund's Board of Advisors (the "Board").

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

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

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

John P. Mulvihill
Director
Mulvihill Capital Management Inc.
March 2, 2011

John D. Germain
Director
Mulvihill Capital Management Inc.

## To the Unitholders of Premier Canadian Income Fund

We have audited the accompanying financial statements of Premier Canadian Income Fund, which comprise the statement of investments as at December 31, 2010, the statements of net assets as at December 31, 2010 and 2009, and the statements of financial operations, of changes in net assets, and net loss on sale of investments for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Premier Canadian Income Fund as at December 31, 2010 and 2009, and the results of its operations and its changes in the net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 2, 2011
Toronto, Ontario

## Statements of Net Assets

As at December 31

| | | 2010 | | 2009 |
|---|---|---|---|---|
| ASSETS | | | | |
| Investments at fair value (cost - $12,574,900; 2009 - $2,762,912) | $ | **13,282,328** | $ | 2,805,086 |
| Short-term investments at fair value (cost - $1,098,647; 2009 - $344,889) | | **1,098,647** | | 344,889 |
| Cash | | **12,128** | | 33,752 |
| Due from brokers - investments | | **2,689,213** | | – |
| Dividends receivable | | **31,052** | | 11,420 |
| Interest receivable | | **28** | | 76 |
| TOTAL ASSETS | | **17,113,396** | | **3,195,223** |
| LIABILITIES | | | | |
| Due to brokers - investments | | **2,972,613** | | – |
| Accrued liabilities | | **55,636** | | 22,045 |
| Restructuring expense payable | | **–** | | 285,646 |
| TOTAL LIABILITIES | | **3,028,249** | | **307,691** |
| NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY | $ | **14,085,147** | $ | **2,887,532** |
| **Number of Units Outstanding** (Note 5) | | **3,137,400** | | **563,646** |
| **Net Assets per Unit** (Note 4) | $ | **4.4894** | $ | **5.1230** |

On Behalf of the Manager,
Mulvihill Capital Management Inc.

John P. Mulvihill, Director

John D. Germain, Director

## Statements of Financial Operations

Years ended December 31

| | | 2010 | | 2009 |
|---|---|---|---|---|
| REVENUE | | | | |
| Dividends | $ | **221,050** | $ | 61,918 |
| Interest, net of foreign exchange | | **3,790** | | (114,537) |
| Withholding taxes | | **–** | | (5,337) |
| TOTAL REVENUE | | **224,840** | | **(57,956)** |
| EXPENSES (Note 6) | | | | |
| Management fees | | **100,782** | | 43,761 |
| Administrative and other expenses | | **86,242** | | 42,861 |
| Transaction fees (Note 9) | | **47,467** | | 22,938 |
| Custodian fees | | **40,036** | | 27,503 |
| Audit fees | | **19,417** | | 18,835 |
| Advisory board fees | | **19,631** | | 20,575 |
| Independent review committee fees | | **7,074** | | 6,514 |
| Legal fees | | **4,033** | | 4,543 |
| Unitholder reporting costs | | **16,338** | | 17,772 |
| Federal and provincial sales taxes | | **17,252** | | 7,935 |
| **Subtotal Expenses** | | **358,272** | | **213,237** |
| Restructuring expenses (Note 6) | | **48,454** | | **337,500** |
| TOTAL EXPENSES | | **406,726** | | **550,737** |
| **Net Investment Loss** | | **(181,886)** | | **(608,693)** |
| Net gain (loss) on sale of investments | | **47,070** | | (443,282) |
| Net gain (loss) on sale of derivatives | | **(99,140)** | | 398,409 |
| **Net Loss on Sale of Investments** | | **(52,070)** | | **(44,873)** |
| Net change in unrealized appreciation/depreciation of investments | | **665,254** | | 54,692 |
| **Net Gain on Investments** | | **613,184** | | **9,819** |
| NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS | $ | **431,298** | $ | **(598,874)** |
| NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT (based on the weighted average number of units outstanding during the year of 2,057,681; 2009 - 639,207) | $ | **0.2096** | $ | **(0.9369)** |

The notes are an integral part of the Financial Statements.

## Statements of Changes in Net Assets

Years ended December 31

| | 2010 | 2009 |
|---|---|---|
| NET ASSETS, BEGINNING OF YEAR | $ 2,887,532 | $ 4,461,827 |
| **Net Increase (Decrease) in Net Assets from Operations** | 431,298 | (598,874) |
| **Unit Transactions** | | |
| Amount received for units issued on merger (Note 1) | 13,185,962 | – |
| Value for units redeemed | (1,830,290) | (534,406) |
| | 11,355,672 | (534,406) |
| **Distributions to Unitholders** | | |
| Non-taxable distributions | (589,355) | (441,015) |
| **Changes in Net Assets during the Year** | 11,197,615 | (1,574,295) |
| NET ASSETS, END OF YEAR | $ 14,085,147 | $ 2,887,532 |

## Statements of Net Loss on Sale of Investments

Years ended December 31

| | 2010 | 2009 |
|---|---|---|
| **Proceeds from Sale of Investments** | $ 28,197,735 | $ 7,167,574 |
| **Cost of Investments Sold** | | |
| Cost of investments, beginning of year | 2,762,912 | 3,220,420 |
| Cost of investments purchased | 38,061,793 | 6,754,939 |
| | 40,824,705 | 9,975,359 |
| **Cost of Investments, End of Year** | (12,574,900) | (2,762,912) |
| | 28,249,805 | 7,212,447 |
| NET LOSS ON SALE OF INVESTMENTS | $ (52,070) | $ (44,873) |

## Statement of Investments

As at December 31, 2010

| | Par Value/ Number of Shares/ Number of Contracts | Average Cost/ Proceeds | Fair Value | % of Portfolio |
|---|---|---|---|---|
| SHORT-TERM INVESTMENTS | | | | |
| **Treasury Bills** | | | | |
| Government of Canada, 0.94% - February 17, 2011 | 1,100,000 | $ 1,098,647 | $ 1,098,647 | 100.0 % |
| **Accrued Interest** | | | 28 | 0.0 % |
| TOTAL SHORT-TERM INVESTMENTS | | $ 1,098,647 | $ 1,098,675 | 100.0 % |
| INVESTMENTS | | | | |
| **Energy** | | | | |
| Cameco Corporation | 21,500 | $ 808,876 | $ 865,375 | |
| Canadian Natural Resources Ltd. | 28,000 | 1,007,050 | 1,240,120 | |
| Cenovus Energy Inc. | 31,500 | 1,039,352 | 1,044,225 | |
| Crescent Point Energy Corp. | 16,300 | 629,955 | 720,297 | |
| Suncor Energy Inc. | 13,400 | 482,767 | 511,746 | |
| Talisman Energy Inc. | 49,000 | 959,703 | 1,083,880 | |
| TransCanada Corp. | 16,800 | 609,903 | 637,392 | |
| **Total Energy** | | 5,537,606 | 6,103,035 | 46.0 % |
| **Financials** | | | | |
| Bank of Montreal | 9,000 | 534,490 | 516,960 | |
| Manulife Financial Corporation | 20,000 | 341,582 | 342,000 | |
| National Bank of Canada | 11,400 | 741,765 | 779,988 | |
| Sun Life Financial Inc. | 13,400 | 402,451 | 402,268 | |
| The Bank of Nova Scotia | 9,900 | 496,675 | 564,795 | |
| **Total Financials** | | 2,516,963 | 2,606,011 | 19.6 % |
| **Information Technology** | | | | |
| Research In Motion Limited | 9,100 | 526,931 | 527,709 | 4.0 % |
| **Materials** | | | | |
| Agnico-Eagle Mines Limited | 8,700 | 711,768 | 665,115 | |
| Alamos Gold Inc. | 16,000 | 332,491 | 302,720 | |
| Barrick Gold Corporation | 22,600 | 1,068,358 | 1,198,930 | |
| First Quantum Minerals Ltd. | 4,300 | 464,381 | 463,669 | |
| Goldcorp Inc. | 16,000 | 726,256 | 732,960 | |
| Inmet Mining Corporation | 3,900 | 302,308 | 301,314 | |
| Teck Resources Ltd. | 7,000 | 422,539 | 431,550 | |
| **Total Materials** | | 4,028,101 | 4,096,258 | 30.8% |
| **Total Canadian Common Shares** | | $ 12,609,601 | $ 13,333,013 | 100.4 % |
| **Options** | | | | |
| **Written Covered Call Options** (100 shares per contract) | | | | |
| Canadian Natural Resources Ltd. - January 2011 @ $42 | (140) | $ (15,260) | $ (28,569) | |
| Suncor Energy Inc. - January 2011 @ $36 | (67) | (10,586) | (16,147) | |
| The Bank of Nova Scotia - January 2011 @ $57 | (33) | (2,062) | (2,904) | |
| TransCanada Corp. - January 2011 @ $38 | (84) | (3,276) | (3,065) | |
| **Total Written Covered Call Options** | | (31,184) | (50,685) | (0.4)% |
| **Total Options** | | $ (31,184) | $ (50,685) | (0.4)% |
| Adjustment for transaction costs | | (3,517) | | |
| TOTAL INVESTMENTS | | $ 12,574,900 | $ 13,282,328 | 100.0 % |

The notes are an integral part of the Financial Statements.

## 1. Establishment, Restructuring and Merger of the Fund

Premier Canadian Income Fund (formerly Global Plus Income Trust) (the "Fund") is a closed-end investment trust established under the laws of the Province of Ontario on August 30, 1999. The Fund began operations on September 13, 1999.

The Manager of the Fund is Mulvihill Capital Management Inc. ("MCM"). Prior to September 1, 2010, the Manager of the Fund was Mulvihill Fund Services Inc. ("Mulvihill") which amalgamated with MCM on September 1, 2010. As successor, MCM is the Manager and the Investment Manager of the Fund. RBC Dexia Investor Services Trust is the Custodian of the assets of the Fund.

On October 26, 2009, unitholders voted in favour of a proposal to amend the investment strategy and investment restrictions of the Fund. The Fund now invests in a portfolio principally consisting of common shares selected from the Energy, Financials and Materials sectors of the S&P/TSX 60 Index. In addition, the Fund may invest up to 20 percent of its net assets in equity securities of other issuers selected from the S&P/TSX Composite Index.

In connection with the approval of the proposal, MCM, as Investment Manager, agreed to reduce its investment management fee from 1.15 percent to 1.00 percent of the Fund's net asset value from October 26, 2009 until the Fund's termination date of December 31, 2014.

Effective June 30, 2010, Premier Canadian Income Fund merged with First Premium Income Trust ("FPI"). The merger was approved at a special meeting of unitholders of each Fund on June 4, 2010.

In connection with the merger, holders of units of FPI became holders of units of Premier Canadian Income Fund, the continuing Fund. The merger was effected by transferring the net assets of FPI to the Fund in exchange for units of the Fund and each unitholder of FPI received a number of units of the Fund based on an exchange ratio calculated by reference to the relative net asset values of the units of the Funds at the close of trading on June 29, 2010. FPI unitholders were issued 2,985,545 units of the Fund in exchange for net assets of $13,185,962. In conjunction with the merger, the trading symbol of the Fund changed from "GIP.UN" to "PCU.UN".

## 2. Investment Objectives of the Fund

The Fund's investment objectives are to:

(i) maximize total returns for unitholders including both long-term appreciation in net asset value ("NAV") per unit and distributions; and

(ii) pay unitholders monthly tax efficient distributions in an amount targeted to be 6.5 percent per annum on the NAV of the Fund;

To generate additional returns above the dividend income earned on the portfolio, the Fund may, from time to time, write covered call options on up to a maximum of 25 percent of the securities in the portfolio. In addition, the Fund may write cash covered put options in respect of securities in which the Fund is permitted to invest.

## 3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which include estimates and assumptions by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Primary estimates include valuation of investments. While management believes that the estimates used in preparing its financial statements are reasonable and prudent, actual results could differ from these estimates.

### Financial Instruments – Disclosures

The Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. See additional note disclosures in Note 11.

The significant accounting policies of the Fund are as follows:

### Valuation of Investments

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

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

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

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

### Transaction Fees

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

### Investment Transactions and Income

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

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

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

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

Realized gains and losses related to options are included in gain (loss) on sale of derivatives.

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

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

(ii) Exercise of purchased put options whereby realized gains or losses are equivalent to the realized gain or loss from disposition of the related investments at the exercise price of the option less the premium paid; and

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

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

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

## 4. Net Asset Value

The net asset value of the Fund is calculated using the fair value of investments at the close or last trade price. The net assets per unit is calculated using the fair value of investments at the closing bid price. The net assets per unit for financial reporting purposes and net asset value per unit for pricing purposes will not be the same due to the use of different valuation techniques.

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

| | **2010** | 2009 |
|---|---|---|
| Net Asset Value per unit (for pricing purposes) | **$4.4957** | $5.1365 |
| Difference | **(0.0063)** | (0.0135) |
| Net Assets per unit (for financial statement purposes) | **$4.4894** | $5.1230 |

## 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.

Approval of the Special Resolution on October 26, 2009 provided a one-time redemption right allowing unitholders to redeem their units at 100 percent of NAV on November 16, 2009. Under this one time redemption, 72,194 units were redeemed.

Unitholders have an annual redemption right in November of each year (commencing in November 2010) at 100 percent of the NAV per unit and a monthly redemption right at a redemption price determined by reference to market price for units redeemed on the last day of any other month.

Units may be surrendered at any time for redemption but will be redeemed only on a monthly valuation date. Units surrendered for redemption by a unitholder at least 20 business days prior to the November Valuation Date will be redeemed on such November Valuation Date. Units surrendered for redemption by a unitholder at least ten business days prior to any other Valuation Date (a "Monthly Valuation Date") will be redeemed on such Monthly Valuation Date.

Unitholders will receive a redemption price on a Monthly Valuation Date which will be equal to the lesser of:

(a) 95 percent of the Redemption Market Price. For such purposes, "Redemption Market Price" means the weighted average trading price of the units on the principal stock exchange on which the units are listed (or, if the units are not listed on any stock exchange, on the principal market on which the units are quoted for trading) for the ten trading days immediately preceding the applicable Monthly Valuation Date, and

(b) 100 percent of the Closing Redemption Market Price of the units on the applicable Monthly Valuation Date, minus an amount equal to the aggregate of all brokerage fees, commissions and other costs incurred by the Fund in connection with such payment, including, but not limited to, costs incurred in liquidating securities held in the Fund's portfolio. For such purposes, the "Closing Redemption Market Price" means the closing price of the units on the principal stock exchange on which the units are listed (or, if the units are not listed on any stock exchange, on the principal market on which the units are quoted for trading) or, if there was no trade on the relevant date, the average of the last bid and the last asking prices of the units on the principal stock exchange on which the units are listed (or, if the units are not listed on any stock exchange, on the principal market on which the units are quoted for trading).

Any unpaid distribution payable on or before the applicable Valuation Date in respect of units tendered for redemption on such Valuation Date will also be paid on the applicable redemption payment date.

Unit transactions during the year are as follows:

| | 2010 | 2009 |
|---|---|---|
| Units outstanding, beginning of year | **563,646** | 662,340 |
| Units issued on merger | **2,985,545** | – |
| Units redeemed | **(411,791)** | (98,694) |
| Units outstanding, end of year | **3,137,400** | 563,646 |

## 6. Management Fees and Expenses

Mulvihill amalgamated with MCM on September 1, 2010. As successor, MCM became the Manager and the Investment Manager of the Fund. Fees are payable to the Manager under the terms of the trust agreement and to the Investment Manager under the terms of an investment management agreement. The fees are payable at annual rates of 0.10 percent and 1.00 percent respectively of the Fund's net asset value, calculated and payable monthly, plus applicable taxes.

Prior to the repositioning approved October 26, 2009, 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.

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

Restructuring costs consist of costs incurred for the special meeting of unitholders held during the year. Costs amounting to $48,454 (2009 - $162,500) were paid in respect of the special meeting. Also included in 2009 restructuring costs were amounts totalling $175,000 for the filing of a preliminary prospectus which was subsequently withdrawn.

## 7. Distributions

The Fund endeavours to pay unitholders monthly distributions in an amount targeted to be 6.5 percent per annum on the net asset value of the Fund.

If after such distributions there would otherwise remain in the Fund additional net investment income or net realized capital gains, the Fund intends to make a special distribution of such portion of the remaining net investment income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax thereon under the Income Tax Act (Canada) (the "Act").

The non-taxable distributions received by the unitholders reduce the adjusted cost base of the unit for tax purposes.

## 8. Income Taxes

The Fund is a "mutual fund trust" as defined in 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 for income taxes in 2010 and 2009.

Accumulated non-capital losses of approximately $2.0M (2009 - $4.0M) and capital losses of approximately $29.9M (2009 - $29.7M) are available for utilization against net investment income and realized gains on sale of investments in future years. The capital losses can be carried forward indefinitely. The non-capital losses expire as follows:

| **Expiration Date** | **Amount (in $M)** |
|---|---|
| 2014 | $ 1.2 |
| 2015 | 0.2 |
| 2029 | 0.5 |
| 2030 | 0.1 |
| **Total** | **$ 2.0** |

## 9. Transaction Fees

Total transaction fees paid for the year ended December 31, 2010 in connection with portfolio transactions were $47,467 (2009 - $22,938). Of this amount $5,289 (2009 - $12,164) was directed for payment of client brokerage commissions.

## 10. Capital Disclosures

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, "Capital Disclosures" requires the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Fund's objectives, policies and processes are described in Note 2, information on the Fund's unitholders' equity is described in Note 5 and Note 7 and the Fund does not have any externally imposed capital requirements.

## 11. Financial Instruments and Risk Management

The Fund's financial instruments consist of cash, receivables, payables, investments and certain derivative contracts. In accordance with CICA Handbook Section 3862, "Financial Instruments – Disclosures", the Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

(1) Level 1 - for unadjusted quoted prices in active markets for identical assets or liabilities,

(2) Level 2 - for inputs, other than quoted prices included in Level 1,

that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

(3) Level 3 - for inputs that are based on unobservable market data.

The following is a summary of the inputs used as of December 31, 2010 in valuing the Fund's investments and derivatives carried at fair value:

| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| Short-Term Investments | $ – | $ 1,098,675 | $ – | $ 1,098,675 |
| Canadian Common Shares | 13,333,013 | – | – | $ 13,333,013 |
| Options | (16,147) | (34,538) | – | $ (50,685) |
| **Total Investments** | **$ 13,316,866** | **$ 1,064,137** | **$ –** | **$ 14,381,003** |

The following is a summary of the inputs used as of December 31, 2009 in valuing the Fund's investments and derivatives carried at fair value:

| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| Short-Term Investments | $ – | $ 344,965 | $ – | $ 344,965 |
| Canadian Common Shares | 2,805,086 | – | – | $ 2,805,086 |
| **Total Investments** | **$ 2,805,086** | **$ 344,965** | **$ –** | **$ 3,150,051** |

There were no transfers between Level 1 and Level 2 during 2010 and 2009.

As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include other price risk, liquidity risk, interest rate risk and credit risk.

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

### Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or segment. The Fund's most significant exposure to other price risk is its investments in securities in the Fund. Net Assets per unit varies as the value of the securities in the Fund varies. The Fund has no control over the factors that affect the value of the securities in the Fund. The Fund's market risk is managed by taking a long-term perspective and utilizing an option writing program.

Approximately 95 percent (2009 - 97 percent) of the Fund's net assets held at December 31, 2010 were publicly traded equities. If equity prices on the exchange increased or decreased by 10 percent as at December 31, 2010, the net assets of the Fund would have increased or decreased by $1.3M (2009 - $0.3M) respectively or 9.5 percent (2009 - 9.7 percent) of the net assets, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

The Fund may, from time to time, write covered call options in respect of all or part of the common shares in the Fund. In addition, the Fund may write cash covered put options in respect of securities in which the Fund is permitted to invest. The Fund is subject to the risk of its investment position including those securities that are subject to outstanding call options and those securities underlying put options written by the Fund, should the market price of such securities decline. In addition, the Fund will not participate in any gain on the securities that are subject to outstanding call options above the strike price of such options. The Fund may also purchase put options. The Fund has downside risk on invested positions which may be partially mitigated by the use of purchased put options. The risk to the Fund with respect to purchased put options is limited to the premiums paid to purchase the put options.

### Liquidity Risk

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required. To manage this risk, the Fund invests the majority of its assets in investments that are traded in an active market and which can be easily disposed. In addition, the Fund aims to retain sufficient cash and short-term investments to maintain liquidity and to meet its obligations when due. Liabilities are payable within one year.

Cash is required to fund redemptions. Unitholders must surrender units at least 10 business days prior to the last day of the month and receive payment on or before 15 calendar days following the month end valuation date. Therefore the Fund has a maximum of 21 business days to generate sufficient cash to fund redemptions mitigating liquidity issues.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. The financial instruments which potentially expose the Fund to interest rate risk are the short term fixed income securities. The longer the duration, the more sensitive the security or portfolio is to changes in interest rates. The Fund has minimal sensitivity to change in rates since they are usually held to maturity and short-term in nature.

### Credit Risk

The Fund is subject to the credit risk that its counterparty (whether a clearing corporation, in the case of exchange traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its obligations. The Fund manages these risks through the use of various risk limits and trading strategies.

The credit risk is mitigated by dealing with counterparties that have a credit rating that is not below the level of approved credit ratings as set out in National Instrument 81-102.

The following are the credit ratings for the counterparties to derivative financial instruments that the Fund dealt with during the current and prior year, based on Standard & Poor's credit ratings as of December 31, 2010 and 2009:

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

The following is the credit rating for short-term investments held by the Fund based on Standard & Poor’s credit rating as of December 31, 2010 and 2009:

| Type of Short-Term Investment | Rating | % of Short-Term Investments |
|---|---|---|
| Government of Canada Treasury Bills | AAA | 100% |
| **Total** | | **100%** |

The carrying amount of these investments represents their maximum credit risk exposure, as they will be settled in the short-term.

## 12. Future Accounting Policy Changes

The Fund was required to adopt International Financial Reporting Standards (“IFRS”) for the year beginning on January 1, 2011. However, the Canadian Accounting Standards Board approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies (“AcG-18”). As a result, the Fund will adopt IFRS for the year beginning on January 1, 2013 and will issue its initial statements on a comparative basis for the interim period ending June 30, 2013.

## Board of Advisors



[1] *Independent Review Committee Member*

## Information

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Brookfield Place
181 Bay Street, Suite 1400
Toronto, Ontario M5J 2V1

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

**Shares Listed:**
Toronto Stock Exchange
trading under
PCU.UN

**Custodian:**
RBC Dexia Investor Services Trust
RBC Centre
155 Wellington Street West, 2nd Floor
Toronto, Ontario M5V 3L3

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

## Investment Funds Managed by Mulvihill Capital Management Inc.

### UNIT TRUSTS

Canadian Utilities & Telecom Income Fund
Core Canadian Dividend Trust
Gold Participation and Income Fund
Premier Canadian Income Fund
Top 10 Canadian Financial Trust

### SPLIT SHARES

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

### PRINCIPAL PROTECTED FUNDS

Government Strip Bond Trust
Pro-AMS U.S. Trust

## Head Office:


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Contact your broker directly for address changes.

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