



Caldwell Investment Management Ltd.

Independent Investment Managers

Annual Management Report of Fund Performance

For the Year Ended December 31, 2010

Caldwell Income Fund

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You may obtain a copy of the annual financial statements at your request, free of charge, by calling 1-800-256-2441, by writing to us at Caldwell Investment Management Ltd., 150 King Street West, Suite 1702, Toronto, ON M5H 1J9 or by visiting our website at www.caldwellinvestment.com or SEDAR at www.sedar.com.

Securityholders may also contact us by using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.



Management Discussion of Fund Performance

Investment Objective

The fundamental investment objective of the Caldwell Income Fund (the “Fund”) is to provide superior investment returns through income and growth securities while preserving capital and maintaining liquidity by investing in a diverse portfolio of Canadian government fixed income (federal, provincial and municipal) and corporate securities.

The Fund is designed for people who want to see their money grow faster than putting it with the bank, but who do not want to worry about it.

The Fund maintains a balance of approximately 80% government guaranteed bonds and 20% senior, income paying equities. Over time, this blend of stocks and bonds has shown better performance, with less risk, than even bonds on their own.

For over twenty-five years, the Fund’s management team has been of the opinion that it makes more sense to own government guaranteed bonds than to take any risk with lesser credits for modest incremental return. To that end, the Fund owns federal and provincial government and crown corporation bonds only.

It also makes sense to empower a portion of any portfolio with the ability to grow both its principal and income which is why the Fund owns shares of dividend and distribution paying equities.

Bonds have the advantage of having their income stream and redemption values fixed. Profitable companies raise their dividends regularly and this lifts their share price over time. Blending the best attributes of both bonds and stocks creates a potent combination for preserving and building wealth.

J. Dennis Freeman of Caldwell Investment Management Ltd. (the “Manager”) has been the portfolio manager of the Fund since its inception.

Results of Operations

The Fund followed a strong 2009 (+10.37%) with a very solid +6.46% in 2010. This is roughly in line with the Fund’s benchmark, the DEX Universe Bond Total Return Index, return of 6.74% The Fund’s unit value increased from \$5.12 to \$5.15, but that was because \$0.29 in distributions were reinvested during the year. In 2010, the Fund’s total assets also grew from under \$13 million to over \$15.5 million.

The allocation of a portion of the Fund to large, blue chip Canadian equities, primarily banks, continues to work well as this strategy added significantly to performance.



Recent Developments

The Fund's asset mix of 80% government guaranteed bonds and 20% banks and other dividend paying stocks have meant that the Fund's volatility has been less than owning either bonds or stocks alone.

In 2009, the rebound the Canadian banking sector experienced significantly boosted the Fund's performance. In 2010, the Canadian banks gathered momentum which has carried over to record earnings announcements in 2011.

The bond market remained volatile; however, as sentiment shifted between belief in a stronger economy (which tends to make interest rates rise) and another slump into recession (which causes rates to fall). The U.S. government was particularly energetic about buying back its own bonds, a process known as quantitative easing, but whether this attempt to stimulate markets will have a lasting effect remains to be seen.

The Fund has varied its holding between short-term and longer government guaranteed bonds in order to take advantage of this volatility. At time of writing, the Fund owns a blend of 5 and 10 year Canada Housing Trust bonds and 10 year Province of Ontario bonds.

Independent Review Committee

Under the provisions of National Instrument 81-107 – *Independent Review Committee for Investment Funds* (NI 81-107"), which came into force on November 1, 2006, it is now required that all publicly offered investment funds, such as the Fund, establish an independent review committee ("IRC") to whom the Manager is to refer all potential conflict of interest matters in order to obtain a recommendation or approval, as applicable. NI 81-107 further mandates that the IRC be composed of at least three independent members and requires that they conduct assessments and regularly report to the Manager and unitholders in respect of its duties.

The current members of the Manager's IRC are H. Clifford Hatch Jr. (Chair), Robert Guilday and Sharon Kent.



Changeover to International Financial Reporting Standards

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 key elements of the plan include disclosures of the qualitative impact in the annual financial statements, the disclosures of the quantitative impact, if any, in the 2010 financial statements and the preparation of the 2011 financial statements in accordance with IFRS with comparatives. The Manager has presently determined that there will be no impact to net asset value per unit from the changeover to IFRS.

In September 2010, the Canadian Accounting Standards Board (“AcSB”) approved a one year deferral of adoption of IFRS for investment companies currently applying Accounting Guideline 18, Investment Companies, which include investment funds. In January 2011, the AcSB made a decision to extend the deferral of IFRS adoption by investment companies for an additional year to January 2013. This results in a two year deferral of IFRS adoption by investment companies compared to other publicly accountable entities. The AcSB noted in its Decision Summary that the deferral is a result of the delay in the International Accounting Standards Board’s (“IASB”) investment company project and that a final standard would likely not be issued before January 2012, the previous mandatory IFRS changeover date for investment companies in Canada.

Related Party Transactions

Manager and Portfolio Adviser

The Manager is a wholly owned subsidiary of Caldwell Financial Ltd. The Manager is also the portfolio adviser of the Fund. The Manager is responsible for the Fund’s day-to-day operations, provides investment advice and portfolio management services to the Fund and appoints distributors for the Fund. The Manager is paid an annual fee up to 1.25% based on the net asset value of the Fund for its administrative services, trustee fees, asset allocation, security selection, ongoing monitoring and related services.

Trustee

The trustee of the Fund is Caldwell Investment Management Ltd.

Principal Distributor

Caldwell Securities Ltd. is related to the Manager in that both are wholly-owned subsidiaries of Caldwell Financial Ltd. Caldwell Securities Ltd. markets units of the Fund directly to the public and receives sales commissions and trailer fees based on the total value of their clients’ holdings in the Fund on the same basis as other dealers that distribute units to the public.



Brokerage

The Manager may choose to execute a portion or all of the Fund's portfolio transactions with Caldwell Securities Ltd. on terms as favourable or more favourable to the Fund as those available through other broker or dealers. In 2010 the Fund paid \$31,193 in commissions to Caldwell Securities Ltd. or 100 % of total commissions paid.

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.

The Fund's Net Asset Value (NAV), (transactional NAV) per Unit as at December 31. (unaudited)

	2010	2009	2008	2007	2006
Net Assets, beginning of year	5.12	4.75	5.11	5.32	5.16
Increase (decrease) from operations:					
Total Revenue	0.14	0.13	0.20	0.21	0.20
Total Expenses	(0.07)	(0.08)	(0.09)	(0.11)	(0.08)
Realized gains (losses) for the period	0.22	0.05	0.12	0.14	0.11
Unrealized gains (losses) for the period	0.05	0.36	(0.33)	(0.20)	0.08
Total increase (decrease) from operations ⁽¹⁾	0.34	0.49	(0.10)	0.04	0.31
Distributions:					
From Income (excluding dividends)	(0.03)	(0.01)	(0.13)	(0.12)	(0.12)
From Dividends	(0.04)	(0.05)	(0.00)	(0.00)	(0.00)
From Capital Gains	(0.22)	(0.06)	(0.13)	(0.13)	(0.03)
Return of Capital	0.00	(0.00)	(0.00)	(0.00)	(0.00)
Total Annual Distributions ⁽²⁾	(0.29)	(0.12)	(0.26)	(0.25)	(0.15)
Net Assets at December 31 of year shown	5.15	5.12	4.75	5.11	5.32

⁽¹⁾ Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁽²⁾ Distributions were paid in cash or reinvested in additional units of the Fund or both.



Ratios and Supplemental Data (unaudited)

	2010	2009	2008	2007	2006
Net assets (000's) ⁽¹⁾	15,580	12,998	11,071	11,287	10,402
Number of units outstanding ⁽¹⁾	3,023,252	2,538,666	2,330,058	2,209,890	1,953,531
Management expense ratio ⁽²⁾	1.26%	1.50%	1.62%	1.56%	1.67%
Management expense ratio before waivers or absorptions	1.80%	2.23%	2.37%	1.90%	2.35%
Portfolio turnover rate ⁽³⁾	404.04%	582.19%	217.16%	226.95%	337.5%
Trading Expense ratio ⁽⁴⁾	0.21%	0.30%	0.13%	1.73%	2.33%

⁽¹⁾ This information is provided as at December 31 of the year shown.

⁽²⁾ Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

⁽³⁾ The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

⁽⁴⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

⁽⁵⁾ Revised.

Management Fees

As compensation for managing the Fund, the Manager can receive an annual fee up to 1.25% of the average net asset value of the Fund. Such fees are calculated daily and payable monthly. The Manager in turn is responsible for paying investment adviser fees, trustee fees, sales commissions, trailer fees and has chosen to absorb certain expenses for which the Fund is responsible.

Distribution	58 %
Management and Portfolio Adviser Services	(30) %
Waivers and Absorption of Fund Expenses	72 %

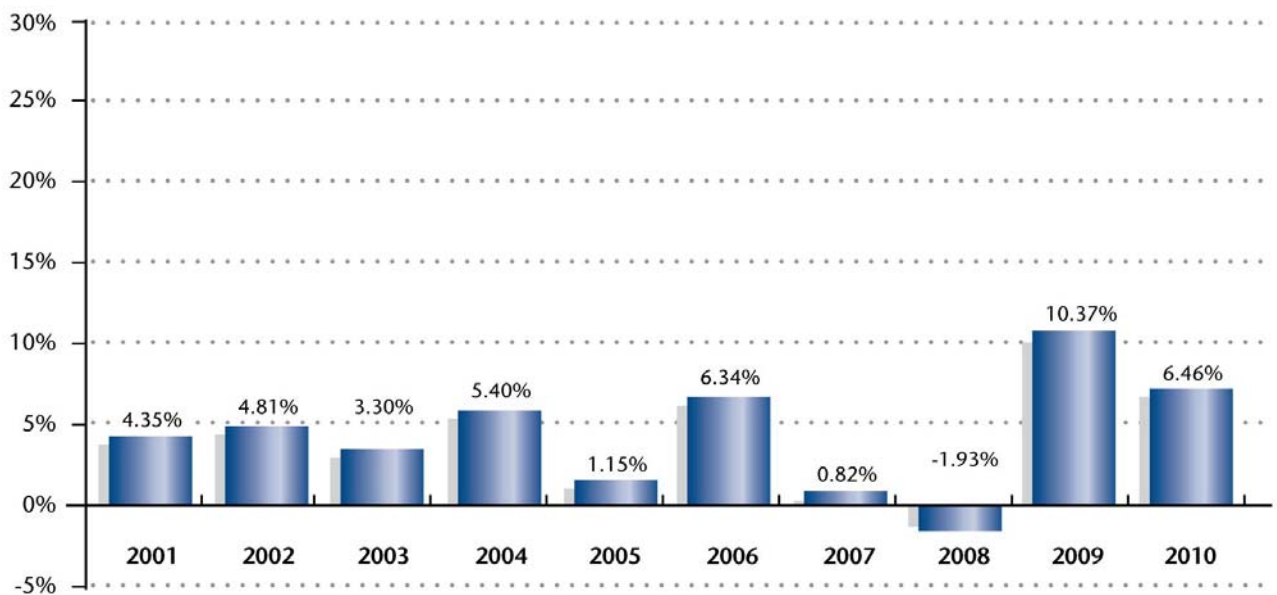


Past Performance

The following chart shows how the Fund has performed in the past, and can help you understand the risks of investing in the Fund. These returns include the reinvestment of all distributions and would be lower if they did not. They don't include deduction of sales, switch, redemption, or other optional charges (which distributors may charge) or income taxes payable, and would be lower if they did. The Fund's past performance is no guarantee of how it will perform in the future.

Year-by-Year Returns

The bar chart shows how the Fund's annual past performance has varied from year to year for each of the years shown. It shows in percentage terms how an investment made on January 1 would have increased or decreased by December 31 for each year.



Caldwell Income Fund

For the years ended December 31



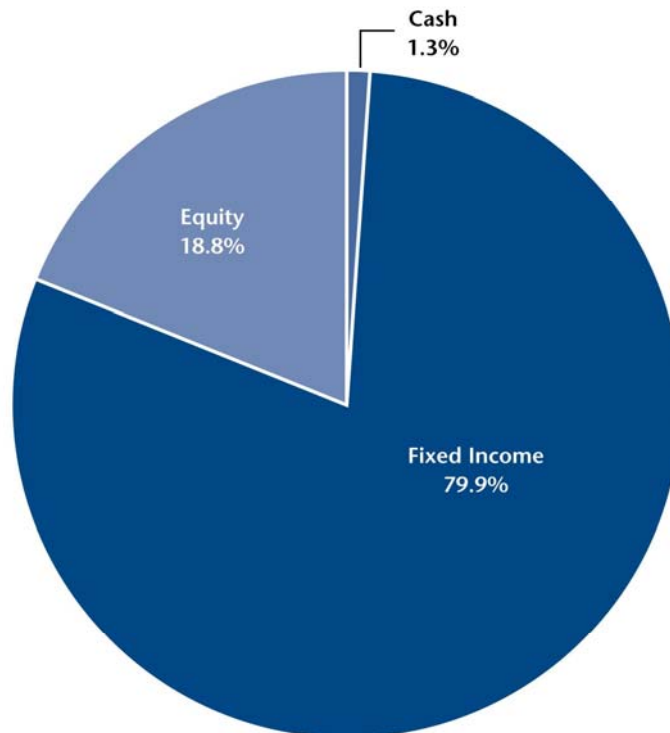
Annual Compound Returns

The table shows the Fund's historical annual compound total return for each period since inception of the Fund, compared with the Fund benchmark, the DEX Universe Bond Total Return Index. The DEX Universe Bond Total Return Index is a specific measure of total return for Canadian Federal, Provincial, Municipal and corporate issuers (rated AA-BBB) with a term to maturity of more than one year.

Annualized Compound Returns	1 Year	3 Years	5 Years	10 Years
Fund	6.46%	3.25%	3.37%	3.58%
Index	6.74%	6.19%	5.25%	6.33%

Summary of Investment Portfolio

Portfolio Breakdown



Caldwell Income Fund



All Fund Holdings (unaudited)

SECURITY	Percentage of Net Assets
Government of Canada 1.00% 01Sep2011	44.1%
Canada Housing Trust 3.35% 15Dec2020	31.9%
Canada Housing Trust 2.45% 15Dec2015	19.1%
Toronto-Dominion Bank	8.1%
Canadian Imperial Bank of Commerce	7.5%
Royal Bank of Canada	6.7%
CASH	1.3%
All Holdings (the Fund has less than 25 holdings)	118.7%

The summary of investment portfolio may change. A quarterly update is available at www.caldwellinvestment.com.