



## Hybrid Income Funds

Annual Report 2001



**Mulvihill Premium U.S. Fund**

*First Premium U.S. Income Trust*



Message to  
Unitholders →

March 2002

With all the major economies of the world experiencing a slowdown or an outright recession, 2001 was a difficult year for equity markets. In North America, the United States economy went into a mild recession in March. In the European Union, Germany slowed to near-zero growth, and in the Far East, Japan remained mired in a continuing slump. These key economies set the pace for their regions, and their weakness quickly spread to their neighbours and trading partners. Canada, for example, did not follow the United States into recession, but the Canadian economy lost much of the growth momentum it had built up in the previous year.

In an effort to pull their economies out of the slump, central banks around the world made repeated moves to lower interest rates. The U.S. Federal Reserve led the way with 11 successive cuts, slashing rates from 6.5 percent at the beginning of the year to 1.75 percent at year end. The Bank of Canada made similar but less drastic moves, taking rates from 5.75 percent to 2.25 percent. The European Central Bank was inhibited by inflationary concerns, and made only four downward moves to cut rates by 150 basis points to 3.25 percent. The combination of these rate cuts and further stimulus in the form of tax cuts is beginning to have the desired effect, with leading economic indicators now turning upwards in both North America and Europe.

The Toronto Stock Exchange 300 Index declined 12.5 percent for the year, hitting a low of 6,513 on September 21 before rallying to end the year at 7,688. In the United States, the S&P 500 Index was down nearly 12 percent, and the technology-laden NASDAQ Index declined by 21 percent. In Europe, the markets outside of North America were also down as shown by the 21 percent decline in the EAFE index. All exchanges saw their sharpest corrections in the wake of the terrorist attacks of September 11, and have been trending upwards since then.

There were radical differences between the performances of stocks in different economic sectors. Consumer discretionary stocks benefited from lower interest rates, tax cuts and declining energy costs. Transportation and resource-based industries also tended to outperform the broad markets. However, positive performance in these areas was more than offset by sharp declines in other sectors. The Information Technology sector also performed poorly as valuations adjusted to reduced growth and earnings expectations. Manufacturers of telecommunications equipment were especially hard hit by excess inventories, slumping demand and debt-burdened balance sheets.

As the economic recovery cycle advances, the outlook for equities is positive. However, investors are likely to remain wary about weak earnings—a concern that has been aggravated by the Enron scandal. Markets are likely to be periodically volatile during 2002, as investor sentiment rides the ups and downs of positive and negative earnings reports.



**John P. Mulvihill**  
President  
Mulvihill Capital Management Inc.



**Donald Biggs**  
Vice President, Structured Finance  
Mulvihill Capital Management Inc.



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Investment Highlights

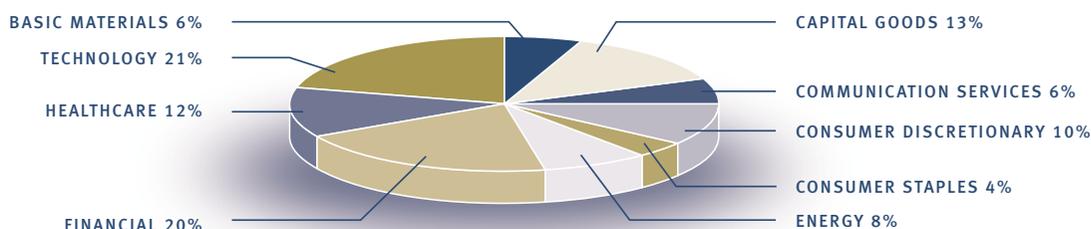
Investment Objectives

The Fund was launched in February 1997 with similar objectives to Mulvihill Premium Canadian Fund (First Premium Income Trust). Those objectives are to provide unitholders of the Fund with a stable stream of quarterly distributions of at least \$0.50 (\$2.00 annually) per unit while returning the original issue price of the units (\$25.00 per unit) to unitholders upon termination of the Fund on January 1, 2007.

Investment Strategy

The Fund intends to achieve its investment objectives by investing the net proceeds from this offering in a diversified portfolio consisting primarily of common shares issued by corporations that rank in the top 50 of the Standard & Poor's 100 Index on the basis of market capitalization. To generate additional returns above the dividend income generated by the portfolio, the Fund will engage in a program of covered call option writing in respect of all or part of the securities in the portfolio. From time to time, the Fund may hold a portion of its assets in cash equivalents, which may be utilized to provide cover in respect of the writing of cash covered put positions.

Asset Mix



Distribution History

INCEPTION DATE: FEBRUARY 1997	REGULAR DISTRIBUTION	SPECIAL DISTRIBUTION	TOTAL DISTRIBUTION
Total for 1997	\$ 1.83	\$ 0.75	\$ 2.58
Total for 1998	2.00	1.25	3.25
Total for 1999	2.00	2.50	4.50
Total for 2000	2.00	0.75	2.75
March 2001	0.50	0.00	0.50
June 2001	0.50	0.00	0.50
September 2001	0.50	0.00	0.50
December 2001	0.50	0.00	0.50
Total for 2001	2.00	0.00	2.00
<b>Total Distributions to Date</b>	<b>\$ 9.83</b>	<b>\$ 5.25</b>	<b>\$ 15.08</b>

**Top 10 Holdings**

- Microsoft Corp.
- Exxon Mobil Corp.
- General Electric Co.
- Citigroup Inc.
- Bank of America Corp.
- Tyco International Ltd.
- Bristol Myers Squibb Company
- Intel Corp.
- Home Depot Inc.
- IBM Corp.

**Trading History**



**Commentary**

As of December 31, 2001, the net assets of the Fund were \$234.1 million, or \$19.67 per unit, down \$26.2 million from net assets of \$260.3 million, or \$21.91 per unit, at the end of 2000. The Fund's units, listed on the TSE as FPU.UN, began the year trading at \$25.25, and touched a low of \$17.40 before closing at year-end at \$22.00.

During 2001, unitholders received a total of \$23.8 million, or \$2.00 per unit, maintaining the Fund's target of paying an 8 percent return, based on the initial unit price of \$25.00. All of these distributions were non-taxable, as tax losses generated during the last quarter of 2001 offset the Fund's taxable income for the year. The Fund also has further losses which will permit it to shelter future income and capital gains in the upcoming year which amount to \$0.75 per unit. Non-taxable distributions reduce the adjusted cost base of each investors' units.

The Fund's overall rate of return for the year was negative 1.1 percent, substantially better than most major U.S. market indices, including the S&P 500 Index which declined nearly 12 percent. Pronounced weakness in share values in such sectors as technology and utilities were counterbalanced by the Fund's exposure in stronger sectors, such as basic materials and consumer discretionary goods. Higher market volatility throughout the year also enabled the Fund to generate significant premium income through its covered call option writing program.

Looking forward, U.S. Federal Reserve interest rate reductions, tax cuts and lower energy prices are expected to foster an economic recovery in 2002. The Fund is maintaining a well-diversified stance with a defensive cash position, and is also continuing to generate income through option writing. A summary of the Fund's investments as well as its financial statements are included in this annual report.

We would like to take this opportunity to thank each of the Fund's unitholders for their continuing support.

Auditors' Report

To the Unitholders

We have audited the accompanying statement of investments of First Premium U.S. Income Trust (operating as Mulvihill Premium U.S. Fund) (the "Fund") as at December 31, 2001, the statements of net assets as at December 31, 2001 and 2000, the statements of financial operations, of changes in net assets and of gain (loss) on sale of investments and options for the years then ended, and the statements of financial highlights for each of the periods or years (since inception) in the five-year period ended December 31, 2001. These financial statements are the responsibility of the Fund's Manager. 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 Manager, 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 and its investments as at the dates indicated above, and the results of its operations, the changes in its net assets, the gain (loss) on sale of investments and options and the financial highlights for the periods indicated above, in accordance with Canadian generally accepted accounting principles.

*Deloitte + Touche LLP*

Chartered Accountants

Toronto, Ontario

February 15, 2002

**Statements of Net Assets**

December 31, 2001 and 2000

	2001	2000
<b>Assets</b>		
Investments at market value (average cost - \$192,691,975; 2000 - \$188,063,526)	\$170,998,693	\$164,369,507
Short-term investments (average cost - \$65,205,111; 2000 - \$95,483,943)	65,496,208	94,887,249
Cash	284,528	253,901
Subscriptions receivable	111,622	139,653
Dividends receivable	80,089	66,907
Interest receivable	136,002	313,600
Due from broker	193,385	899,253
<b>Total Assets</b>	<b>237,300,527</b>	<b>260,930,070</b>
<b>Liabilities</b>		
Accrued liabilities	410,954	474,947
Due to broker	2,820,562	142,789
	<b>3,231,516</b>	<b>617,736</b>
<b>Net Assets, Represented by Unitholders' Equity</b>	<b>\$234,069,011</b>	<b>\$260,312,334</b>
<b>Number of Units Outstanding (Note 5)</b>	<b>11,901,171</b>	<b>11,879,597</b>
<b>Net Asset Value per Unit</b>	<b>\$ 19.6677</b>	<b>\$ 21.9126</b>

On behalf of the Manager,  
Mulvihill Fund Services Inc.

  
John P. Mulvihill, Manager

  
David N. Middleton, Manager

**Statements of Financial Operations**

Years ended December 31, 2001 and 2000

	2001	2000
<b>Revenue</b>		
Dividends	\$ 2,948,517	\$ 2,844,816
Interest	5,428,924	6,600,070
Withholding tax	(340,039)	(330,675)
	<b>8,037,402</b>	<b>9,114,211</b>
<b>Expenses (Note 6)</b>		
Management fees	4,267,362	5,159,521
Custodian and other fees	269,780	243,649
Goods and services tax	317,600	378,222
	<b>4,854,742</b>	<b>5,781,392</b>
<b>Net Investment Income</b>	<b>3,182,660</b>	<b>3,332,819</b>
<b>Gain (Loss) on Sale of Investments and Options</b>	<b>(8,997,610)</b>	<b>29,994,423</b>
<b>Change in Net Unrealized Depreciation of Investments and Foreign Currency</b>	<b>2,890,187</b>	<b>(47,073,850)</b>
<b>Net Loss on Investments</b>	<b>(6,107,423)</b>	<b>(17,079,427)</b>
<b>Total Results of Financial Operations</b>	<b>\$ (2,924,763)</b>	<b>\$ (13,746,608)</b>

Financial Statements

Statements of Changes in Net Assets

Years ended December 31, 2001 and 2000

	2001	2000
<b>Net Assets, Beginning of Year</b>	<b>\$260,312,334</b>	<b>\$306,352,238</b>
<b>Unit Transactions</b>		
Proceeds from reinvestment of distributions	455,946	347,009
Amount paid for units redeemed	–	(1,036)
	<u>455,946</u>	<u>345,973</u>
<b>Total Results of Financial Operations</b>	<b>(2,924,763)</b>	<b>(13,746,608)</b>
<b>Distributions to Unitholders (Note 7)</b>		
From net investment income	–	(9,696)
From net realized gain on sale of investments and options	–	(30,306,494)
Non-taxable distribution	(23,774,506)	(2,323,079)
	<u>(23,774,506)</u>	<u>(32,639,269)</u>
<b>Changes in Net Assets During the Year</b>	<b>(26,243,323)</b>	<b>(46,039,904)</b>
<b>Net Assets, End of Year</b>	<b>\$234,069,011</b>	<b>\$260,312,334</b>

Statements of Gain (Loss) on Sale of Investments and Options

Years ended December 31, 2001 and 2000

	2001	2000
<b>Proceeds from Sale of Investments</b>	<b>\$ 89,722,594</b>	<b>\$119,143,388</b>
<b>Cost of Investments Sold</b>		
Cost of investments, beginning of year	188,063,526	185,342,329
Cost of investments purchased	103,348,653	91,870,162
	<u>291,412,179</u>	<u>277,212,491</u>
<b>Cost of Investments, End of Year</b>	<b>(192,691,975)</b>	<b>(188,063,526)</b>
	<u>98,720,204</u>	<u>89,148,965</u>
<b>Gain (Loss) on Sale of Investments and Options</b>	<b>\$ (8,997,610)</b>	<b>\$ 29,994,423</b>

**Statement of Investments**

December 31, 2001

	Par Value/ No. of Shares	Average Cost	Market Value	% of Portfolio
<b>Short-term Investments</b>				
<b>Treasury Bills</b>				
Government of Canada - January 3, 2002	1,457,000	\$ 1,444,556	\$ 1,444,556	
Government of Canada - January 31, 2002	9,558,000	9,516,100	9,516,100	
Government of Canada, USD - March 1, 2002	50,000	78,528	79,491	
Government of Canada, USD - March 4, 2002	7,215,000	11,297,348	11,470,195	
Government of Canada - March 14, 2002	10,000,000	9,945,300	9,945,300	
Government of Canada, USD - February 22, 2002	15,940,000	25,206,360	25,321,581	
<b>Total Treasury Bills</b>		<b>57,488,192</b>	<b>57,777,223</b>	<b>88.0%</b>
<b>Discount Commercial Paper</b>				
Canadian Wheat Board, USD - January 25, 2002	110,000	175,563	175,333	
Export Development Corp., USD - February 14, 2002	3,490,000	5,556,036	5,558,332	
<b>Total Discount Commercial Paper</b>		<b>5,731,599</b>	<b>5,733,665</b>	<b>8.8%</b>
<b>Bearer Deposit Notes</b>				
Alberta Treasury Branch - January 9, 2002	2,000,000	1,985,320	1,985,320	3.0%
		<b>65,205,111</b>	<b>65,496,208</b>	<b>99.8%</b>
<b>Accrued Interest</b>		<b>-</b>	<b>136,002</b>	<b>0.2%</b>
<b>Total Short-term Investments</b>		<b>\$ 65,205,111</b>	<b>\$ 65,632,210</b>	<b>100.0%</b>
<b>Investments</b>				
<b>Canadian Common Shares</b>				
<b>Industrial Products</b>				
Nortel Networks Corp.	170,000	\$ 8,635,921	\$ 2,035,278	1.2%
<b>Total Canadian Common Shares</b>		<b>\$ 8,635,921</b>	<b>\$ 2,035,278</b>	<b>1.2%</b>
<b>United States Common Shares</b>				
<b>Energy Sources</b>				
Exxon Mobil Corp.	148,000	\$ 8,351,272	\$ 9,284,700	5.4%
<b>Energy Equipment and Services</b>				
Schlumberger Ltd.	60,000	6,458,948	5,262,990	3.1%
<b>Forest Products and Paper</b>				
International Paper Co.	60,000	4,810,476	3,864,634	2.3%
<b>Metals - Steel</b>				
Alcoa Inc.	100,000	5,800,426	5,674,834	3.3%
<b>Data Processing and Reproduction</b>				
Cisco Systems Inc.	160,000	7,323,310	4,625,429	
IBM Corp.	32,500	5,688,203	6,275,361	
Microsoft Corp.	90,000	10,661,489	9,520,792	
Oracle Corp.	175,000	4,957,517	3,857,850	
<b>Total Data Processing and Reproduction</b>		<b>28,630,519</b>	<b>24,279,432</b>	<b>14.2%</b>

Financial Statements

Statement of Investments (continued)

December 31, 2001

	No. of Shares	Average Cost	Market Value	% of Portfolio
<b>Investments (continued)</b>				
<b>United States Common Shares (continued)</b>				
<b>Electrical and Electronics</b>				
General Electric Co.	135,000	9,046,398	8,637,242	5.1%
<b>Electrical Components and Instruments</b>				
Intel Corp.	130,000	7,857,198	6,526,459	
Texas Instruments Inc.	80,000	5,513,557	3,575,704	
<b>Total Electrical Components and Instruments</b>		<b>13,370,755</b>	<b>10,102,163</b>	<b>5.9%</b>
<b>Food and Household Products</b>				
McDonald's Corp.	90,000	4,306,647	3,802,857	
Procter & Gamble Co.	20,000	2,971,645	2,526,299	
<b>Total Food and Household Products</b>		<b>7,278,292</b>	<b>6,329,156</b>	<b>3.7%</b>
<b>Health and Personal Care</b>				
Amgen Inc.	47,500	4,474,282	4,279,512	
Bristol Myers Squibb Company	90,000	8,678,049	7,327,001	
Pfizer Inc.	65,000	4,065,739	4,134,807	
Pharmacia Corp.	70,000	5,626,749	4,765,743	
<b>Total Health and Personal Care</b>		<b>22,844,819</b>	<b>20,507,063</b>	<b>12.0%</b>
<b>Broadcasting and Publishing</b>				
AOL Time Warner Inc.	110,000	6,926,748	5,636,523	3.3%
<b>Merchandising</b>				
Home Depot Inc.	80,000	6,030,810	6,514,167	
Wal-Mart Stores Inc.	60,000	4,526,514	5,512,012	
<b>Total Merchandising</b>		<b>10,557,324</b>	<b>12,026,179</b>	<b>7.0%</b>
<b>Telecommunications</b>				
AT&T Corp.	110,000	3,242,203	3,185,250	
WorldCom Inc. - WorldCom Group	90,000	4,522,265	2,022,827	
Verizon Communications Inc.	70,000	5,592,817	5,303,217	
<b>Total Telecommunications</b>		<b>13,357,285</b>	<b>10,511,294</b>	<b>6.1%</b>
<b>Banking</b>				
Bank of America Corp.	77,500	8,871,341	7,787,732	4.6%
<b>Financial Services</b>				
American Express Co.	42,500	2,585,340	2,421,303	
Citigroup Inc.	106,816	8,035,501	8,607,346	
J.P. Morgan Chase and Co.	95,000	5,824,976	5,512,411	
Merrill Lynch & Co. Inc.	50,000	4,466,218	4,159,949	
U.S. Bancorp.	65,000	2,260,003	2,171,682	
<b>Total Financial Services</b>		<b>23,172,038</b>	<b>22,872,691</b>	<b>13.4%</b>

**Statement of Investments (continued)**

December 31, 2001

	No. of Shares	Average Cost	Market Value	% of Portfolio
<b>Investments (continued)</b>				
<b>United States Common Shares (continued)</b>				
<b>Insurance</b>				
American International Group Inc.	35,000	4,430,467	4,436,108	2.6%
<b>Multi-Industry</b>				
Tyco International Ltd.	82,500	6,717,177	7,756,804	
United Technologies Corp.	53,500	5,400,705	5,519,523	
		12,117,882	13,276,327	7.7%
<b>Total United States Common Shares</b>		<b>\$ 186,024,990</b>	<b>\$ 170,489,068</b>	<b>99.7%</b>
	Number of Contracts	Proceeds	Market Value	% of Portfolio
<b>Options</b>				
<b>Written Covered Call Options (100 Shares per Contract)</b>				
Alcoa Inc. - February 2002 @ \$40	350	\$ (95,267)	\$ (94,980)	
Alcoa Inc. - January 2002 @ \$40	350	(65,178)	(8,381)	
American International Group Inc. - January 2002 @ \$85	175	(55,691)	(5,587)	
Amgen Inc. - February 2002 @ \$65	175	(93,754)	(21,072)	
Amgen Inc. - January 2002 @ \$63	150	(55,525)	(17,074)	
AOL Time Warner Inc. - January 2002 @ \$38	350	(58,866)	(11,174)	
AT&T Corp. - January 2002 @ \$19	600	(76,345)	(49,152)	
Bank of America Corp. - January 2002 @ \$65	300	(87,214)	(40,706)	
Citigroup Inc. - January 2002 @ \$50	600	(163,575)	(162,822)	
Exxon Mobil Corp. - February 2002 @ \$39	500	(92,074)	(121,558)	
General Electric Co. - February 2002 @ \$43	350	(60,626)	(61,457)	
Home Depot Inc. - January 2002 @ \$50	400	(74,003)	(134,089)	
IBM Corp. - February 2002 @ \$125	100	(61,856)	(54,274)	
IBM Corp. - January 2002 @ \$120	100	(50,405)	(59,063)	
Intel Corp. - January 2002 @ \$35	400	(64,132)	(19,156)	
McDonald's Corp. - January 2002 @ \$28	450	(52,311)	(15,257)	
Merrill Lynch & Co. Inc. - February 2002 @ \$56	250	(74,800)	(76,223)	
Microsoft Corp. - January 2002 @ \$70	375	(103,269)	(47,889)	
Oracle Corp. - March 2002 @ \$18	500	(49,315)	(23,944)	
Pfizer Inc. - January 2002 @ \$43	450	(59,201)	(14,367)	
Pfizer Inc. - January 2002 @ \$44	200	(44,122)	(44,696)	
Texas Instruments Inc. - January 2002 @ \$37	400	(106,089)	(6,385)	
Tyco International Ltd. - February 2002 @ \$60	400	(100,151)	(101,524)	
United Technologies Corp. - February 2002 @ \$65	200	(100,491)	(92,585)	
United Technologies Corp. - February 2002 @ \$70	150	(30,195)	(25,142)	
Wal-Mart Stores Inc. - January 2002 @ \$55	425	(94,481)	(217,096)	
<b>Total Written Covered Call Options</b>		<b>\$ (1,968,936)</b>	<b>\$ (1,525,653)</b>	<b>(0.9%)</b>
<b>Total Investments</b>		<b>\$ 192,691,975</b>	<b>\$ 170,998,693</b>	<b>100.0%</b>

Financial Statements

Statements of Financial Highlights

Years ended December 31

	2001	2000	1999	1998	1997 *
<b>Data Per Unit</b>					
Net Asset Value, Beginning of Year	\$ 21.91	\$ 25.82	\$ 26.11	\$ 25.10	\$ 23.75 **
<b>Income from Investment Operations</b>					
Net investment income (loss)	0.27	0.28	(0.02)	1.03	0.24
Net gain (loss) on investments and options	(0.51)	(1.44)	4.23	3.23	3.69
<b>Total from Investment Operations</b>	<b>(0.24)</b>	<b>(1.16)</b>	<b>4.21</b>	<b>4.26</b>	<b>3.93</b>
<b>Distributions to Unitholders</b>					
From net investment income	–	–	–	(0.78)	–
From net realized gain on sale of investments and options	–	(2.55)	(4.20)	(2.39)	(2.53)
Non-taxable distribution (Note 7)	(2.00)	(0.20)	(0.30)	(0.08)	(0.05)
<b>Total Distributions</b>	<b>(2.00)</b>	<b>(2.75)</b>	<b>(4.50)</b>	<b>(3.25)</b>	<b>(2.58)</b>
Net Asset Value, End of Year	\$ 19.67	\$ 21.91	\$ 25.82	\$ 26.11	\$ 25.10
<b>Ratios/Supplemental Data</b>					
Total net assets, end of year (\$millions)	\$ 234.07	\$ 260.31	\$ 306.35	\$ 311.05	\$ 320.70
Average net assets (\$millions)	\$ 246.85	\$ 294.83	\$ 316.24	\$ 324.51	\$ 332.11
Management expense ratio	1.99%	1.96%	1.96%	1.93%	1.95%
Portfolio turnover rate	36.8%	31.2%	61.5%	102.8%	156.9%
Annual rate of return	(1.1)%	(4.5)%	16.1%	17.0%	N/A

\* For the period from February 4, 1997 to December 31, 1997.

\*\* Net of agent fees.

## 1. Establishment of the Fund

First Premium U.S. Income Trust (the "Fund") is an investment trust established under the laws of the Province of Ontario on January 22, 1997. The Fund began operations on February 4, 1997 and will terminate on January 1, 2007 and its net 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"). The Royal Trust Company (the "Trustee") is the trustee and acts as custodian of the assets of the Fund.

The Fund operates under the registered name Mulvihill Premium U.S. Fund.

## 2. Investment Objectives of the Fund

The Fund intends to achieve its investment objectives by investing in a diversified portfolio consisting primarily of common shares issued by corporations that rank in the top 50 of the Standard & Poor's 100 Index on the basis of market capitalization. The securities comprising the portfolio may also include instalment receipts for common shares and securities convertible into or exchangeable for common shares.

To generate additional returns above the dividend income earned on the portfolio, the Fund will from time to time write covered call and put options in respect of all or some

of the securities in the portfolio. Additionally, the Fund may purchase call options with the effect of closing out existing call options written by the Fund and may also purchase put options to preserve the value of the portfolio where appropriate. The Fund may enter into trades to close out positions in such permitted derivatives.

From time to time, the portfolio may include debt securities having a remaining term to maturity of less than one year issued or guaranteed by the government of Canada or a province or the government of the United States or short-term commercial paper with a minimum specified credit rating.

## 3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The following is a summary of significant accounting policies:

### Valuation of investments

Securities are valued at market value, which is determined by the closing sale price on the recognized stock exchange on which the securities are listed or principally traded. If no sale has taken place on that day, valuation will be at the last published sale price if this is between the last recorded bid price (the price someone is willing to pay) and the last recorded asked price (the price at which someone is willing to sell). If the last published sale price is not between the bid and the asked price, the bid or the asked price is used, whichever is nearer the last published sale price.

Short-term investments are valued at cost plus accrued interest which approximates market value.

Listed options are valued at market value as reported on recognized exchanges. Over the counter options are valued using an appropriate valuation model.

Forward foreign exchange contracts are valued at the current market value thereof on the valuation date.

### Investment transactions and income

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

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 unrealized appreciation or depreciation on investments.

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

### Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of investments, and income derived from investments, are translated at the rate of exchange prevailing on the respective dates of such transactions.

Notes to Financial Statements

**4. Statements of Financial Highlights**

The following explanatory notes pertain to the Statements of Financial Highlights:

- (a) Net investment income (loss) per unit is calculated based on the weighted average number of units outstanding during the year.
- (b) Net gain (loss) on investments and options per unit includes the impact of timing of unitholder transactions.
- (c) Distributions to unitholders are based on the number of units outstanding on the record date for each distribution.

- (d) Management expense ratio is the ratio of all fees and expenses charged to the Fund to average net assets.
- (e) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by average net assets during the year.
- (f) Annual rate of return represents the historical annual total rate of return of an investment in a unit for the year, assuming reinvestment of distributions.

**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 voting 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. Fractional units are not entitled to voting privileges.

Units may be surrendered at any time for redemption but will be redeemed only on the monthly valuation date. Unitholders whose units are redeemed on a December 31 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% 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.

Following are the unit transactions for the year:

	2001	2000
Units outstanding, beginning of year	11,879,597	11,865,504
Units issued on reinvestment of distributions	21,574	14,135
Units redeemed	-	(42)
Units outstanding, end of year	11,901,171	11,879,597

**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% and 1.65%, respectively, of the Fund's net asset value calculated and payable monthly, plus applicable taxes.

**7. Distributions**

The Fund endeavours to make quarterly distributions of net income and net realized capital gains and options to unitholders on the last day of March, June, September and December in each year. Unitholders may elect to reinvest

distributions received from the Fund in additional units. The non-taxable distributions received by the unitholders reduce the adjusted cost base of the unit for tax purpose.

## 8. Income Taxes

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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 to unitholders 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 2001 or 2000.

Accumulated non-capital losses of approximately \$275,000 and capital losses of approximately \$8.6 million are available for utilization against net investment income and realized gains on sales of investments, respectively, in future years. The non-capital losses can be carried forward until 2008 and capital losses can be carried forward indefinitely.

Issue costs of approximately \$320,000 (2000 - \$3.77 million) remain undeducted for tax purposes at year end.

## 9. Commissions

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Total commissions paid in 2001 in connection with portfolio transactions were \$424,589 (2000 - \$271,067).

## 10. Statement of Portfolio Transactions

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The Fund will provide, without charge, a Statement of Portfolio Transactions (unaudited) upon written request by any unitholder to the Fund at 121 King Street West, Suite 2600, Toronto, Ontario, M5H 3T9.

Mulvihill Capital Management

Mulvihill Capital Management Inc. is a leading Canadian investment counselor responsible for the care of institutional and personal assets. The Company manages corporate, pension, insurance, endowment, trust and mutual funds under a wide variety of investment mandates. Founded in 1985 as CT Investment Counsel Inc., the investment arm of Canada Trust, the company emerged in 1995 as an independent company operated by a cohesive team of senior managers and owners who have been together for more than a decade. The Company's scale and independent structure allow it to provide clients with a uniquely customized approach to asset management.

The Mulvihill Hybrid Income Funds are managed by Mulvihill Capital's Structured Products Group. This area of the Company concentrates exclusively on creating and managing products tailored to meet very specific investment objectives. Assets are generally managed to meet specific absolute return levels rather than taking on the additional risk of targeting relative returns. This methodology allows the Company to make investment decisions that meet the client's needs rather than to make investments to rival the competition.

Mulvihill's personal asset management division, Mulvihill Wealth Management, offers a comprehensive specialized approach tailored to clients' personal strategies. This not only relieves the client's burden of day-to-day investment decisions but also provides financial peace of mind for today and the future. The Company's personalized service and customized reporting assure that its powerful team of professionals is always working toward your current objectives and that you are fully aware of the progress you are making.

Mulvihill's reputation has been built on its ability to provide customized portfolios that meet the stated needs of its clients. The Hybrid Income Funds are prime examples of that customized approach to asset management.

Other Hybrid Income Funds within the Mulvihill Group include Mulvihill Premium Canadian Fund, Mulvihill Premium Oil & Gas Fund, Mulvihill Premium 60 Plus Fund, Mulvihill Premium Global Plus Fund, Mulvihill Premium Canadian Bank Fund, Mulvihill Premium Split Share Fund, Mulvihill Premium Global Telecom Fund, Mulvihill Summit Digital World Fund, Mulvihill Pro-AMS U.S. Fund, Mulvihill Pro-AMS RSP Fund, Mulvihill Pro-AMS 100 Plus (Cdn \$) Fund and Mulvihill Pro-AMS Plus (U.S. \$) Fund.

These funds are Mutual Fund Corporations or Trusts and traded on the Toronto Stock Exchange over the past year as follows:

	SYMBOL	HIGH	LOW
MULVIHILL PREMIUM CANADIAN FUND	FPI.UN	\$ 28.00	\$ 21.75
MULVIHILL PREMIUM U.S. FUND	FPU.UN	\$ 26.00	\$ 17.40
MULVIHILL PREMIUM OIL & GAS FUND	FPG.UN	\$ 10.67	\$ 7.91
MULVIHILL PREMIUM 60 PLUS FUND	SIX.UN	\$ 27.75	\$ 21.30
MULVIHILL PREMIUM GLOBAL PLUS FUND	GIP.UN	\$ 25.40	\$ 16.50
MULVIHILL PREMIUM CANADIAN BANK FUND	PIC.A/PIC.PR.A	\$ 13.50/15.80	\$ 11.45/14.85
MULVIHILL PREMIUM SPLIT SHARE FUND	MUH.A/MUH.PR.A	\$ 16.00/16.05	\$ 11.50/13.70
MULVIHILL PREMIUM GLOBAL TELECOM FUND	GT.A/GT.PR.A	\$ 15.50/14.80	\$ 6.62/11.25
MULVIHILL SUMMIT DIGITAL WORLD FUND	DWT.UN	\$ 14.95	\$ 5.06
MULVIHILL PRO-AMS U.S. FUND	PAM.UN	\$ 26.20	\$ 20.20
MULVIHILL PRO-AMS RSP FUND	PR.UN	\$ 25.60	\$ 20.90
MULVIHILL PRO-AMS 100 PLUS (CDN \$) FUND	PRC.UN	\$ 25.60	\$ 24.50
MULVIHILL PRO-AMS 100 PLUS (U.S. \$) FUND	PRU.U	\$ 21.50	\$ 19.90

## Board of Advisors

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

**David N. Middleton**  
Vice President, Finance & CFO,  
Mulvihill Capital Management Inc.

**Michael M. Koerner**  
Corporate Director

**Robert W. Korthals**  
Corporate Director

**C. Edward Medland**  
President, Beauwood Investments Inc.

## Information

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**Auditors:**  
Deloitte & Touche LLP  
BCE Place  
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Toronto, Ontario M5J 2V1

**Transfer Agent:**  
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100 University Avenue, 8th Floor  
Toronto, Ontario M5J 2Y1

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

**Trustee:**  
Royal Trust  
Royal Trust Tower  
77 King Street West, 11th Floor  
Toronto, Ontario M5W 1P9

## Other Hybrid Income Funds Managed by Mulvihill Structured Products

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### Mulvihill Premium Funds

Mulvihill Premium *Canadian Fund*  
Mulvihill Premium *U.S. Fund*  
Mulvihill Premium *Oil & Gas Fund*  
Mulvihill Premium *60 Plus Fund*  
Mulvihill Premium *Global Plus Fund*  
Mulvihill Premium *Split Share Fund*  
Mulvihill Premium *Global Telecom Fund*

### Mulvihill Summit Fund

Mulvihill Summit *Digital World Fund*

### Mulvihill Platinum Funds

Mulvihill Pro-AMS *U.S. Fund*  
Mulvihill Pro-AMS *RSP Fund*  
Mulvihill Pro-AMS *100 Plus (Cdn \$) Fund*  
Mulvihill Pro-AMS *100 Plus (U.S. \$) Fund*

## Mutual Funds Managed by Mulvihill Capital Management

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Mulvihill Canadian *Money Market Fund*  
Mulvihill Canadian *Equity Fund*  
Mulvihill Canadian *Bond Fund*  
Mulvihill Global *Equity Fund*  
Mulvihill U.S. *Equity Fund*

Premium Canadian *Income Fund*  
Premium Global *Income Fund*

## Head Office:

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Visit our website at [www.mulvihill.com](http://www.mulvihill.com)  
for additional information on all  
Mulvihill Hybrid Income Funds.



**Mulvihill**

**Mulvihill Structured Products**

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