

FIRST PREMIUM U.S. INCOME TRUST [FPU.UN]

**Annual Report 1999**

December 31, 1999 and 1998

Managed by Mulvihill Capital Management Inc.



# The Mulvihill Premium Funds

## Message to the Unitholders

The year 1999 saw the end of the lingering effects of the Asian slump, and a strong resumption of synchronized global growth. Europe, Asia and South America have all now rejoined North America's on-going expansion.

In particular, U.S. growth has remained very strong, prompting a series of modest interest rate hikes by the Federal Reserve in an effort to slow economic growth to a more sustainable level. So far, five upward moves since last June have had little effect. Rather than losing vitality, the U.S. economy is actually gathering speed, with some forecasters now calling for an advance in real GDP in 2000 of close to five percent.

Canada is also experiencing strong real GDP growth in 2000, as it did in 1999. Exports are showing another large increase, reflecting sustained U.S. demand and an upturn in shipments to Europe. The latest IMF forecast for global economic growth predicts a sustained recovery in demand for a wide range of natural resources, which will boost both the volume and price of Canada's commodity exports. New fiscal stimulus and a strong replacement demand cycle for consumer goods are other factors driving the Canadian economy forward. Corporate profits after taxes increased by 31 percent in 1999, and are capable of an even stronger advance this year.

With investor confidence restored, most global equity markets performed extremely well in 1999. Telecommunications and technology shares were exceptional performers, as these companies demonstrated significant revenue growth, and investors boosted the valuation multiples accorded to their stocks. Commodity-based stocks also performed well, based on anticipated increases in global prices for such things as industrial metals, oils and pulp. Only the interest-sensitive sectors were generally poorer performers, as the market began to discount the effects of a higher interest rate environment.

The main concern for 2000 is the climate of rising interest rates, which is likely to continue for some time. Until the effects of higher rates take hold and slow the pace of growth, significant inflationary potential exists. However, at least in the U.S., dramatic productivity improvements are providing a major restraint on inflation by largely offsetting wage gains. If productivity shows similar trends elsewhere, the unusual combination of high growth with low inflation now seen in the U.S. may become more widespread.

A secondary concern is the narrowness of the markets, though this condition has eased as a result of recent corrections in the high-tech sector, and greater investor interest in "old economy" stocks with impressive earnings records. Volatility is also a periodic concern, as investors' inflationary fears wax and wane.

In general, the various Trust portfolios are well positioned to take advantage of current global economic conditions in 2000. While the prevailing mood is positive, management remains alert to the risk of a potential slowdown or 'soft landing' in the U.S. market, and has retained sufficient flexibility to reposition portfolio holdings as circumstances dictate.

We would like to take this opportunity to thank investors for their support during 1999 and we look forward to a mutually beneficial relationship in 2000.

John P. Mulvihill  
President  
Mulvihill Capital Management Inc.

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

# First Premium U.S. Income Trust

## Investment Highlights

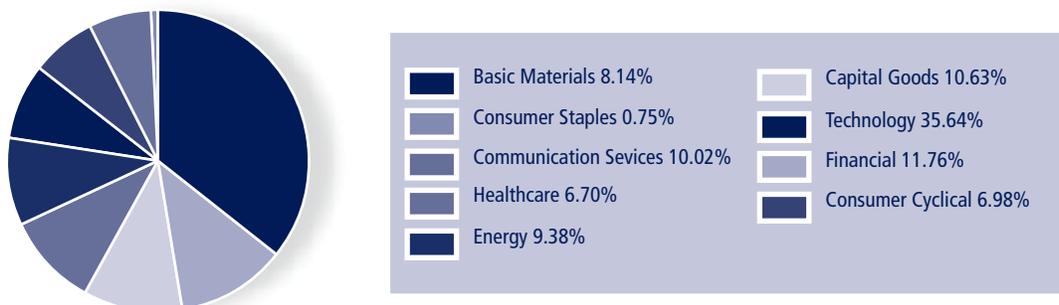
### Investment Objectives

First Premium U.S. Income Trust was launched in February 1997 with similar objectives to First Premium Income Trust. Those objectives are to provide unitholders of the Trust 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 Trust.

### Investment Strategy

The Trust intends to achieve its investment objectives by investing its net assets 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 Trust 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 Trust 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

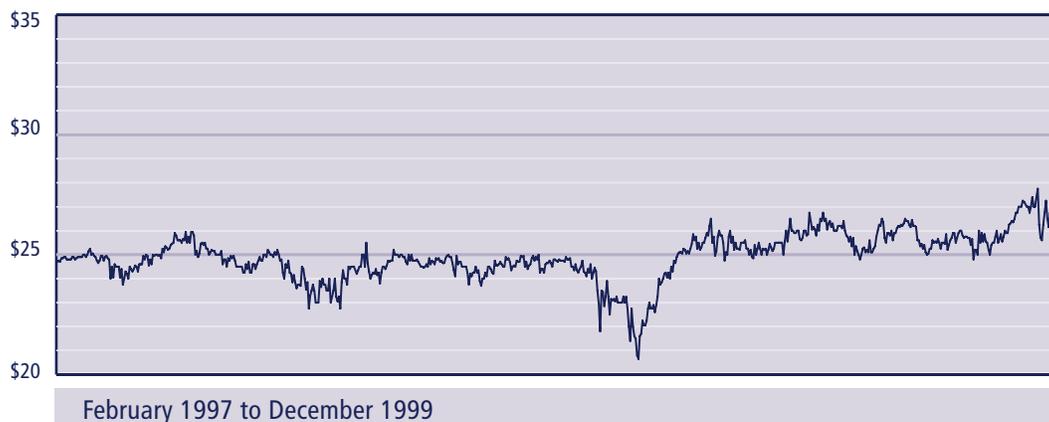
Inception Date: February 1997	Regular Distribution	Special Distribution	Total Distribution
June 1997	\$ 0.83		\$ 0.83
September 1997	0.50		0.50
December 1997	0.50	\$ 0.75	1.25
<b>Total for 1997</b>			<b>\$ 2.58</b>
March 1998	0.50		\$ 0.50
June 1998	0.50	0.25	0.75
September 1998	0.50		0.50
December 1998	0.50	1.00	1.50
<b>Total for 1998</b>			<b>\$ 3.25</b>
March 1999	0.50		\$ 0.50
June 1999	0.50	0.50	1.00
September 1999	0.50		0.50
December 1999	0.50	2.00	2.50
<b>Total for 1999</b>			<b>\$ 4.50</b>
<b>Total Distribution</b>			<b>\$ 10.33</b>

### Top 10 Holdings:

Cisco Systems, Inc.  
Microsoft Corporation  
General Electric Company  
Exxon Mobil Corporation  
MCI Worldcom, Inc.

Bank Of America Corporation  
Nortel Networks Corporation  
Schlumberger Limited  
Wal-Mart Stores, Inc.  
Bristol-Myers Squibb Company

### Trading History



### Commentary

As of December 31, 1999, the net assets of the Trust were \$306.35 million, or \$25.82 per unit. Total distributions to unitholders during 1999 were \$53.43 million, or \$4.50 per unit, including a regular distribution of \$2.00 and a special distribution of \$2.50. Based on the initial issue price of \$25, these distributions represents a yield of 18 percent.

The high level of distributions was due to both a strong U.S. equity market, and higher volatility in the prices of securities. This volatility enabled the Trust to generate high levels of premium income from its covered call option writing program, as well as the new cash-covered put option writing program initiated on July 28, 1999.

The Trust's units, listed as FPU.UN on the Toronto Stock Exchange, closed on December 31, 1999 at \$26.60, an increase of \$1.65 from the previous year-end closing price of \$24.95. The combination of above-target distributions and underlying growth strengthened the unit trading price.

The strong advance of U.S. equity markets over the past several years has increased our level of caution with respect to potential market corrections during 2000. Consequently, the Trust is conservatively positioned with a well-diversified portfolio, comprised of quality stocks and a defensive cash position.

# First Premium U.S. Income Trust

## Auditors' Report

### To the Unitholders

We have audited the statements of net assets of First Premium U.S. Income Trust as at December 31, 1999 and 1998, the statement of investments at December 31, 1999 and the statements of financial operations, changes in net assets and gain on sale of investments and options for the years ended December 31, 1999 and 1998. These financial statements are the responsibility of the Trust's Manager. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. 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 net assets of the Trust as at December 31, 1999 and 1998, its investments at December 31, 1999, and the results of its operations, the changes in its net assets and gain on sale of investments and options for the years ended December 31, 1999 and 1998 in accordance with accounting principles generally accepted in Canada.

Chartered Accountants

*Deloitte + Touche LLP*

Toronto, Ontario

March 10, 2000

# First Premium U.S. Income Trust

## Financial Statements

### Statements of Net Assets

December 31, 1999 and 1998

	1999	1998
<b>Assets</b>		
Investments at Market Value (Average Cost - \$185,342,329; 1998 - \$195,609,968)	\$209,678,919	\$222,799,895
Short-Term Investments (Average Cost - \$103,212,045; 1998 - \$107,373,161)	101,657,666	107,134,800
Cash	-	50,025
Subscriptions Receivable	71,037	-
Dividends Receivable	92,669	137,426
Interest Receivable	634,847	309,758
Due From Broker	304,030	418,259
	<b>312,439,168</b>	<b>330,850,163</b>
<b>Liabilities</b>		
Bank Indebtedness	5,546,390	-
Accrued Liabilities	540,540	578,294
Redemptions Payable	-	19,220,481
	<b>6,086,930</b>	<b>19,798,775</b>
<b>Net Assets, Represented by Unitholders' Equity</b>	<b>\$ 306,352,238</b>	<b>\$ 311,051,388</b>
Number of Units Outstanding (Note 4)	11,865,504	11,911,572
Net Asset Value Per Unit	\$25.8187	\$26.1134

On behalf of the Manager,  
Mulvihill Fund Services Inc.

  
Director: John P. Mulvihill

  
Director: David N. Middleton

### Statements of Financial Operations

Years ended December 31, 1999 and 1998

	1999	1998
<b>Income</b>		
Dividends	\$3,490,950	\$9,241,613
Interest	2,796,652	10,554,915
Withholding Tax	(367,657)	(429,373)
	<b>5,919,945</b>	<b>19,367,155</b>
<b>Expenses (Note 5)</b>		
Management Fees	5,545,088	5,692,919
Goods and Services Tax	405,494	409,734
Custodian and Other Fees	247,682	160,422
	<b>6,198,264</b>	<b>6,263,075</b>
<b>Net Investment Income (Loss)</b>	<b>(278,319)</b>	<b>13,104,080</b>
<b>Gain on Sale of Investments and Options</b>	<b>54,368,707</b>	<b>29,590,687</b>
<b>Change in Unrealized Appreciation of Investments and Foreign Currency</b>	<b>(4,169,029)</b>	<b>11,256,520</b>
<b>Net Gain on Investments</b>	<b>50,199,678</b>	<b>40,847,207</b>
<b>Total Results of Financial Operations</b>	<b>\$49,921,359</b>	<b>\$53,951,287</b>
<b>Net Investment Income (Loss) Per Unit</b>	<b>\$(0.0234)</b>	<b>\$1.0285</b>
<b>Net Gain on Investments Per Unit</b>	<b>4.2253</b>	<b>3.2060</b>
<b>Total Results of Financial Operations Per Unit</b> (based on the weighted average number of units outstanding during the year of 11,880,664; 1998 - 12,740,721)	<b>\$4.2019</b>	<b>\$4.2345</b>

# First Premium U.S. Income Trust

## Financial Statements

### Statements of Changes in Net Assets

Years ended December 31, 1999 and 1998

	1999	1998
<b>Net Assets, Beginning of Year</b>	<b>\$311,051,388</b>	<b>\$320,704,267</b>
<b>Unit Transactions</b>		
Proceeds From Units Issued	-	13,970
Amount Paid for Units Redeemed	(1,260,548)	(22,306,836)
Proceeds From Reinvestment of Distributions	71,037	-
	<b>(1,189,511)</b>	<b>(22,292,866)</b>
<b>Total Results of Financial Operations</b>	<b>49,921,359</b>	<b>53,951,287</b>
<b>Distributions to Unitholders (Note 6)</b>		
From Net Realized Gain on Sale of Investments	(49,834,588)	(30,315,954)
From Net Investment Income	(34,441)	(10,028,615)
Non-Taxable Distribution	(3,561,969)	(966,731)
	<b>(53,430,998)</b>	<b>(41,311,300)</b>
<b>Changes in Net Assets During the Year</b>	<b>(4,699,150)</b>	<b>(9,652,879)</b>
<b>Net Assets, End of Year</b>	<b>\$306,352,238</b>	<b>\$311,051,388</b>

### Statements of Gain on Sale of Investments and Options

Years ended December 31, 1999 and 1998

	1999	1998
<b>Proceeds From Sale of Investments</b>	<b>\$259,038,193</b>	<b>\$344,809,514</b>
<b>Cost of Investments Sold</b>		
Cost of Investments, Beginning of Year	195,609,968	177,214,099
Cost of Investments Purchased	194,401,847	333,614,696
	<b>390,011,815</b>	<b>510,828,795</b>
<b>Cost of Investments, End of Year</b>	<b>(185,342,329)</b>	<b>(195,609,968)</b>
	<b>204,669,486</b>	<b>315,218,827</b>
<b>Gain on Sale of Investments and Options</b>	<b>\$54,368,707</b>	<b>\$29,590,687</b>

# First Premium U.S. Income Trust

## Financial Statements

### Statement of Investments

December 31, 1999

	Par Value/ No. of Shares	Average Cost (\$)	Market Value (\$)	% of Portfolio
<b>Short-term Investments</b>				
<b>Treasury Bills</b>				
Government of Canada, Jan 6, 2000	9,006,000	\$8,989,789	\$8,989,789	
Government of Canada, Jan 20, 2000	USD 675,000	979,527	963,438	
Government of Canada, Mar 2, 2000	18,000	17,776	17,776	
Government of Canada, Mar 16, 2000	29,628,000	29,266,242	29,266,242	
Government of the United States, Jan 13, 2000	USD 12,740,000	18,669,240	18,331,287	
		<b>57,922,574</b>	<b>57,568,532</b>	<b>56.3%</b>
<b>Discount Commercial Paper</b>				
Export Development Corp., Jan 20, 2000	USD 28,090,000	41,024,596	39,921,881	
Export Development Corp., Jan 25, 2000	USD 1,780,000	2,618,521	2,554,084	
Export Development Corp., Feb 17, 2000	USD 600,000	867,004	853,402	
		<b>44,510,121</b>	<b>43,329,367</b>	<b>42.4%</b>
<b>Promissory Note</b>				
Province of British Columbia Jan 24, 2000	USD 530,000	779,350	759,767	0.7 %
		<b>103,212,045</b>	<b>101,657,666</b>	<b>99.4 %</b>
Accrued interest		-	634,847	0.6 %
<b>Total Short-term Investments</b>		<b>\$103,212,045</b>	<b>\$102,292,513</b>	<b>100.0 %</b>
<b>Investments</b>				
<b>Canadian Common Stocks</b>				
<b>Industrial Products</b>				
Nortel Networks Corporation	60,000	\$3,816,171	\$8,746,356	4.2 %
<b>Total Canadian Common Stocks</b>		<b>3,816,171</b>	<b>8,746,356</b>	<b>4.2 %</b>
<b>Foreign Common Stocks - USA</b>				
<b>Energy Sources</b>				
Exxon Mobil Corporation	89,110	8,725,125	10,361,292	
Transocean Sedco Forex Inc.	20,328	960,860	988,366	
<b>Total Energy Sources</b>		<b>9,685,985</b>	<b>11,349,658</b>	<b>5.4 %</b>
<b>Chemicals</b>				
Du Pont E I De Nemours & Co.	9,000	1,033,990	855,692	
Monsanto Co.	104,000	6,947,566	5,347,401	
<b>Total Chemicals</b>		<b>7,981,556</b>	<b>6,203,093</b>	<b>3.0 %</b>
<b>Forest Products &amp; Paper</b>				
International Paper Co.	60,000	4,813,188	4,887,351	2.3 %
<b>Metals - Steel</b>				
Alcoa Inc.	50,000	4,415,931	5,989,666	2.9 %
<b>Aerospace &amp; Military Technology</b>				
Raytheon Co.	24,500	2,508,007	939,268	0.4 %

# First Premium U.S. Income Trust

## Financial Statements

### Statement of Investments (continued)

December 31, 1999

	Par Value/ No. of Shares	Average Cost (\$)	Market Value (\$)	% of Portfolio
<b>Investments (continued)</b>				
<b>Foreign Common Stocks - USA (continued)</b>				
<b>Data Processing &amp; Reproduction</b>				
Cisco Systems	100,000	8,267,703	15,461,276	
Hewlett Packard Co.	40,000	5,524,274	6,577,808	
IBM Corp.	45,000	7,951,510	7,014,404	
Microsoft Corp.	90,000	11,256,927	15,165,401	
Oracle Corporation	20,000	1,324,382	3,234,780	
<b>Total Data Processing &amp; Reproduction</b>		<b>34,324,796</b>	<b>47,453,669</b>	<b>22.6 %</b>
<b>Electrical &amp; Electronics</b>				
General Electric Co.	60,000	10,137,541	13,400,976	6.4 %
<b>Electrical Components &amp; Instruments</b>				
Intel Corp.	55,000	5,180,487	6,534,058	
Texas Instruments	40,000	4,625,254	5,592,761	
<b>Total Electrical Components &amp; Instruments</b>		<b>9,805,741</b>	<b>12,126,819</b>	<b>5.8 %</b>
<b>Energy Equipment &amp; Services</b>				
Schlumberger Ltd.	105,000	11,303,159	8,524,449	4.1 %
<b>Automobiles</b>				
Ford Motor Company	80,000	6,536,091	6,170,078	2.9 %
<b>Food &amp; Household Products</b>				
Procter & Gamble Co.	10,000	1,465,373	1,581,308	0.8 %
<b>Health &amp; Personal Care</b>				
Bristol-Myers Squibb Co.	90,000	9,138,642	8,337,723	
Johnson & Johnson	42,500	5,963,546	5,712,283	
<b>Total Health &amp; Personal Care</b>		<b>15,102,188</b>	<b>14,050,006</b>	<b>6.7 %</b>
<b>Merchandising</b>				
Wal-Mart Stores Incom	85,000	5,263,379	8,480,249	4.0 %
<b>Telecommunications</b>				
AT&T Corp.	90,000	6,910,956	6,592,241	
Bell Atlantic Corp.	50,000	3,226,717	4,442,636	
Lucent Technologies Inc.	60,000	6,132,331	6,478,582	
MCI Worldcom Inc.	130,609	6,831,836	10,002,656	
<b>Total Telecommunications</b>		<b>23,101,840</b>	<b>27,516,115</b>	<b>13.1 %</b>
<b>Banking</b>				
Bank of America	135,528	15,513,743	9,817,007	4.7 %
<b>Financial Services</b>				
Citigroup	87,500	6,477,612	7,016,885	
Merrill Lynch	10,000	1,067,371	1,205,150	
<b>Total Financial Services</b>		<b>7,544,983</b>	<b>8,222,035</b>	<b>3.9 %</b>
<b>Insurance</b>				
American International Group	42,500	5,768,847	6,632,382	3.2 %
<b>Multi-Industry</b>				
United Techs Corp	85,000	7,385,095	7,974,194	3.8 %
<b>Total Foreign Common Stocks - USA</b>		<b>182,657,443</b>	<b>201,318,323</b>	<b>96.0 %</b>

# First Premium U.S. Income Trust

## Financial Statements

### Statement of Investments (continued)

December 31, 1999

	Number of Contracts	Proceeds	Market Value	% of Portfolio
<b>Options</b>				
<b>Written Cash Covered Put Options (100 Shares per Contract)</b>				
Bristol-Myers Squibb, Feb/2000 @ \$60	(150)	(74,020)	(40,593)	
Citigroup, Feb/2000 @ \$50	(250)	(61,313)	(45,103)	
Du Pont E I De Nemours, Feb/2000 @ \$60	(385)	(102,741)	(69,459)	
Merrill Lynch & Co., Jan/2000 @ \$75	(125)	(52,301)	(16,914)	
Nortel Networks, Jan/2000 @ \$70	(150)	(82,196)	(5,412)	
		<b>(372,571)</b>	<b>(177,481)</b>	<b>(0.1) %</b>
<b>Written Call Options (100 Shares per Contract)</b>				
American International Group, Feb/2000 @ \$65	(100)	(69,840)	(110,051)	
AT&T Corp, Jan/2000 @ \$55	(250)	(98,636)	(22,551)	
AT&T Corp, Jan/2000 @ \$60	(250)	(29,043)	(2,255)	
Bristol-Myers Squibb, Jan/2000 @ \$80	(300)	(86,157)	(5,412)	
General Electric Co., Feb/2000 @ \$155	(100)	(143,364)	(113,659)	
International Paper Co 1 COM, Jan/2000 @ \$55	(150)	(60,083)	(64,948)	
International Paper Co 1 COM, Jan/2000 @ \$60	(100)	(14,189)	(13,982)	
Microsoft Corp, Jan/2000 @ \$95	(150)	(82,196)	(492,524)	
Texas Instruments, Feb/2000 @ \$105	(100)	(110,604)	(69,459)	
United Techs Corp, Feb/2000 @ \$65	(300)	(64,602)	(135,309)	
		<b>(758,714)</b>	<b>(1,030,150)</b>	<b>(0.5) %</b>
<b>Total Options</b>		<b>(1,131,285)</b>	<b>(1,207,631)</b>	<b>(0.6) %</b>
<b>Forward Contracts</b>				
<b>Bought</b>	<b>Sold</b>	<b>Expiry Date</b>		
18,041,163 CAD	12,500,000 USD	Jan. 19,2000	-	493,732
18,041,163 CAD	12,500,000 USD	Jan. 28, 2000	-	328,139
<b>Total Forward Contracts</b>			<b>-</b>	<b>821,871</b>
				<b>0.4 %</b>
<b>Total Investments</b>		<b>\$185,342,329</b>	<b>\$209,678,919</b>	<b>100.0 %</b>

# First Premium U.S. Income Trust

## Notes to the Financial Statements

### 1. Establishment of the Trust

First Premium U.S. Income Trust (the “Trust”) is an investment trust established under the laws of the Province of Ontario on January 22, 1997. The Trust 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 Trust by a majority vote at a meeting called for such purpose.

The manager of the Trust is Mulvihill Fund Services Inc. (the “Manager”) and the Trust’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 Trust.

### 2. Investment Objectives of the Trust

The Trust 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 installment 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 Trust 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 Trust may purchase call options with the effect of closing out existing call options written by the Trust and may also purchase put options to preserve the value of the portfolio where appropriate. The Trust 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 fees paid or 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.

# First Premium U.S. Income Trust

## Notes to the Financial Statements

### 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.

### 4. Unitholders' Equity

The Trust 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 Trust.

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 Trust. 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 Trust 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:

	1999	1998
Units outstanding, beginning of year	11,911,572	12,778,282
Units issued for cash	-	600
Units redeemed	(48,818)	(867,310)
Units issued on reinvestment of distributions	2,750	-
Units outstanding, end of year	11,865,504	11,911,572

### 5. Management Fees and Expenses

The Trust 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 Trust's operations. The Trust is also responsible for commissions and other costs of portfolio transactions and any extraordinary expenses of the Trust 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 Trust's net asset value calculated and payable monthly, plus applicable taxes.

Charges to the Trust for the year were as follows:

	Expenses	Expenses as a percent of average net assets
1999	\$6,198,264	1.96%
1998	\$6,263,075	1.93%
1997	\$5,857,050	1.95%

Average net assets are calculated to be the average of the net assets determined at each valuation date of the Trust.

### 6. Distributions

The Trust 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 Trust in additional units.

Distributions for the period were as follows:

Distribution per unit:	1999	1998	1997
Net realized gain on sale of investments	\$4.1968	\$2.3886	\$2.5269
Net investment income	0.0030	0.7850	-
Non-taxable distribution	0.3002	0.0764	0.0531
	\$4.5000	\$3.2500	\$2.5800

# First Premium U.S. Income Trust

## Notes to the Financial Statements

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

### 7. Income Taxes

The Trust is a “mutual fund trust” as defined in the Income Tax Act (Canada) (the “Act”). The Trust 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 Trust on any net realized capital gains not paid or payable to unitholders is recoverable by the Trust to the extent and in the circumstances provided in the Act.

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

No amount is payable on account of income taxes in 1999 or 1998.

### 8. Risk Management

The Trust may hedge its foreign currency exposure through the use of permitted derivatives such as clearing corporation options, futures contracts, options on futures, over-the-counter options and forward contracts. Forward contracts outstanding at year end are included in the Statement of Investments.

### 9. Commission Charges

Total commissions paid in 1999 in connection with portfolio transactions were \$423,693 (1998 - \$498,196).

### 10. Net Asset Value Per Unit

The net asset value per unit of the Trust as at the end of the fiscal periods since inception was:

	Net asset value per unit
1999	\$25.8187
1998	\$26.1134
1997	\$25.0976

### 11. Uncertainty Due To The Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the Trust, including those related to investees, suppliers, or other third parties, have been fully resolved.

### 12. Comparative Figures

Certain of prior year figures have been reclassified to conform to the current year's presentation.

### 13. Statement of Portfolio Transactions

The Trust will provide, without charge, a Statement of Portfolio Transactions (unaudited) upon written request by any unitholder to the Trust at:

121 King Street West, Suite 2600,  
Toronto, Ontario,  
M5H 3T9.

# Mulvihill Capital Management Inc.

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 Funds are managed by Mulvihill Capital's structured finance 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 tomorrow. 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 Premium Income investments are prime examples of that customized approach to asset management.

Other Premium Income products within the Mulvihill Group include Premium Income Corporation, MCM Split Share Corp., and Global Telecom Split Share Corp.

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

	Symbol	High	Low
First Premium Income Trust	FPI.UN	\$ 28.20	\$ 25.00
First Premium U.S. Income Trust	FPU.UN	\$ 27.75	\$ 24.75
First Premium Oil & Gas Income Trust	FPG.UN	\$ 9.90	\$ 5.75
60 Plus Income Trust	SIX.UN	\$ 27.25	\$ 24.80
Global Plus Income Trust	GIP.UN	\$ 25.50	\$ 24.25
Premium Income Corporation	PIC.A/PIC.PR.A	\$ 13.85/15.65	\$ 10.25/14.40
MCM Split Share Corp.	MUH.A/MUH.PR.A	\$ 15.10/15.35	\$ 11.00/14.40
Global Telecom Split Share Corp.	GT.A/GT.PR.A	\$ 20.65/16.60	\$ 14.00/14.40

## **YEAR 2000**

The year 2000 concern originates from the use in computer applications of a two-digit field to denote the year (for example, “99” for 1999) rather than a four-digit field. As a result, when entering the year 2000, the two-digit field will read “00” and affected computers may assume the year is 1900. The Trusts could be adversely affected by this problem if the computer systems used by MCM, Mulvihill and other service providers do not properly process and calculate date-related information from and after January 1, 2000.

In conducting their respective businesses, the Trusts will rely on information generated by the computer systems of third party service providers, including MCM, Mulvihill, The Royal Trust Company, Montreal Trust Company of Canada, banks, stock exchanges, utilities and other third parties for critical services. MCM and Mulvihill have advised the Trusts that they have put in place Year 2000 plans in an effort to ensure that their information systems are Year 2000 compliant and have, where necessary, modified and tested their mission critical systems. MCM and Mulvihill do not believe that there would be any material impact on the Trusts if their respective systems were not Year 2000 compliant, given that the assets of the Trusts and records relating to those assets, as well as accounting and other financial data, are maintained by The Royal Trust Company as trustee and custodian, and that certain Unitholder records are maintained by Montreal Trust Company of Canada as registrar and transfer agent or by CDS through the book-based system. MCM and Mulvihill have paid the costs associated with their Year 2000 plans. To prepare for the possibility that adequate steps have not been taken, MCM and Mulvihill also prepared and approved formal Year 2000 contingency plans. To date, neither MCM nor Mulvihill has reported any problems relating to their computer systems arising out of year 2000 concerns which would adversely affect the Trusts.

Mulvihill also made enquires of The Royal Trust Company and Montreal Trust Company of Canada in order to assess the status of their information systems with respect to year 2000 readiness issues. In response, Mulvihill received assurances from such service providers that all internal testing and any required adjustments were completed well in advance of January 1, 2000. There can be no assurance, however, that any of the Trusts’ third party service providers have, or will have, information systems that are Year 2000 compliant and that the NAV of the Trusts will not be adversely affected. In addition, while MCM considers the Year 2000 readiness of the issuers of Trusts’ securities in making investment decisions, there is no assurance that such issuers are Year 2000 compliant. If any such issuers are not Year 2000 compliant, the NAV of the Trust could be adversely affected.

## 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.

### **Robert W. Korthals**

Corporate Director

### **C. Edward Medland**

President, Beauwood Investments Inc.

## Information

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### **Auditors:**

Deloitte & Touche LLP  
BCE Place  
181 Bay Street, Suite 1400  
Toronto, Ontario M5J 2V1

### **Transfer Agent:**

Montreal Trust  
151 Front Street, 8th Floor  
Toronto, Ontario M5J 2N1

### **Shares Listed:**

Toronto Stock Exchange  
trading under  
FPI.UN, FPU.UN, FPG.UN, SIX.UN, GIP.UN

### **Trustee:**

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

## Head Office

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Toronto, Ontario M5H 3T9  
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Visit our website at [www.mulvihill.com](http://www.mulvihill.com) for additional information on all Premium Income Funds.



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