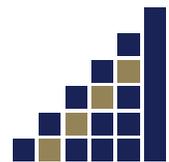


FIRST PREMIUM U.S. INCOME TRUST [FPU.UN]

Annual Report 2000

December 31, 2000 and 1999

Investment Management by Mulvihill Capital Management Inc.



The Mulvihill Premium Funds

Commentary

April, 2001

Equity markets experienced a sharp reversal of long-standing growth trends during 2000. The year began with both Canadian and U.S. economies expanding at an unsustainable pace, and many stocks pushing to record highs, particularly in the technology sector. However, by year-end, a sharp slowdown in economic activity in the U.S. had set in, and technology stocks had undergone a severe correction.

All the major U.S. and foreign market indices recorded negative returns for the year. The strong uptrend of the TSE 300 was also reversed, but the Canadian market was one of the few to record an overall gain, with a total return for 2000 of 7.41 percent. A major factor in both the rise and fall of the TSE was the performance of Nortel Networks shares after the company was spun off by its parent, BCE Inc. Early in the year, Nortel shares soared to a high of \$124.50, accounting for more than one-third of the TSE 300 Index, but began sinking towards year-end, taking the Index with them.

The valuations of many technology stocks were significantly reduced as investors reacted to reduced growth and earnings expectations in a weakening economic environment. Stocks in the e-commerce and telecom sectors were particularly hard-hit, with the tech-heavy NASDAQ exchange losing roughly half its peak value.

Stocks in other sectors fared better, as investors began returning to value-oriented “old economy” companies in sectors such as financial services, oil and gas and health care. The financial sector benefitted from expectations of lower interest rates as the year progressed, and higher world energy prices bolstered stocks of oil, gas, pipeline and utility companies.

The U.S. slowdown reflects reduced capital spending on telecom and information-processing equipment, including personal computers and software, as well as slackening consumer demand for motor vehicles and other durable goods. These trends are spilling over into Canada, particularly in the automotive sector, which exports much of its output to the U.S. However, the overall slowdown is less pronounced in Canada than in the U.S., as other sectors such as energy retain considerable momentum. Governments in both Canada and the U.S. are now in a stimulatory mode, planning or making moves to reverse the slowdown through tax cuts and reduced interest rates. Similar measures are being taken abroad, though latitude for rate reductions in Europe is limited by persistent inflationary concerns. As a result, consensus opinion foresees a shift back to a sustainable growth trend in the latter part of this year.

Uncertainty as to the specific timing of this renewal of growth is generating increased market turbulence and volatility. This market volatility will, however, continue to benefit the Premium Funds as significant amounts of option premiums can be generated in this type of market environment.

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

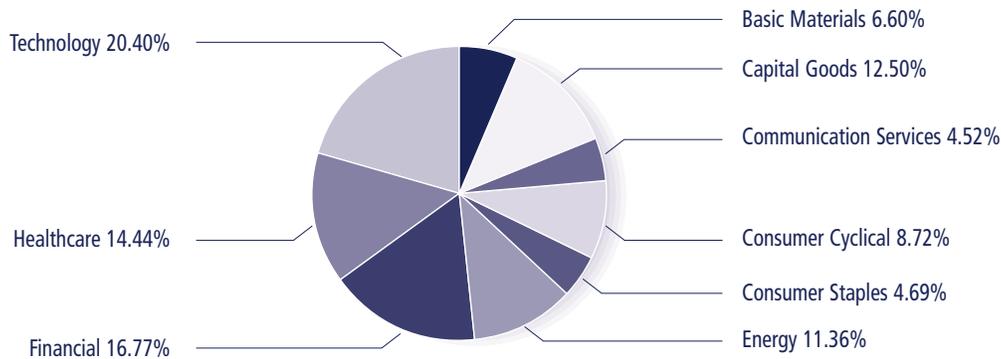
Investment Objectives

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 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 |
|-----------------------------------|----------------------|----------------------|--------------------|
| 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 |
| March 2000 | 0.50 | 0.00 | 0.50 |
| June 2000 | 0.50 | 0.25 | 0.75 |
| September 2000 | 0.50 | 0.25 | 0.75 |
| December 2000 | 0.50 | 0.25 | 0.75 |
| Total for 2000 | 2.00 | 0.75 | 2.75 |
| Total Distribution to Date | \$ 7.83 | \$ 5.25 | \$ 13.08 |

Top 10 Holdings:

Exxon Mobil Corp.
Bristol-Myers Squibb Co.
General Electric Co.
Bank of America Corp.
Citigroup Inc.

Pharmacia Corp.
Schlumberger Ltd.
Cisco Systems Inc.
Wal-Mart Stores Inc.
Johnson & Johnson

Trading History



Commentary

Distributions to unitholders during 2000 totalled \$32.64 million, or \$2.75 per unit, made up of a regular distribution of \$2 per unit, plus a special distribution of 75 cents per unit. These distributions represent a yield of 11 percent, based on the initial unit price of \$25.

As of December 31, 2000, the net assets of the Trust were \$260.31 million, or \$21.91 per unit, a decline of \$46.04 million from net assets of \$306.35 million, or \$25.82 per unit, at the end of 1999. The Trust's units, listed on the Toronto Stock as FPU.UN, traded at prices ranging from a high of \$27.15 to a low of \$24.20 during the year.

With all U.S. market indices recording negative returns for the year, the Trust's portfolio experienced a decline in valuation. The market declines were most pronounced in the technology and telecommunications sectors as the NASDAQ underwent a severe correction. Despite this turmoil, some sectors of the market, including financials, healthcare and energy performed well. Exposure to these sectors benefited the Trust and served to offset some of the weakness in the technology and telecommunications stocks.

Looking forward, U.S. equity markets face considerable uncertainties, and are likely to remain volatile for some time to come. While certain economic indicators point to a modest revival towards year-end, others raise concerns about a continuing decline into recession. Expectations about the stimulatory effects of Federal Reserve interest rate reductions and proposed tax cuts will also play a role in shaping investor sentiment. The Trust is conservatively positioned in these unsettled circumstances, and is maintaining a well diversified portfolio and a defensive cash position. A summary of the Trust'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 Trust's unitholders for their continuing support.

First Premium U.S. Income Trust

Auditors' Report

To the Unitholders

We have audited the accompanying statement of investments of First Premium U.S. Income Trust (the "Trust") as at December 31, 2000, the statements of net assets as at December 31, 2000 and 1999, and the statements of financial operations, of changes in net assets and of gain on sale of investments for the years then ended, and the statements of financial highlights for each of the periods or years (since inception) in the four-year period ended December 31, 2000. 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 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 Trust and its investments as at the dates indicated above, and the results of its operations, the changes in its net assets, the gain on sale of investments and the financial highlights for the periods indicated above, in accordance with Canadian generally accepted accounting principles.

(signed) Deloitte and Touche LLP

Chartered Accountants

Toronto, Ontario
March 10, 2001

First Premium U.S. Income Trust

Financial Statements

Statements of Net Assets

December 31, 2000 and 1999

| | 2000 | 1999 |
|---|-----------------------|-----------------------|
| Assets | | |
| Investments at market value (average cost - \$188,063,526; 1999 - \$185,342,329) | \$ 164,369,507 | \$ 209,678,919 |
| Short-term investments (average cost - \$95,483,943; 1999 - \$103,212,045) | 94,887,249 | 101,657,666 |
| Cash | 253,901 | - |
| Subscriptions receivable | 139,653 | 71,037 |
| Dividends receivable | 66,907 | 92,669 |
| Interest receivable | 313,600 | 634,847 |
| Due from broker | 899,253 | 304,030 |
| | 260,930,070 | 312,439,168 |
| Liabilities | | |
| Overdraft | - | 5,546,390 |
| Accrued liabilities | 474,947 | 540,540 |
| Due to broker | 142,789 | - |
| | 617,736 | 6,086,930 |
| Net Assets, Represented by Unitholders' Equity | \$ 260,312,334 | \$ 306,352,238 |
| Number of Units Outstanding (Note 5) | 11,879,597 | 11,865,504 |
| Net Asset Value Per Unit | \$ 21.9126 | \$ 25.8187 |

On behalf of the Manager,
Mulvihill Fund Services Inc.

(signed)

Manager: John P. Mulvihill

(signed)

Manager: David N. Middleton

Statements of Financial Operations

Years ended December 31, 2000 and 1999

| | 2000 | 1999 |
|--|------------------------|----------------------|
| Income | | |
| Dividends | \$ 2,844,816 | \$ 3,490,950 |
| Interest | 6,600,070 | 2,796,652 |
| Withholding tax | (330,675) | (367,657) |
| | 9,114,211 | 5,919,945 |
| Expenses (Note 6) | | |
| Management fees | 5,159,521 | 5,545,088 |
| Goods and services tax | 378,222 | 405,494 |
| Custodian and other fees | 243,649 | 247,682 |
| | 5,781,392 | 6,198,264 |
| Net Investment Income (Loss) | 3,332,819 | (278,319) |
| Gain on Sale of Investments and Options | 29,994,423 | 54,368,707 |
| Change in Unrealized Depreciation of Investments and Foreign Currency | (47,073,850) | (4,169,029) |
| Net (Loss) Gain on Investments | (17,079,427) | 50,199,678 |
| Total Results of Financial Operations | \$ (13,746,608) | \$ 49,921,359 |

First Premium U.S. Income Trust

Financial Statements

Statements of Changes in Net Assets

Years ended December 31, 2000 and 1999

| | 2000 | 1999 |
|---|-----------------------|-----------------------|
| Net Assets, Beginning of Year | \$ 306,352,238 | \$ 311,051,388 |
| Unit Transactions | | |
| Amount paid for units redeemed | (1,036) | (1,260,548) |
| Proceeds from reinvestment of distributions | 347,009 | 71,037 |
| | 345,973 | (1,189,511) |
| Total Results of Financial Operations | (13,746,608) | 49,921,359 |
| Distributions to Unitholders (Note 7) | | |
| From net investment income | (9,696) | (34,441) |
| From net realized gain on sale of investments | (30,306,494) | (49,834,588) |
| Non-taxable distribution | (2,323,079) | (3,561,969) |
| | (32,639,269) | (53,430,998) |
| Changes in Net Assets During the Year | (46,039,904) | (4,699,150) |
| Net Assets, End of Year | \$ 260,312,334 | \$ 306,352,238 |

Statements of Gain on Sale of Investments and Options

Years ended December 31, 2000 and 1999

| | 2000 | 1999 |
|--|-----------------------|-----------------------|
| Proceeds From Sale of Investments | \$ 119,143,388 | \$ 259,038,193 |
| Cost of Investments Sold | | |
| Cost of investments, beginning of year | 185,342,329 | 195,609,968 |
| Cost of investments purchased | 91,870,162 | 194,401,847 |
| | 277,212,491 | 390,011,815 |
| Cost of Investments, End of Year | (188,063,526) | (185,342,329) |
| | 89,148,965 | 204,669,486 |
| Gain on Sale of Investments and Options | \$ 29,994,423 | \$ 54,368,707 |

First Premium U.S. Income Trust

Financial Statements

Statement of Investments

December 31, 2000

| | Par Value/ No. of Shares | Average Cost (\$) | Market Value (\$) | % of Portfolio |
|---|-----------------------------|----------------------|----------------------|-------------------|
| Short-term Investments | | | | |
| Treasury Bills | | | | |
| Government of Canada, USD - January 17, 2001 | 1,720,000 | \$ 2,589,094 | \$ 2,574,161 | |
| Government of Canada, USD - February 14, 2001 | 2,190,000 | 3,263,191 | 3,263,191 | |
| Government of Canada - March 15, 2001 | 110,000 | 108,607 | 108,607 | |
| Government of Canada, USD - February 20, 2001 | 160,000 | 236,702 | 235,088 | |
| Government of Canada - February 15, 2001 | 60,000 | 59,161 | 59,161 | |
| Government of Ontario - March 19, 2001 | 3,900,000 | 3,846,219 | 3,846,219 | |
| Government of Ontario - January 8, 2001 | 1,075,000 | 1,062,347 | 1,062,347 | |
| Government of United States - March 22, 2001 | 12,600,000 | 18,901,438 | 18,653,027 | |
| Total Treasury Bills | | 30,066,759 | 29,801,801 | 31.3% |
| Discount Commercial Paper | | | | |
| Business Development Bank, USD - January 25, 2001 | 10,000,000 | 15,031,121 | 14,944,426 | |
| Canadian Wheat Board, USD - January 22, 2001 | 7,990,000 | 12,051,344 | 11,935,316 | |
| Canadian Wheat Board, USD - January 23, 2001 | 6,900,000 | 10,375,017 | 10,315,178 | |
| Canadian Wheat Board, USD - January 25, 2001 | 1,700,000 | 2,543,445 | 2,512,620 | |
| Canadian Wheat Board, USD - February 6, 2001 | 3,200,000 | 4,799,855 | 4,772,171 | |
| Canadian Wheat Board, USD - March 5, 2001 | 330,000 | 498,581 | 487,917 | |
| Total Discount Commercial Paper | | 45,299,363 | 44,967,628 | 47.3% |
| Bearer Deposit Notes | | | | |
| Alberta Treasury Branch - February 1, 2001 | 2,000,000 | 1,971,840 | 1,971,840 | |
| Alberta Treasury Branch - February 15, 2001 | 6,000,000 | 5,915,040 | 5,915,040 | |
| Alberta Treasury Branch - March 22, 2001 | 4,000,000 | 3,945,720 | 3,945,720 | |
| Alberta Treasury Branch - January 8, 2001 | 8,400,000 | 8,285,221 | 8,285,220 | |
| | | 20,117,821 | 20,117,820 | 21.1% |
| | | 95,483,943 | 94,887,249 | 99.7% |
| Accrued interest | | | 313,600 | 0.3% |
| Total Short-term Investments | | \$ 95,483,943 | \$ 95,200,849 | 100.0% |
| Investments | | | | |
| Canadian Common Stocks | | | | |
| Industrial Products | | | | |
| Nortel Networks Corporation | 95,000 | \$ 6,756,706 | \$ 4,574,991 | 2.8% |
| Total Canadian Common Stocks | | 6,756,706 | 4,574,991 | 2.8% |
| Common Stocks - U.S.A. | | | | |
| Energy Sources | | | | |
| Exxon Mobil Corp. | 89,110 | 8,725,110 | 11,635,977 | 7.1% |
| Forest Products and Paper | | | | |
| International Paper Co. | 80,000 | 6,413,967 | 4,904,022 | 3.0% |
| Metals-Steel | | | | |
| Alcoa Inc. | 120,000 | 5,450,709 | 6,038,030 | 3.7% |
| Aerospace and Military Technology | | | | |
| Raytheon Co., Class B | 24,500 | 2,508,007 | 1,143,067 | 0.7% |
| Data Processing and Reproduction | | | | |
| Cisco Systems Inc. | 120,000 | 8,745,536 | 6,894,169 | |
| Microsoft Corp. | 90,000 | 11,564,906 | 5,863,423 | |
| Oracle Corp. | 80,000 | 1,324,382 | 3,492,145 | |
| Total Data Processing and Reproduction | | 21,634,824 | 16,249,737 | 9.9% |

First Premium U.S. Income Trust

Financial Statements

Statement of Investments (continued)

December 31, 2000

| | Par Value/ No. of Shares | Average Cost (\$) | Market Value (\$) | % of Portfolio |
|--|-----------------------------|----------------------|----------------------|-------------------|
| Investments (continued) | | | | |
| Common Stocks - U.S.A. (continued) | | | | |
| Electrical and Electronics | | | | |
| General Electric Co. | 135,000 | 9,046,398 | 9,720,272 | 5.9% |
| Electrical Components and Instruments | | | | |
| Intel Corp. | 110,000 | 6,845,833 | 4,966,919 | |
| Texas Instruments Inc. | 80,000 | 6,813,913 | 5,692,571 | |
| Total Electrical Components and Instruments | | 13,659,746 | 10,659,490 | 6.5% |
| Energy Equipment and Services | | | | |
| Schlumberger Ltd. | 60,000 | 6,458,948 | 7,203,956 | 4.4% |
| Automobiles | | | | |
| Ford Motor Company | 139,854 | 6,536,091 | 4,923,290 | 3.0% |
| Food and Household Products | | | | |
| McDonald's Corp. | 60,000 | 3,016,333 | 3,064,075 | |
| Procter & Gamble Co. | 40,000 | 5,943,289 | 4,712,518 | |
| Total Food and Household Products | | 8,959,622 | 7,776,593 | 4.7% |
| Health and Personal Care | | | | |
| Bristol-Myers Squibb Co. | 90,000 | 9,138,642 | 9,994,856 | |
| Johnson & Johnson | 42,500 | 5,963,546 | 6,706,654 | |
| Pharmacia Corp. | 79,000 | 5,492,945 | 7,238,127 | |
| Total Health and Personal Care | | 20,595,133 | 23,939,637 | 14.5% |
| Merchandising | | | | |
| Home Depot Inc. | 40,000 | 3,488,749 | 2,744,901 | |
| Wal-Mart Stores Inc. | 85,000 | 6,412,562 | 6,782,458 | |
| Total Merchandising | | 9,901,311 | 9,527,359 | 5.8% |
| Telecommunications | | | | |
| AT&T Corp. | 70,000 | 5,375,188 | 1,820,233 | |
| Lucent Technologies Inc. | 114,900 | 10,661,731 | 2,329,824 | |
| Verizon Communications | 50,000 | 3,226,720 | 3,764,381 | |
| WorldCom Inc. | 90,000 | 4,707,639 | 1,892,517 | |
| Total Telecommunications | | 23,971,278 | 9,806,955 | 6.0% |
| Banking | | | | |
| Bank of America Corp. | 135,528 | 15,513,743 | 9,338,441 | 5.7% |
| Financial Services | | | | |
| Citigroup Inc. | 116,816 | 8,060,607 | 8,959,291 | |
| Merrill Lynch & Company Inc. | 35,000 | 2,494,394 | 3,584,611 | |
| Total Financial Services | | 10,555,001 | 12,543,902 | 7.6% |
| Insurance | | | | |
| American International Group Inc. | 40,000 | 4,720,022 | 5,921,626 | 3.6% |
| Multi-Industry | | | | |
| Tyco International Ltd. | 42,500 | 3,344,746 | 3,542,837 | |
| United Technologies Corp. | 53,500 | 4,890,341 | 6,318,059 | |
| Total Multi-Industry | | 8,235,087 | 9,860,896 | 6.0% |
| Total Common Stocks-United States | | 182,884,997 | 161,193,250 | 98.1% |

First Premium U.S. Income Trust

Financial Statements

Statement of Investments (continued)

December 31, 2000

| | Number of Contracts | Proceeds (\$) | Market Value (\$) | % of Portfolio |
|---|------------------------|-----------------------|-----------------------|-------------------|
| Options | | | | |
| Written Cash Covered Put Options (100 Shares per Contract) | | | | |
| EMC Corporation - January 2001 @ USD \$60 | (250) | (298,492) | (112,650) | |
| Hewlett-Packard Co. - January 2001 @ USD \$33 | (550) | (227,801) | (144,567) | |
| IBM Corp. - January 2001 @ USD \$90 | (400) | (385,964) | (506,924) | |
| Total Written Cash Covered Put Options | | (912,257) | (764,141) | (0.5)% |
| Written Call Covered Options (100 Shares per Contract) | | | | |
| Alcoa Inc. - January 2001 @ USD \$33 | (300) | (47,409) | (97,160) | |
| American International Group Inc. - January 2001 @ USD \$95 | (100) | (59,365) | (82,610) | |
| Bristol-Myers Squibb Co. - January 2001 @ USD \$70 | (225) | (103,487) | (164,750) | |
| Exxon Mobil Corp. - January 2001 @ USD \$90 | (300) | (215,054) | (36,611) | |
| Johnson & Johnson - January 2001 @ USD \$100 | (100) | (53,923) | (99,507) | |
| Pharmacia Corp. - January 2001 @ USD \$60 | (200) | (107,956) | (78,855) | |
| United Technologies Corp. - January 2001 @ USD \$75 | (100) | (78,726) | (75,100) | |
| Total Written Call Covered Options | | (665,920) | (634,593) | (0.4)% |
| Total Options | | (1,578,177) | (1,398,734) | (0.9)% |
| Total Investments | | \$ 188,063,526 | \$ 164,369,507 | 100.0% |

Statements of Financial Highlights

Years ended December 31

| | 2000 | 1999 | 1998 | 1997* |
|---|-----------------|-----------------|-----------------|-------------------|
| Data Per Unit | | | | |
| Net Asset Value, Beginning of Year | \$ 25.82 | \$ 26.11 | \$ 25.10 | \$ 23.75** |
| Income from Investment Operations | | | | |
| Net investment income (loss) | 0.28 | (0.02) | 1.03 | 0.24 |
| Net gain (loss) on investments | (1.44) | 4.23 | 3.23 | 3.69 |
| Total from investment operations | (1.16) | 4.21 | 4.26 | 3.93 |
| Distributions to Unitholders | | | | |
| From net investment income | - | - | (0.78) | - |
| From net realized gain on sale of investments | (2.55) | (4.20) | (2.39) | (2.53) |
| Non-taxable distribution | (0.20) | (0.30) | (0.08) | (0.05) |
| Total distributions | (2.75) | (4.50) | (3.25) | (2.58) |
| Net Asset Value, End of Year | \$ 21.91 | \$ 25.82 | \$ 26.11 | \$ 25.10 |
| Ratios/Supplemental Data | | | | |
| Total net assets, end of year (\$millions) | \$ 260.31 | \$ 306.35 | \$ 311.05 | \$ 320.70 |
| Average net assets (\$millions) | \$ 294.83 | \$ 316.24 | \$ 324.51 | \$ 332.11 |
| Management expense ratio | 1.96% | 1.96% | 1.93% | 1.95% |
| Portfolio turnover rate | 31.16% | 61.47% | 102.81% | 156.87% |
| Annual rate of return | (4.49)% | 16.10% | 16.99% | N/A |

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

** Net of agent fees.

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 Canadian generally accepted accounting principles. 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 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.

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. 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 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 Trust 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. Returns are not reported in the year that the Trust was established.

5. 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 Agreement to use its best efforts to find purchasers for any units tendered for redemption.

Following are the unit transactions for the year:

| | 2000 | 1999 |
|---|------------|------------|
| Units outstanding, beginning of year | 11,865,504 | 11,911,572 |
| Units redeemed | (42) | (48,818) |
| Units issued on reinvestment of distributions | 14,135 | 2,750 |
| Units outstanding, end of year | 11,879,597 | 11,865,504 |

6. 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.

First Premium U.S. Income Trust

Notes to the Financial Statements

7. 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.

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

8. 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 2000 or 1999.

9. 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. No forward contracts were outstanding at December 31, 2000 and 1999.

10. Commission Charges

Total commissions paid in 2000 in connection with portfolio transactions were \$271,067 (1999 - \$423,693).

11. 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 which traded on the Toronto Stock Exchange over the past year are as follows:

| | Symbol | High | Low |
|--------------------------------------|----------------|----------------|----------------|
| First Premium Income Trust | FPI.UN | \$ 28.95 | \$ 25.00 |
| First Premium U.S. Income Trust | FPU.UN | \$ 27.15 | \$ 24.20 |
| First Premium Oil & Gas Income Trust | FPG.UN | \$ 10.30 | \$ 7.25 |
| 60 Plus Income Trust | SIX.UN | \$ 29.50 | \$ 25.50 |
| Global Plus Income Trust | GIP.UN | \$ 27.00 | \$ 23.00 |
| Digital World Trust | DWT.UN | \$ 17.25 | \$ 13.75 |
| Pro-AMS U.S. Trust | PAM.UN | \$ 26.50 | \$ 24.95 |
| Premium Income Corporation | PIC.A/PIC.PR.A | \$ 12.00/15.90 | \$ 10.00/14.15 |
| MCM Split Share Corp. | MUH.A/MUH.PR.A | \$ 18.45/15.10 | \$ 14.00/13.25 |
| Global Telecom Split Share Corp. | GT.A/GT.PR.A | \$ 22.90/14.75 | \$ 14.90/13.25 |

Board of Directors¹/Advisors²

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.

* Audit Committee
1 Corporation
2 Trusts

Information

Auditors:

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

Transfer Agent:

Computershare
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1

Shares Listed:

Toronto Stock Exchange trading under
FPI.UN, FPU.UN, FPG.UN, SIX.UN, GIP.UN,
DWT.UN, PAM.UN, MUH.A, MUH.PR.A

Trustee:

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

Other Premium Funds Managed by Mulvihill Capital Management Inc.

Mulvihill First Premium Funds

First Premium Income Trust
First Premium U.S. Income Trust
First Premium Oil & Gas Income Trust
60 Plus Income Trust
Global Plus Income Trust
Global Telecom Split Share Corp
MCM Split Share Corp.

Mulvihill Summit Series

Digital World Trust

Mulvihill Mutual Funds

Mulvihill Canadian Money Market Fund
Mulvihill Canadian Bond Fund
Mulvihill Canadian Equity Fund
Mulvihill Global Equity Fund
Mulvihill U.S. Equity Fund
Premium Global Income Fund
Premium Canadian Income Fund

Mulvihill Platinum Series

Pro-AMS U.S. Trust

Head Office

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email: premium@mulvihill.com

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



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