



Hybrid Income Funds



Annual Report 2002

Mulvihill Premium U.S. Fund

First Premium U.S. Income Trust





Message to Unitholders

The continuing weakness of the economic recovery in the United States and even weaker conditions in the main economies of Europe combined to depress equity markets for most of 2002. The Canadian economy fared better, but investor sentiment was heavily influenced by events elsewhere, causing share values in many sectors to lose ground.

The equity market in the U.S. recorded its third straight year of negative returns, with the S&P composite index down 22 percent. Not one industry sector in the U.S. ended the year with positive returns. The market's three-year decline now ranks as the worst since the wartime bear market of 1939-41. The NASDAQ suffered an even larger loss, declining by 32 percent. In Europe, Asia and the Far East the EAFE index declined by 16 percent.

In Canada, stronger economic performance allowed equities in some sectors to advance, but not enough to prevent a decline in the S&P/TSX composite index of 14 percent. Sectors such as energy, materials, utilities and consumer staples made gains, but health care, information technology and industrial products suffered severe declines. Overall, equity returns in Canada declined by only about half as much as those in American markets.

In addition to concerns about economic conditions, investor confidence has been shaken by a wave of corporate governance and accounting scandals, as well as terrorist threats and rising international tensions. These concerns pushed market volatility to a peak of over 50 percent (as measured by the CBOE VIX index) in July 2002 as the market bottomed, but stability began to return late in the fourth quarter, as the market rebounded from lows.

During the year, the U.S. Federal Reserve further reduced already low interest rates to add more liquidity into the market as the American economy continued to sputter. The Bank of Canada did the opposite, modestly increasing rates to temper the strong growth of the interest-sensitive auto and housing sectors.

Uncertainty around geopolitical issues continue to cloud the prospects for 2003. Companies in many industries have continued to reduce expenses and are carrying very little inventory. In this situation, should sales volumes increase this would translate into increased profits, some of which have already begun to appear. Improved earnings reports should help to rebuild investor confidence as the year progresses. In the U.S., taxation policy changes and heavy government spending on defense and security measures will also play a role in spurring growth.



John P. Mulvihill
President
Mulvihill Capital Management Inc.

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Investment Objectives

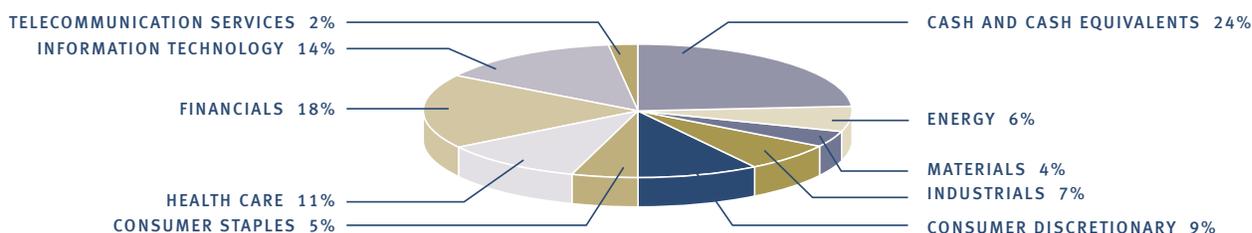
The Fund objectives are to provide unitholders of the Fund with a stable stream of quarterly distributions of at least \$0.50 (\$2.00 annually) per unit while returning the original issue price of the units (\$25.00 per unit) to unitholders upon termination of the Fund on January 1, 2007.

Investment Strategy

The Fund achieves 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 Fund may 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

December 31, 2002



Distribution History

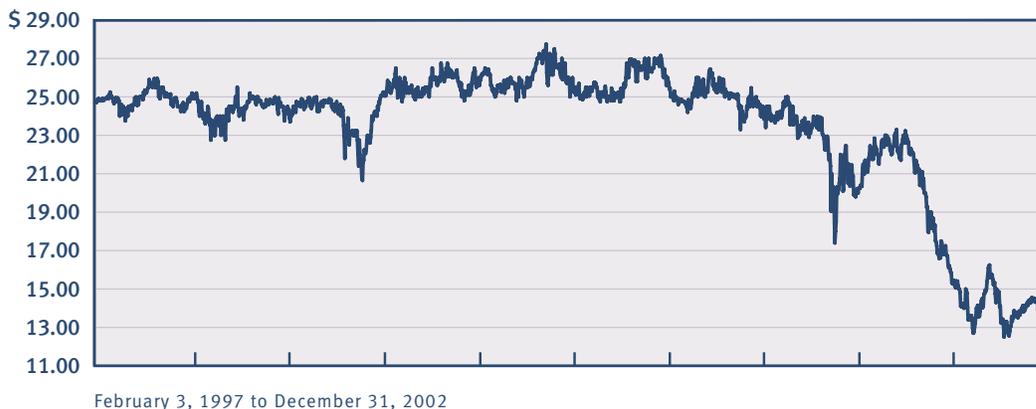
INCEPTION DATE: FEBRUARY 1997	REGULAR DISTRIBUTION	SPECIAL DISTRIBUTION	TOTAL DISTRIBUTION
Total for 1997	\$ 1.83	\$ 0.75	\$ 2.58
Total for 1998	2.00	1.25	3.25
Total for 1999	2.00	2.50	4.50
Total for 2000	2.00	0.75	2.75
Total for 2001	2.00	0.00	2.00
March 2002	0.50	0.00	0.50
June 2002	0.50	0.00	0.50
September 2002	0.30	0.00	0.30
December 2002	0.30	0.00	0.30
Total for 2002	1.60	0.00	1.60
Total Distributions to Date	\$ 11.43	\$ 5.25	\$ 16.68

For complete distribution history and income tax information, please see our website www.mulvihill.com.

Top 10 Holdings

- Microsoft Corporation
- Citigroup Inc.
- Exxon Mobil Corporation
- United Technologies Corporation
- General Electric Company
- Wal-Mart Stores, Inc.
- The Procter & Gamble Company
- Cisco Systems Inc.
- IBM Corporation
- Morgan Stanley

Trading History



Commentary

As at December 31, 2002, the net assets of the Fund were \$155.9 million, or \$14.38 per unit down from \$19.67 per unit at the end of 2001. The Fund’s units, listed on the Toronto Stock Exchange as FPU.UN, closed the year at \$13.74.

Distributions during the year totaled \$18.9 million, or \$1.60 per unit. This was made up of regular distributions at the target annual rate for the first two quarters, and reduced payments for the last two quarters. This reduction to the distribution rate was made to limit the decline in net asset value, and to preserve the Fund’s ability to meet its long-term objectives. Based on the year end net asset value, these distributions represent a distribution yield of 11.1 percent for the year. Given the unrealized losses generated in the portfolio over the recent market declines, the Fund initiated a tax planning strategy to reposition its portfolio in the latter part of the current year to realize capital losses for income tax purposes. This will provide shelter for realized gains in the current year and provide both non-capital and capital loss carryforwards for future years. As a result, distributions in the current year will be non-taxable and will reduce each unitholders cost base.

The principal cause for the decline in the Fund’s net assets was the continuing poor performance of U.S. stock markets as evidenced by the S&P 100’s 23 percent decline during 2002. Notwithstanding the decline in the U.S. market, the Fund was able to achieve an annual return of -18.8 percent including distributions for the year. All industry groups in U.S. equity markets ended the year with negative returns. The most pronounced declines occurred within the already troubled telecommunications and technology sectors. The Fund benefited from low exposure to the badly battered utilities sector, while having more weight in the stronger materials sector as well as some exposure to consumer staples. High market volatility, especially in the third quarter, also helped the Fund to earn income from its active covered-call option writing program.

The outlook for U.S. equities we feel is now positive, and the Fund remains well diversified, with a strong defensive cash position. The risk of a further decline in the U.S. dollar versus the Canadian dollar has now been reduced by hedging a portion of the Fund’s U.S. exposure in foreign exchange markets. 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.

To the Unitholders of Mulvihill Premium U.S. Fund

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, 2002, the statements of net assets as at December 31, 2002 and 2001, the statements of financial operations, of changes in net assets and of loss on sale of investments and options for the years then ended, and the statements of financial highlights for each of the years in the five-year period then ended. 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 loss on sale of investments and options and the financial highlights for the years indicated above, in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
Toronto, Ontario
February 14, 2003

Statements of Net Assets

December 31, 2002 and 2001

	2002	2001
ASSETS		
Investments at market value (average cost - \$163,742,796; 2001 - \$192,691,975)	\$ 125,282,051	\$ 170,998,693
Short-term investments (average cost - \$40,538,510; 2001 - \$65,205,111)	40,562,749	65,496,208
Cash	11,180	284,528
Dividends receivable	141,302	80,089
Interest receivable	150,326	136,002
Due from brokers	1,215,859	193,385
Subscriptions receivable	-	111,622
TOTAL ASSETS	167,363,467	237,300,527
LIABILITIES		
Redemptions payable	11,168,606	-
Accrued liabilities	311,200	410,954
Due to broker	551	2,820,562
TOTAL LIABILITIES	11,480,357	3,231,516
NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY	\$ 155,883,110	\$ 234,069,011
Number of Units Outstanding (Note 5)	10,841,735	11,901,171
Net Asset Value per Unit	\$ 14.3781	\$ 19.6677

On Behalf of the Manager,
Mulvihill Fund Services Inc.


John P. Mulvihill, Director


David N. Middleton, Director

Statements of Financial Operations

Years ended December 31, 2002 and 2001

	2002	2001
REVENUE		
Dividends	\$ 2,943,378	\$ 2,948,517
Interest	379,700	5,428,924
Withholding taxes	(320,282)	(340,039)
TOTAL REVENUE	3,002,796	8,037,402
EXPENSES (Note 6)		
Management fees	3,351,637	4,267,362
Custodian and other fees	217,730	269,780
Goods and services taxes	248,934	317,600
TOTAL EXPENSES	3,818,301	4,854,742
Net investment income (loss)	(815,505)	3,182,660
Loss on sale of investments and options	(26,049,639)	(8,961,384)
Foreign exchange losses on sale of investments	(156,393)	(36,226)
Change in unrealized depreciation of investments and foreign currency	(17,033,585)	2,890,187
Net loss on investments	(43,239,617)	(6,107,423)
TOTAL RESULTS OF FINANCIAL OPERATIONS	\$ (44,055,122)	\$ (2,924,763)

Statements of Changes in Net Assets

Years ended December 31, 2002 and 2001

	2002	2001
NET ASSETS, BEGINNING OF YEAR	\$ 234,069,011	\$ 260,312,334
Total results of financial operations	(44,055,122)	(2,924,763)
Unit transactions		
Proceeds from reinvestment of distributions	133,208	455,946
Amount paid for units redeemed	(15,348,751)	-
	(15,215,543)	455,946
Distributions to unitholders (Note 7)		
Non-taxable distribution	(18,915,236)	(23,774,506)
Changes in net assets during the year	(78,185,901)	(26,243,323)
NET ASSETS, END OF YEAR	\$ 155,883,110	\$ 234,069,011

Statements of Loss on Sale of Investments and Options

Years ended December 31, 2002 and 2001

	2002	2001
Proceeds from sale of investments	\$ 67,064,211	\$ 89,758,820
Cost of investments sold		
Cost of investments, beginning of year	192,691,975	188,063,526
Cost of investments purchased	64,164,671	103,348,653
	256,856,646	291,412,179
Cost of investments, end of year	(163,742,796)	(192,691,975)
	93,113,850	98,720,204
LOSS ON SALE OF INVESTMENTS AND OPTIONS	\$ (26,049,639)	\$ (8,961,384)

Statement of Investments

December 31, 2002

	% of Portfolio	Par Value/ Number of Shares	Average Cost	Market Value
SHORT-TERM INVESTMENTS				
Treasury Bills				
Government of Canada, USD - January 8, 2003		500,000	\$ 774,135	\$ 789,483
Government of Canada, USD - January 9, 2003		150,000	235,429	236,869
Government of Canada - January 30, 2003		11,450,000	11,364,306	11,364,306
Government of Canada - February 13, 2003		880,000	872,698	872,698
Government of Canada - February 27, 2003		14,075,000	13,960,150	13,960,150
Government of Canada - March 13, 2003		6,445,000	6,396,052	6,396,052
Government of Canada - March 27, 2003		10,000	9,929	9,929
Province of Ontario - February 3, 2003		3,000,000	2,979,570	2,979,570
Total Treasury Bills	89.9 %		36,592,269	36,609,057
Discount Commercial Paper				
Province of Quebec, USD - January 21, 2003		2,260,000	3,566,742	3,567,643
Canadian Wheat Board, USD - March 5, 2003		245,000	379,499	386,049
Total Discount Commercial Paper	9.7 %		3,946,241	3,953,692
	99.6 %		40,538,510	40,562,749
Accrued interest	0.4 %			150,326
TOTAL SHORT-TERM INVESTMENTS	100.0 %		\$ 40,538,510	\$ 40,713,075

INVESTMENTS

United States Common Shares

Consumer Discretionary

Clear Channel Communications, Inc.		40,000	\$ 2,616,775	\$ 2,356,435
The Home Depot Inc.		100,000	7,085,093	3,785,210
Wal-Mart Stores, Inc.		65,000	5,980,353	5,186,733
The Walt Disney Co.		145,000	4,516,482	3,736,157
Total Consumer Discretionary	12.0 %		20,198,703	15,064,535

Consumer Staples

The Coca-Cola Co.		55,500	4,226,892	3,842,099
The Procter & Gamble Company		36,000	5,172,387	4,887,660
Total Consumer Staples	7.0 %		9,399,279	8,729,759

Energy

Exxon Mobil Corporation		95,000	6,036,865	5,243,843
Schlumberger Limited		60,000	6,458,948	3,989,636
Total Energy	7.4 %		12,495,813	9,233,479

Financials

American Express Company		60,000	3,435,306	3,350,764
American International Group Inc.		45,000	5,361,161	4,112,623
Bank of America Corporation		40,000	4,578,757	4,396,278
Citigroup Inc.		104,316	7,847,432	5,799,270

Statement of Investments

December 31, 2002

	% of Portfolio	Number of Shares	Average Cost	Market Value
INVESTMENTS (continued)				
United States Common Shares (continued)				
Financials (continued)				
J.P. Morgan Chase and Co.		90,000	5,518,398	3,412,376
Morgan Stanley		73,000	4,793,593	4,603,801
U.S. Bancorp		135,000	4,268,760	4,525,664
Total Financials	24.1%		35,803,407	30,200,776
Health Care				
Amgen Inc.		52,500	5,058,499	4,009,305
HCA Inc.		45,000	3,343,483	2,950,284
Johnson & Johnson Inc.		25,000	2,146,145	2,121,282
Medtronic Inc.		30,000	2,143,563	2,161,172
Pfizer Inc.		65,000	4,116,395	3,139,149
Pharmacia Corporation		55,000	4,421,017	3,631,969
Total Health Care	14.4 %		21,229,102	18,013,161
Industrials				
General Electric Company		135,000	9,046,398	5,193,210
Honeywell International Inc.		35,000	1,894,509	1,327,035
United Technologies Corporation		53,500	5,877,453	5,235,138
Total Industrials	9.4 %		16,818,360	11,755,383
Information Technology				
Cisco Systems Inc.		234,000	8,897,000	4,842,731
IBM Corporation		38,500	5,621,332	4,713,740
Intel Corporation		170,000	8,999,678	4,181,583
Microsoft Corporation		90,000	10,661,489	7,350,827
Oracle Corporation		132,000	3,739,384	2,252,168
Total Information Technology	18.6 %		37,918,883	23,341,049
Materials				
Alcoa Inc.		65,000	3,770,277	2,339,215
Du Pont (E.I.) de Nemours & Co.		55,000	3,511,793	3,684,102
Total Materials	4.8 %		7,282,070	6,023,317
Telecommunication Services				
Verizon Communications Inc.	3.4 %	70,000	5,592,817	4,285,219
Total United States Common Shares	101.1 %		\$166,738,434	\$126,646,678
Forward Exchange Contracts				
Sold USD \$8,020,000, Bought CAD \$12,615,815 @ 0.63571 - January 22, 2003				\$ (65,430)
Sold USD \$6,478,000, Bought CAD \$10,299,378 @ 0.62897 - February 20, 2003				44,835
Sold USD \$6,690,000, Bought CAD \$10,423,970 @ 0.64179 - March 19, 2003				(177,408)
Total Forward Exchange Contracts	(0.2)%			\$ (198,003)

Statement of Investments

December 31, 2002

	% of Portfolio	Number of Contracts	Proceeds	Market Value
INVESTMENTS (continued)				
OPTIONS				
Written Cash Covered Put Options (100 shares per contract)				
Amgen Inc. - January 2003 @ \$47		100	\$ (26,193)	\$ (5,245)
Intel Corporation - January 2003 @ \$19		250	(40,885)	(126,494)
Oracle Corporation - January 2003 @ \$9		780	(103,050)	(11,785)
Schlumberger Limited - January 2003 \$26		500	(120,059)	(27,483)
Total Written Cash Covered Put Options	(0.1)%		(290,187)	(171,007)
Written Covered Call Options (100 shares per contract)				
Alcoa Inc. - January 2003 @ \$24		325	(41,976)	(36,209)
American Express Company - January 2003 @ \$40		300	(65,907)	(10,089)
American International Group Inc. - January 2003 @ \$67		450	(191,451)	(867)
Amgen Inc. - January 2003 @ \$51		263	(54,945)	(7,790)
Bank of America Corporation - January 2003 @ \$72		300	(114,887)	(18,151)
Cisco Systems Inc. - January 2003 @ \$14		1,560	(121,490)	(142,946)
Citigroup Inc. - January 2003 @ \$38		175	(26,371)	(6,913)
Citigroup Inc. - January 2003 @ \$39		345	(59,422)	(5,765)
Clear Channel Communications, Inc. - January 2003 @ \$44		400	(108,796)	(40,948)
The Coca-Cola Co. - January 2003 @ \$46		555	(78,185)	(36,887)
Du Pont (E.I.) de Nemours & Co. - February 2003 @ \$46		550	(95,782)	(86,927)
Exxon Mobil Corporation - January 2003 @ \$36		700	(83,843)	(44,807)
General Electric Company - January 2003 @ \$27		900	(87,110)	(28,698)
HCA Inc. - January 2003 @ \$43		225	(37,935)	(22,804)
IBM Corporation - January 2003 @ \$85		193	(108,719)	(41,927)
Intel Corporation - January 2003 @ \$20		400	(51,588)	(189)
Intel Corporation - January 2003 @ \$21		650	(86,052)	(43)
J.P. Morgan Chase and Co. - January 2003 @ \$26		600	(49,996)	(2,264)
Johnson & Johnson Inc. - January 2003 @ \$57		190	(40,474)	(22,950)
Microsoft Corporation - January 2003 @ \$57		275	(67,613)	(11,604)
Microsoft Corporation - January 2003 @ \$59		225	(77,071)	(5,655)
Morgan Stanley - January 2003 @ \$45		315	(82,897)	(1,124)
Medtronic Inc. - February 2003 @ \$48		225	(40,933)	(35,617)
Oracle Corporation - February 2003 @ \$12		870	(97,399)	(91,625)
Pfizer Inc. - January 2003 @ \$32		480	(47,683)	(49,109)
Pharmacia Corporation - January 2003 @ \$44		370	(55,323)	(19,495)
The Procter & Gamble Company - February 2003 @ \$90		160	(43,375)	(41,590)
The Procter & Gamble Company - January 2003 @ \$90		200	(51,062)	(30,815)
Schlumberger Limited - January 2003 @ \$45		400	(83,002)	(14,419)
United Technologies Corporation - February 2003 @ \$66		125	(51,203)	(28,270)
United Technologies Corporation - January 2003 @ \$69		285	(120,678)	(1,751)
U.S. Bancorp - February 2003 @ \$23		450	(37,273)	(38,140)
Verizon Communications Inc. - January 2003 @ \$42		350	(86,425)	(7,422)
Wal-Mart Stores, Inc. - January 2003 @ \$52		285	(44,149)	(51,535)

Statement of Investments

December 31, 2002

	% of Portfolio	Number of Contracts	Proceeds	Market Value
INVESTMENTS (continued)				
OPTIONS (continued)				
Written Covered Call Options (100 shares per contract) (continued)				
Wal-Mart Stores, Inc. - January 2003 @ \$57		300	(72,338)	(7,319)
The Walt Disney Co. - January 2003 @ \$21		1,450	(142,098)	(2,953)
Total Written Covered Call Options	(0.8)%		(2,705,451)	(995,617)
TOTAL OPTIONS	(0.9)%		\$ (2,995,638)	\$ (1,166,624)
TOTAL INVESTMENTS	100.0 %		\$163,742,796	\$125,282,051

Statements of Financial Highlights

Years ended December 31

	2002	2001	2000	1999	1998
DATA PER UNIT					
Net Asset Value, Beginning of Year	\$ 19.67	\$ 21.91	\$ 25.82	\$ 26.11	\$ 25.10
INCOME FROM INVESTMENT OPERATIONS					
Net investment income (loss)	(0.08)	0.27	0.28	(0.02)	1.03
Net gain (loss) on investments and options	(3.61)	(0.51)	(1.44)	4.23	3.23
Total from Investment Operations	(3.69)	(0.24)	(1.16)	4.21	4.26
DISTRIBUTION TO UNITHOLDERS					
From net investment income	-	-	-	-	(0.78)
From net realized gain on sale of investments and options	-	-	(2.55)	(4.20)	(2.39)
Non-taxable distribution (Note 7)	(1.60)	(2.00)	(0.20)	(0.30)	(0.08)
Total distributions	(1.60)	(2.00)	(2.75)	(4.50)	(3.25)
Net Asset Value, End of Year	\$ 14.38	\$ 19.67	\$ 21.91	\$ 25.82	\$ 26.11
RATIOS/SUPPLEMENTAL DATA					
Total net assets, end of year (\$millions)	\$ 155.88	\$ 234.07	\$ 260.31	\$ 306.35	\$ 311.05
Average net assets (\$millions)	\$ 191.52	\$ 246.85	\$ 294.83	\$ 316.24	\$ 324.51
Management expense ratio	1.99%	1.99%	1.96%	1.96%	1.93%
Portfolio turnover rate	46.8%	36.8%	31.2%	61.5%	102.8%
Annual rate of return	(18.8)%	(1.1)%	(4.5)%	16.1%	17.0%

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 achieves 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 may 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 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.

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, divided by the average value of portfolio securities, excluding short-term investments.

(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 current year 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 percent 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:

	2002	2001
Units outstanding, beginning of year	11,901,171	11,879,597
Units issued on reinvestment of distributions	6,593	21,574
Units redeemed	(1,066,029)	–
Units outstanding, end of year	10,841,735	11,901,171

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 percent and 1.65 percent, 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 purposes.

8. Income Taxes

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 2002 or 2001.

Accumulated non-capital losses of approximately \$2.7 million and capital losses of approximately \$34.1 million are available for utilization against net investment income and realized gains on sales of investments, respectively, in future years. The non-capital losses have expiration dates extending to 2009, and capital losses can be carried forward indefinitely.

9. Commission Charges

Total commissions paid in 2002 in connection with portfolio transactions were \$330,639 (2001 - \$424,589).

10. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

11. Statement of Portfolio Transactions

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 Inc.

Mulvihill Capital Management is a leading independent investment manager responsible for managing more than \$3.8 billion in segregated and pooled funds on behalf of institutional and high net worth clients. Founded by Canada Trust in 1985, Mulvihill Capital Management emerged in 1995 as an independent company. Today, Mulvihill is managed by a cohesive team of senior managers and owners who have worked together for more than a decade. Our scale and independent structure allow us to provide our clients with a uniquely customized approach to asset management.

Mulvihill Capital Management operates three main lines of business:

- Mulvihill Institutional Asset Management provides asset growth management of pension funds, corporations, management companies, endowment foundations and mutual funds with a wide variety of investment mandates. Our reputation has been built on the ability to provide customized portfolios that meet the stated needs of our clients.
- Mulvihill Wealth Management offers a comprehensive specialized approach tailored to a client's personal investment strategies. Personalized service and customized reporting ensure that our clients are fully aware of the progress they are making.
- Mulvihill Structured Products is responsible for the development and management of Mulvihill Hybrid Income Funds tailored to meet very specific investment objectives. Assets are generally managed to meet absolute rather than relative returns.

Mulvihill's Hybrid Income Funds are exchange-traded, equity-based funds that are enhanced by virtue of their broad distribution, special structure and performance characteristics. The Hybrid Income Funds are prime examples of our customized approach to asset management.

MULVIHILL HYBRID INCOME FUNDS	SYMBOL	HIGH	LOW
MULVIHILL PLATINUM			
Mulvihill Pro-AMS U.S. Fund	PAM.UN	\$ 24.40	\$ 18.57
Mulvihill Pro-AMS RSP Fund	PR.UN	\$ 24.90	\$ 18.21
Mulvihill Pro-AMS 100 Plus (Cdn \$) Fund	PRC.UN	\$ 25.47	\$ 18.61
Mulvihill Pro-AMS 100 Plus (U.S. \$) Fund	PRU.U	\$ 21.99 USD	\$ 15.27 USD
Mulvihill Pro-AMS RSP Split Share Fund	SPL.A/SPL.B	\$ 10.15/\$ 19.95	\$ 8.00/\$ 14.31
MULVIHILL PREMIUM			
Mulvihill Premium Canadian Fund	FPI.UN	\$ 26.00	\$ 16.41
Mulvihill Premium U.S. Fund	FPU.UN	\$ 23.30	\$ 12.50
Mulvihill Premium Oil & Gas Fund	FPG.UN	\$ 10.60	\$ 8.15
Mulvihill Premium 60 Plus Fund	SIX.UN	\$ 28.00	\$ 16.68
Mulvihill Premium Global Plus Fund	GIP.UN	\$ 20.80	\$ 11.95
Mulvihill Premium Canadian Bank Fund	PIC.A/PIC.PR.A	\$ 13.85/\$ 15.79	\$ 9.35/\$ 15.02
Mulvihill Premium Split Share Fund	MUH.A/MUH.PR.A	\$ 14.65/\$ 16.10	\$ 7.71/\$ 15.00
Mulvihill Premium Global Telecom Fund	GT.A/GT.PR.A	\$ 8.55/\$ 13.50	\$ 1.01/\$ 9.00
MULVIHILL SUMMIT			
Mulvihill Summit Digital World Fund	DWT.UN	\$ 7.14	\$ 3.09

Mulvihill Premium U.S. Fund [FPU.UN]

Board of Advisors

John P. Mulvihill
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Mulvihill Capital Management Inc.

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Mulvihill Capital Management Inc.

Michael M. Koerner
Corporate Director

Robert W. Korthals
Corporate Director

C. Edward Medland
President, Beauwood Investments Inc.

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

Hybrid Income Funds

Managed by Mulvihill Structured Products

Mulvihill Platinum

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
Mulvihill Pro-AMS RSP Split Share Fund

Mulvihill Premium

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 Canadian Bank Fund
Mulvihill Premium Split Share Fund
Mulvihill Premium Global Telecom Fund

Mulvihill Summit

Mulvihill Summit Digital World Fund

Mutual Funds Managed by Mulvihill Capital Management

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

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