

Mulvihill Structured Products



Hybrid Income Funds

Annual Report 2001



[Mulvihill Platinum Pro-AMS 100 Plus \(U.S. \\$\) Fund](#)

Message to
Unitholders →

March 2002

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

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

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

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

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



John P. Mulvihill
President
Mulvihill Capital Management Inc.



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

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Investment Highlights

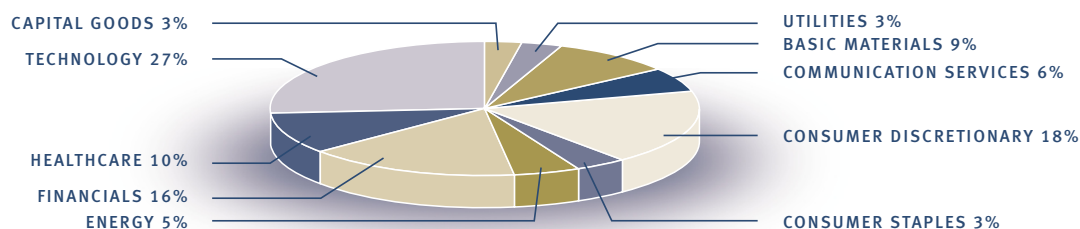
Investment Objectives

The Fund's investment objectives are to provide unitholders of the Fund with a stable stream of monthly distributions of at least U.S. \$0.14167 (U.S. \$1.70 annually) per unit, to return at a minimum the original issue price of the units to unitholders upon termination of the Fund on December 30, 2016, and to preserve the value of the Fund's managed portfolio which will provide Unitholders with capital appreciation above the original issue price.

Investment Strategy

To provide the Fund with the means to return the original issue price on termination, the Fund has entered into a "Forward Agreement" with the Royal Bank of Canada ("RBC") whereby RBC will pay the Fund U.S. \$20.00 for each unit outstanding on the Termination Date in exchange for delivery of the Fund's fixed portfolio. The Fund intends to achieve its investment objectives by investing the balance of the net assets in a diversified internationally focused portfolio consisting principally of equity securities (including common shares and ADRs) that are listed on a major North American stock exchange or market with an emphasis on the top 100 in each category by market capitalization of ADRs, U.S. equities and Canadian equities. In addition, the issuers of such securities must have a market capitalization in excess of U.S. \$5.0 billion if listed solely in the United States or a market capitalization in excess of Cdn. \$1.0 billion if listed in Canada. To generate additional returns above the dividend income generated by the portfolio, the Fund will write covered call options in respect of all or part of the securities in the managed portfolio. From time to time, the Fund may hold a portion of its assets in cash equivalents, which may be utilized to provide cover in respect of the writing of cash covered put positions.

Asset Mix



Distribution History

INCEPTION DATE: NOVEMBER 2001	REGULAR DISTRIBUTION US \$
December 2001	\$ 0.28334
Total for 2001	0.28334
Total Distributions to Date	\$ 0.28334

Top 10 Holdings

- Pharmacia Corp.
- Nortel Networks Corp.
- Procter & Gamble Co.
- Diageo ADR
- Home Depot Inc.
- Citigroup Inc.
- VERITAS Software Corp.
- Biovail Corp.
- Honeywell International Inc.
- Apache Corp.

Trading History



Commentary

Mulvihill Pro-AMS 100 Plus (U.S. \$) Fund was launched on November 2, 2001, with assets at inception of U.S. \$35.3 million, or U.S. \$18.89 per unit. As of December 31, 2001, net assets had declined to U.S. \$33.5 million, or U.S. \$17.90 per unit. The Fund's units, listed on the Toronto Stock Exchange as PRU.U, traded above the issue price of U.S. \$20.00, and closed the year at U.S. \$21.50.

Unitholders received a distribution of U.S. \$0.28334 per unit, covering the two months ending December 31, 2001. This meets the Fund's target of paying an annual return of 8.5 percent.

The reduction in the aggregate value of the Fund was entirely due to an increase in long term interest rates during November and December, which reduced the value of the Forward Agreement pertaining to the Fund's fixed portfolio.

Despite difficult market conditions, the managed portion of the Fund outperformed the overall S&P 500 Index, and exceeded the performance of more than half the major sectors, including technology, basic materials, health care and telecommunications. The managed portion of the Fund is invested in a diversified portfolio of stocks consisting of 60 percent U.S. equities, 20 percent Canadian equities and 20 percent international equities, using ADRs. A summary of the Fund's investments as well as its financial statements are included in this annual report.

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

Auditors' Report

To the Unitholders

We have audited the accompanying statements of net assets and of investments of Mulvihill Pro-AMS 100 Plus (U.S. \$) Trust (the "Fund") as at December 31, 2001 and the statements of financial operations, changes in net assets, gain on sale of investments and options and financial highlights for the 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 audit.

We conducted our audit 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 December 31, 2001, and the results of its operations, the changes in its net assets, the gain on sale of investments and options and the financial highlights for the period then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants

Toronto, Ontario

February 15, 2002

Statement of Net Assets

December 31, 2001

(in Canadian dollars)

	2001
Assets	
Investments at market value (average cost - \$48,024,347)	\$ 45,437,017
Short-term investments (average cost - \$8,071,401)	8,109,985
Cash	22,369
Dividends receivable	2,800
Interest receivable	11,052
Total Assets	53,583,223
Liabilities	
Accrued liabilities	149,863
Net Assets, Represented by Unitholders' Equity	\$ 53,433,360
Number of Units Outstanding (Note 6)	1,870,000
Net Asset Value per Unit	\$ 28.5740

On behalf of the Manager,
Mulvihill Fund Services Inc.



John P. Mulvihill, Manager



David N. Middleton, Manager

Financial Statements

Statement of Financial Operations

Period ended December 31, 2001

	2001
Revenue	
Dividends	\$ 19,431
Interest	45,585
Withholding tax	(1,798)
	<u>63,218</u>
Expenses (Note 7)	
Custodian and other fees	123,505
Management fees	101,064
Forward Agreement fee (Note 5)	51,789
Service fees	26,834
Goods and services tax	17,598
	<u>320,790</u>
Net Investment Loss	(257,572)
Gain on Sale of Investments and Options	890,936
Unrealized Depreciation of Investments and Foreign Currency	(2,548,774)
Net Loss on Investments	(1,657,838)
Total Results of Financial Operations	\$ (1,915,410)

Statement of Changes in Net Assets

Period ended December 31, 2001

	2001
Net Assets, Beginning of Period	\$ —
Unit Transactions	
Proceeds from units issued, net of issue costs (Note 6)	56,194,561
Total Results of Financial Operations	(1,915,410)
Distributions to Unitholders (Note 8)	
From net investment income	(4,640)
From net realized gain on sale of investments and options	(624,972)
Non-taxable distribution	(216,179)
	(845,791)
Changes in Net Assets During the Period and Net Assets, End of Period	\$ 53,433,360

Statements of Gain on Sale of Investments and Options

Period ended December 31, 2001

	2001
Proceeds from Sale of Investments	\$ 7,095,327
Cost of Investments Sold	
Cost of investments purchased	54,228,738
Cost of investments, end of period	(48,024,347)
	6,204,391
Gain on Sale of Investments and Options	\$ 890,936

Financial Statements

Statement of Investments

December 31, 2001

	No. of Shares	Average Cost	Market Value	% of Portfolio
Investments - Managed Portfolio				
Canadian Common Shares				
Metals and Minerals				
Alcan Inc.	10,000	\$ 551,140	\$ 571,500	
Inco Ltd.	24,000	535,230	649,200	
Total Metals and Minerals		1,086,370	1,220,700	2.2%
Industrial Products				
Celestica Inc.	10,000	606,500	640,000	
Pharmaceuticals				
Biovail Corp.	8,000	608,880	711,360	
Technology-Hardware				
Nortel Networks Corp.	64,000	782,736	761,600	1.4%
Financial Services				
Sun Life Financial Services of Canada	10,000	340,483	339,500	
The Toronto-Dominion Bank	10,000	382,986	410,800	
Total Financial Services		723,469	750,300	1.4%
Total Canadian Common Shares		\$ 3,807,955	\$ 4,083,960	7.6%
Foreign Common Shares (excluding U.S.A.)				
Australia				
News Corporation	8,000	\$ 353,869	\$ 406,226	0.8%
Netherlands				
ING Groep, ADR	16,000	672,993	650,012	
Koninklijke (Royal) Philips Electronics N.V.	14,000	674,016	650,555	
Total Netherlands		1,347,009	1,300,567	2.4%
Finland				
Nokia Corp., ADR	15,000	596,050	587,357	1.1%
France				
Aventis S.A., ADR	5,000	584,349	566,685	
STMicroelectronics N.V.	12,000	589,952	606,656	
Total France		1,174,301	1,173,341	2.2%
Total Foreign Common Shares (excluding U.S.A.)		\$ 3,471,229	\$ 3,467,491	6.5%
United States Common Shares				
Energy Sources				
Apache Corp.	8,800	\$ 633,924	\$ 700,684	
Dynegy Inc.	14,000	744,473	569,879	
Total Energy Sources		1,378,397	1,270,563	2.4%

Statement of Investments (continued)

December 31, 2001

	No. of Shares	Average Cost	Market Value	% of Portfolio
Investments - Managed Portfolio (continued)				
United States Common Shares (continued)				
Forest Products and Paper				
International Paper Co.	10,000	610,998	644,106	1.2%
Data Processing and Reproduction				
Honeywell International Inc.	13,000	672,763	701,827	
IBM Corp.	3,000	552,401	579,264	
Microsoft Corp.	6,000	634,943	634,719	
Oracle Corp.	28,000	656,772	617,256	
Total Data Processing and Reproduction		2,516,879	2,533,066	4.7%
Electrical and Electronics				
VERITAS Software Corp.	10,000	715,758	715,620	1.3%
Electrical Components and Instruments				
Intel Corp.	13,000	664,542	652,646	1.2%
Energy Equipment and Services				
Halliburton Co.	20,000	688,926	418,230	0.8%
Food and Household Products				
Diageo ADR	10,000	691,273	738,606	
Procter & Gamble Co.	6,000	776,433	757,890	
Total Food and Household Products		1,467,706	1,496,496	2.8%
Health and Personal Care				
MedImmune Inc.	9,000	662,856	665,895	
Pharmacia Corp.	12,000	815,756	816,985	
Total Health and Personal Care		1,478,612	1,482,880	2.8%
Broadcasting and Publishing				
AOL Time Warner Inc.	10,000	620,520	512,411	1.0%
Merchandising				
Home Depot Inc.	9,000	706,098	732,844	1.4%
Telecommunications				
Nextel Communications, Inc.	38,000	651,549	664,825	
Verizon Communications Inc.	7,000	558,462	530,322	
Total Telecommunications		1,210,011	1,195,147	2.2%
Financial Services				
Citigroup Inc.	9,000	699,652	725,229	
J.P. Morgan Chase & Co.	10,000	633,629	580,254	
Merrill Lynch & Co. Inc.	8,000	670,029	665,592	
Total Financial Services		2,003,310	1,971,075	3.7%
Total United States Common Shares		\$ 14,061,757	\$ 13,625,084	25.5%

Financial Statements

Statement of Investments (continued)

December 31, 2001

	Number of Contracts	Proceeds	Market Value	% of Portfolio
Investments - Managed Portfolio (continued)				
Options				
Written Covered Call Options (100 Shares per Contract)				
Biovail Corp. - January 2002 @ \$87	40	\$ (13,480)	\$ (15,042)	
Celestica Inc. - January 2002 @ \$73	40	(22,200)	(1,788)	
Citigroup Inc. - January 2002 @ \$49	50	(13,135)	(14,244)	
Diageo - January 2002 @ \$44	40	(3,822)	(17,759)	
Dynegy Inc. - January 2002 @ \$30	70	(28,608)	(27)	
Halliburton Co. - January 2002 @ \$15	150	(11,748)	(661)	
Home Depot Inc. - January 2002 @ \$50	30	(9,143)	(7,295)	
Honeywell International Inc. - January 2002 @ \$32	110	(22,560)	(42,468)	
IBM Corp. - January 2002 @ \$120	10	(8,250)	(5,906)	
Intel Corp. - January 2002 @ \$34	100	(15,058)	(7,084)	
Koninklijke (Royal) Philips Electronics N.V. - January 2002 @ \$31	60	(13,520)	(863)	
MedImmune Inc. - January 2002 @ \$46	70	(34,943)	(32,127)	
Microsoft Corp. - January 2002 @ \$67	20	(6,297)	(1,884)	
Nextel Communications, Inc. - January 2002 @ \$11	150	(6,724)	(7,695)	
Nokia Corp. - January 2002 @ \$25	150	(25,439)	(25,142)	
Nortel Networks Corp. - January 2002 @ \$12	640	(51,200)	(33,923)	
Oracle Corp. - January 2002 @ \$15	210	(25,794)	(7,212)	
Pharmacia Corp - January 2002 @ \$42	40	(9,394)	(10,777)	
Procter & Gamble Co. - January 2002 @ \$80	60	(21,769)	(10,536)	
STMicroelectronics N.V. - January 2002 @ \$32	40	(9,954)	(10,859)	
Veritas Software Corp. - January 2002 @ \$46	100	(56,743)	(60,936)	
Total Written Covered Call Options		\$ (409,781)	\$ (314,228)	(0.6)%
Total Investments - Managed Portfolio		\$ 20,931,160	\$ 20,862,307	39.0%

Statement of Investments (continued)

December 31, 2001

	No. of Shares	Average Cost	Market Value	% of Portfolio
Total Investments - Fixed Portfolio				
Canadian Common Shares				
Metals and Minerals				
Inco Inc.	156,828	\$ 3,497,735	\$ 4,242,197	
Meridian Gold Inc.	203,616	3,432,966	3,329,122	
Total Metals and Minerals		6,930,701	7,571,319	14.2%
Pharmaceuticals				
Biovail Corp.	45,530	3,465,239	4,048,528	
QLT Inc.	95,573	3,432,982	3,870,707	
Total Pharmaceuticals		6,898,221	7,919,235	14.8%
Industrial Products				
ATI Technologies Inc.	264,076	3,432,988	5,307,928	
Celestica Inc.	58,235	3,532,047	3,727,040	
Cognos Inc.	126,725	3,432,980	5,014,508	
Royal Group Technologies Ltd.	110,923	2,866,250	3,258,917	
Total Industrial Products		13,264,265	17,308,393	32.4%
Total Canadian Common Stocks		\$ 27,093,187	\$ 32,798,947	61.4%
Total Investments - Fixed Portfolio		\$ 27,093,187	\$ 32,798,947	61.4%
Forward Agreements (Note 5)		–	(8,224,237)	(15.4)%
Total Investments		\$ 48,024,347	\$ 45,437,017	85.0%
Short-term Investments			8,109,985	15.2%
Other Assets Less Liabilities			(113,642)	(0.2)%
Net Assets			\$ 53,343,360	100.0%

Financial Statements

Statement of Financial Highlights

Period ended December 31, 2001

	2001 *
Data Per Unit	
Net Asset Value, Beginning of Period	\$ 30.05 **
Income from Investment Operations	
Net investment loss	(0.14)
Net loss on investments and options	(0.89)
Total from Investment Operations	(1.03)
Distributions to Unitholders	
From net realized gain on sale of investments and options	(0.33)
Non-taxable distribution (Note 8)	(0.12)
Total Distributions	(0.45)
Net Asset Value, End of Period	\$ 28.57
Ratios/Supplemental Data	
Total net assets, end of period (\$millions)	\$ 53.43
Average net assets (\$millions)	\$ 51.23
Management expense ratio	2.76%
Portfolio turnover rate	13.5%
Annual rate of return	N/A

* For the period from inception on November 2, 2001 to December 31, 2001.

** Net of agent fees.

1. Establishment of the Fund

Mulvihill Pro-AMS 100 Plus (U.S. \$) Trust (the "Fund") is an investment trust established under the laws of the Province of Ontario on October 18, 2001. The Fund began operations on November 2, 2001 and will terminate on December 30, 2016 and its 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.

2. Investment Objectives of the Fund

The Fund's investment objectives are (i) to return at least the original issue price of U.S.\$20.00 per unit to the unitholders upon termination of the Fund and (ii) to provide unitholders with a stable stream of monthly distributions. To achieve the first objective, the Fund has entered into a forward purchase and sale agreement (the "Forward Agreement") pursuant to which the counterparty will pay to the Fund an amount equal to the original issue price for each unit outstanding on the termination date in exchange for the Fund delivering to the counterparty certain equity securities which it purchased with approximately 40% of the gross proceeds from the initial offering of units (the "Fixed Portfolio"). The balance of the net proceeds of the initial offering has been invested in a diversified portfolio (the "Managed Portfolio") consisting principally of equity securities (including common shares and ADRs) that are listed on a major North American stock exchange or market with an emphasis on the top 100 in each category by market capitalization of ADRs, U.S. equities and Canadian equities. In addition, the issuers of such securities must have a market

capitalization in excess of U.S. \$5.0 billion if listed solely in the United States or a market capitalization in excess of Cdn. \$1.0 billion if listed in Canada. ADRs are issued by a depository as evidence of a beneficial interest in foreign securities of an issuer that are held on deposit by the depository.

To generate additional returns, the Fund will, from time to time, write covered call options in respect of all or part of the securities in the Managed Portfolio. In addition, the Fund may write cash covered put options in respect of securities in which the Fund is permitted to invest. 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 Fund may hold a portion of its assets in cash equivalents.

3. Summary of Significant Accounting Policies

These financial statements are presented in Canadian dollars and 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 average of the bid and the asked price.

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

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

The Forward Agreement is stated at estimated fair value which equals the difference between the consideration receivable under the contract and the change in fair value of the securities in the Fixed Portfolio since the date the contract was entered into.

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 in investments.

Notes to Financial Statements

3. Summary of Significant Accounting Policies (continued)

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 Statement of Financial Highlights:

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

- (d) Management expense ratio is the ratio of all fees and expenses charged to the Fund to average net assets.
- (e) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by average net assets during the period.
- (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 Fund was established.

5. Forward Agreement

The Fund has entered into a Forward Agreement with Royal Bank of Canada ("RBC") pursuant to which RBC will pay the Fund an amount equal to U.S.\$20.00 for each unit outstanding on the termination date in exchange for the Fund delivering to RBC the equity securities included in the Fixed Portfolio.

Securities in the Fixed Portfolio have been pledged to RBC as security for the obligations of the Fund under the Forward Agreement. The Forward Agreement is a direct obligation of RBC, a company with a credit rating of Moodys-Aa2 and DBRS-AA (low). The Forward Agreement may be physically or cash settled at the option of the Fund.

In order to permit the Fund to fund periodic redemptions of units, the Forward Agreement may be settled in whole or in part in respect of any valuation date by the Fund tendering to RBC securities of the Fixed Portfolio at a price equal to the current market value of the tendered securities and the value of the portion of the Forward Agreement attributable to such securities.

A yearly fee of 0.3909% on the guaranteed value of the Forward Agreement and 0.2425% on the market value of the Fixed Portfolio is payable by the Fund. Fees are accrued and payable every quarter.

6. 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 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, including distributions of net income and net realized capital gains, and distributions upon the termination of the Fund. Units are issued only as fully paid and are non-assessable. Fractions of units are proportionately entitled to all of these rights except voting rights.

Units may be surrendered at any time for redemption but will be redeemed only on a monthly valuation date. Unitholders whose units are redeemed on a December 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) U.S. \$0.80. 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.

6. Unitholders' Equity (continued)

On November 2, 2001, the Fund issued 1,650,000 units at U.S.\$20.00 per unit for total gross cash proceeds of \$52,490,098. On November 20, 2001, the Fund issued an additional 220,000 units at U.S.\$20.00 per unit for total gross

cash proceeds of \$7,003,470. Costs of \$3,299,007 were incurred in connection with these offerings and the establishment of the Fund.

7. 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 fee payable to the Manager is payable at an annual rate of 0.10% of the Fund's net asset value calculated and payable monthly, plus applicable taxes. The fee payable to the Investment Manager is payable at an annual rate of 1.10% of the Fund's net asset value calculated and payable month-

ly, plus applicable taxes. In the event that no distributions are made for six or more consecutive months, the monthly investment management fee will be reduced to 1/12 of 0.40% of the Fund's net asset value and the full amount of such fees will not be payable until such time as regular distributions resume. The unpaid portion of such fees will be accrued but will not be paid until such time as the distribution shortfall has been paid to the unitholders. No unpaid portion of such fees will be paid out of the proceeds of the Forward Agreement.

The Manager also collects from the Fund a service fee equal to 0.30% annually of the net asset value of the Fund which it pays to dealers in connection with amounts held by clients of the sales representatives of such dealers, plus applicable taxes. This service fee is payable quarterly.

8. Distributions

The Fund endeavours to make monthly cash distributions to unitholders of net income and net realized capital gains and option premiums on the last day of each month in each year.

9. 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 is recoverable by the Fund to the extent and

in the circumstances provided in the Act.

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

No amount is payable on account of income taxes in 2001.

Issue costs of approximately \$3.1 million remain undeducted for tax purposes at year end.

10. Commission Charges

Total commissions paid in 2001 in connection with portfolio transactions were \$49,900.

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

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

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

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

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

Other Hybrid Income Funds within the Mulvihill Group include Mulvihill Premium Canadian Fund, Mulvihill Premium 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 Digital World Fund, Mulvihill Pro-AMS U.S. Fund, Mulvihill Pro-AMS RSP Fund and Mulvihill Pro-AMS 100 Plus (Cdn \$) Fund.

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

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

Board of Advisors

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

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

Michael M. Koerner
Corporate Director

Robert W. Korthals
Corporate Director

C. Edward Medland
President, Beauwood Investments Inc.

Information

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Toronto, Ontario M5J 2V1

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Shares Listed:
Toronto Stock Exchange
trading under PRU.UN

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

Other Hybrid Income Funds Managed by Mulvihill Structured Products

Mulvihill Premium Funds

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

Mulvihill Summit Fund

Mulvihill Summit *Digital World Fund*

Mulvihill Platinum Funds

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

Mutual Funds Managed by Mulvihill Capital Management

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

Notes



Mulvihill

Mulvihill Structured Products

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