



Hybrid Income Funds



Annual Report 2002

Mulvihill Premium Canadian Fund

First Premium 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.

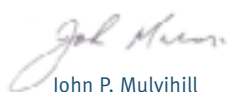
The equity market in the U.S. recorded its third straight year of negative returns, with the S&P composite index down 22 percent. Not one industry sector in the U.S. ended the year with positive returns. The market's three-year decline now ranks as the worst since the wartime bear market of 1939-41. 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 12 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

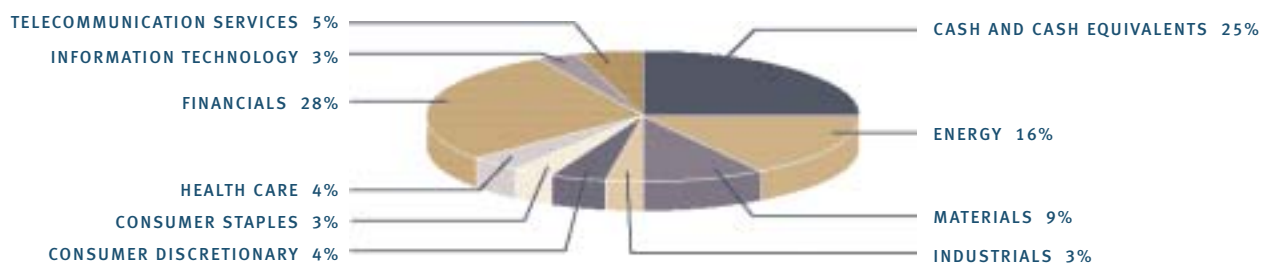
The Fund's investment objectives are to provide unitholders of the Fund with a stable stream of quarterly distributions of at least \$0.50 (\$2.00 annually) per unit while returning at a minimum the original issue price of the units to unitholders upon termination of the Fund on January 1, 2004.

Investment Strategy

The Fund achieves its investment objectives by investing its net assets in a diversified portfolio consisting primarily of common shares issued by major Canadian issuers that are in the top 200 of the TSX 300 by market capitalization. To generate additional returns above the dividend income generated by the portfolio, the Fund writes covered call options 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: JUNE 1996 | REGULAR DISTRIBUTION | SPECIAL DISTRIBUTION | TOTAL DISTRIBUTION |
|------------------------------------|----------------------|----------------------|--------------------|
| Total for 1996 | \$ 1.00 | \$ 0.50 | \$ 1.50 |
| Total for 1997 | 2.00 | 1.50 | 3.50 |
| Total for 1998 | 2.00 | 0.75 | 2.75 |
| Total for 1999 | 2.00 | 0.50 | 2.50 |
| Total for 2000 | 2.00 | 2.00 | 4.00 |
| Total for 2001 | 2.00 | 0.25 | 2.25 |
| March 2002 | 0.50 | 0.00 | 0.50 |
| June 2002 | 0.50 | 0.00 | 0.50 |
| September 2002 | 0.50 | 0.00 | 0.50 |
| December 2002 | 0.50 | 0.00 | 0.50 |
| Total for 2002 | 2.00 | 0.00 | 2.00 |
| Total Distributions to Date | \$ 13.00 | \$ 5.50 | \$ 18.50 |

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

Top 10 Holdings

- Canadian Imperial Bank of Commerce
- Petro-Canada
- EnCana Corporation
- Royal Bank of Canada
- Imperial Oil Ltd.
- The Bank of Nova Scotia
- Bank of Montreal
- The Toronto-Dominion Bank
- Manulife Financial Corporation
- Biovail Corporation

Trading History



June 28, 1996 to December 31, 2002

Commentary

As at December 31, 2002, the net assets of the Fund were \$121.5 million, or \$18.97 per unit, down from \$23.10 per unit, at the end of 2001. The Fund’s units, listed on the Toronto Stock Exchange as FPI.UN, closed the year at \$18.45.

A total of \$2.00 per unit was distributed during the year, in the form of four regular quarterly payments of \$0.50 each. Based on the year end net asset value, these distributions represent a distribution yield of 10.5 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, most of the distributions in the current year will be non-taxable and will reduce each unitholders cost base.

Despite strong growth in some sectors in Canada, the overall North American recovery anticipated for 2002 did not materialize. As a result, declining share values in key sectors outweighed gains elsewhere, trimming another 12 percent from the S&P/TSX Index. The U.S. economy remained sluggish in virtually all sectors, and failed to generate the rebound in demand many Canadian export producers were hoping for. Notwithstanding the decline in the Canadian market, the Fund experienced an annual return of -9.2 percent including distributions for the year.

Disappointment was greatest in the technology sector, where weak demand kept Nortel Networks Corporation, Celestica Inc. and ATI Technologies Inc. in the doldrums, while the technology’s sector overall index shrank by 65 percent. In the industrial products sector, Bombardier Inc. and CAE Inc. were the weakest performers in the sectors overall retreat of 31 percent. On the positive side, the energy sector was up over 12 percent, led by 20 percent gains in shares of Ensign Resource Services Group, Petro Canada and Precision Drilling Corporation. Financial services also showed strength, with all banks but TD and CIBC showing positive returns for the year. The fund benefitted from being overweighted in both the energy and financial sectors.

We remain optimistic that a resumption in corporate capital spending will occur in 2003, and expect conditions to improve in the most depressed sectors. 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 Canadian Fund

We have audited the accompanying statement of investments of First Premium Income Trust (operating as Mulvihill Premium Canadian 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 gain 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 ended December 31, 2002. These financial statements are the responsibility of the Fund's Manager. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Manager, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund and its investments as at the dates indicated above, and the results of its operations, the changes in its net assets, the gain on sale of investments and options and the financial highlights for the periods indicated above, in accordance with Canadian generally accepted accounting principles.

The logo for Deloitte + Touche LLP is written in a stylized, cursive blue font.

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 - \$103,437,426; 2001 - \$112,288,130) | \$ 90,778,681 | \$ 108,500,711 |
| Short-term investments | 30,149,710 | 48,046,530 |
| Cash | 16,455 | - |
| Dividends receivable | 259,960 | 318,188 |
| Interest receivable | 95,267 | 238,835 |
| Due from brokers | 1,549,823 | - |
| Subscriptions receivable | - | 117,803 |
| TOTAL ASSETS | 122,849,896 | 157,222,067 |
| LIABILITIES | | |
| Redemptions payable | 760,318 | - |
| Due to brokers | 382,788 | 2,407,133 |
| Accrued liabilities | 199,026 | 203,211 |
| TOTAL LIABILITIES | 1,342,132 | 2,610,344 |
| NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY | \$ 121,507,764 | \$ 154,611,723 |
| Number of Units Outstanding (Note 5) | 6,406,184 | 6,692,436 |
| Net Asset Value per Unit | \$ 18.9673 | \$ 23.1025 |

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 | \$ 1,977,780 | \$ 2,189,021 |
| Interest | 1,017,490 | 2,066,325 |
| TOTAL REVENUE | 2,995,270 | 4,255,346 |
| EXPENSES (Note 6) | | |
| Management fees | 1,728,682 | 1,981,630 |
| Custodian and other fees | 143,093 | 173,945 |
| Goods and services tax | 131,024 | 150,890 |
| TOTAL EXPENSES | 2,002,799 | 2,306,465 |
| Net investment income | 992,471 | 1,948,881 |
| Gain (loss) on sale of investments and options | (6,454,300) | 9,722,334 |
| Change in unrealized depreciation of investments | (8,871,326) | (10,375,077) |
| Net loss on investments | (15,325,626) | (652,743) |
| TOTAL RESULTS OF FINANCIAL OPERATIONS | \$ (14,333,155) | \$ 1,296,138 |

Statements of Changes in Net Assets

Years ended December 31, 2002 and 2001

| | 2002 | 2001 |
|---|----------------|----------------|
| NET ASSETS, BEGINNING OF YEAR | \$ 154,611,723 | \$ 167,851,593 |
| Total results of financial operations | (14,333,155) | 1,296,138 |
| Unit transactions | | |
| Proceeds from reinvestment of distributions | 128,419 | 491,895 |
| Amount paid for units redeemed | (5,682,289) | - |
| | (5,553,870) | 491,895 |
| Distributions to unitholders (Note 7) | | |
| From net investment income | (577,749) | (2,275,013) |
| From net realized gain on sale of investments and options | - | (6,297,360) |
| Non-taxable distribution | (12,639,185) | (6,455,530) |
| | (13,216,934) | (15,027,903) |
| Changes in net assets during the year | (33,103,959) | (13,239,870) |
| NET ASSETS, END OF YEAR | \$ 121,507,764 | \$ 154,611,723 |

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

Years ended December 31, 2002 and 2001

| | 2002 | 2001 |
|--|----------------|---------------|
| Proceeds from sale of investments | \$ 91,039,314 | \$ 74,425,954 |
| Cost of investments sold | | |
| Cost of investments, beginning of year | 112,288,130 | 100,525,000 |
| Cost of investments purchased | 88,642,910 | 76,465,750 |
| | 200,931,040 | 176,990,750 |
| Cost of investments, end of year | (103,437,426) | (112,288,130) |
| | 97,493,614 | 64,702,620 |
| GAIN (LOSS) ON SALE OF INVESTMENTS AND OPTIONS | \$ (6,454,300) | \$ 9,722,334 |

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 - January 30, 2003 | | 9,000,000 | \$ 8,934,470 | \$ 8,934,470 |
| Government of Canada - February 13, 2003 | | 4,235,000 | 4,203,070 | 4,203,070 |
| Government of Canada - February 27, 2003 | | 1,320,000 | 1,310,294 | 1,310,294 |
| Government of Canada - March 13, 2003 | | 3,850,000 | 3,821,672 | 3,821,672 |
| Government of Canada - March 27, 2003 | | 2,970,000 | 2,948,904 | 2,948,904 |
| Government of Canada - April 10, 2003 | | 6,000,000 | 5,953,140 | 5,953,140 |
| Province of Ontario - January 31, 2003 | | 1,000,000 | 993,410 | 993,410 |
| Province of Ontario - February 3, 2003 | | 1,000,000 | 993,190 | 993,190 |
| Total Treasury Bills | 96.4 % | | 29,158,150 | 29,158,150 |
| Discount Commercial Paper | | | | |
| Canadian Wheat Board - March 14, 2003 | 3.3 % | 1,000,000 | 991,560 | 991,560 |
| | 99.7 % | | 30,149,710 | 30,149,710 |
| Accrued interest | 0.3 % | | | 95,267 |
| TOTAL SHORT-TERM INVESTMENTS | 100.0 % | | \$ 30,149,710 | \$ 30,244,977 |
| INVESTMENTS | | | | |
| Canadian Common Shares | | | | |
| Consumer Discretionary | | | | |
| Rogers Communications Inc., Class B | | 165,000 | \$ 2,484,884 | \$ 2,418,900 |
| The Thomson Corporation | | 70,000 | 3,013,380 | 2,940,000 |
| Total Consumer Discretionary | 5.9 % | | 5,498,264 | 5,358,900 |
| Consumer Staples | | | | |
| Loblaw Companies Limited | | 36,600 | 2,084,873 | 1,958,466 |
| Molson Inc., Class A | | 45,000 | 1,556,100 | 1,505,250 |
| Total Consumer Staples | 3.8 % | | 3,640,973 | 3,463,716 |
| Energy | | | | |
| EnCana Corporation | | 90,100 | 4,131,204 | 4,395,078 |
| Ensign Resource Service Group Inc. | | 116,500 | 1,932,570 | 1,940,890 |
| Imperial Oil Ltd. | | 90,000 | 4,003,551 | 4,037,400 |
| Petro-Canada | | 95,000 | 4,420,221 | 4,646,450 |
| Precision Drilling Corporation | | 45,000 | 2,457,720 | 2,292,750 |
| Talisman Energy Inc. | | 30,000 | 1,699,997 | 1,705,500 |
| Total Energy | 21.0 % | | 18,645,263 | 19,018,068 |

Statement of Investments

December 31, 2002

| | % of Portfolio | Number of Shares | Average Cost | Market Value |
|--|-------------------|---------------------|-----------------|-----------------|
| INVESTMENTS (continued) | | | | |
| Canadian Common Shares (continued) | | | | |
| Financials | | | | |
| Bank of Montreal | | 90,525 | 3,488,921 | 3,773,987 |
| Brascan Corporation | | 60,000 | 1,929,990 | 1,905,000 |
| Canadian Imperial Bank of Commerce | | 115,000 | 5,569,393 | 5,004,800 |
| CI Fund Management Inc. | | 190,000 | 1,917,613 | 1,900,000 |
| Investors Group Inc. | | 50,000 | 1,276,331 | 1,337,500 |
| Manulife Financial Corporation | | 100,000 | 4,004,657 | 3,439,000 |
| National Bank of Canada | | 103,000 | 3,160,160 | 3,326,900 |
| Royal Bank of Canada | | 70,000 | 3,957,742 | 4,049,500 |
| Sun Life Financial Services of Canada Inc. | | 77,500 | 2,630,980 | 2,070,025 |
| The Bank of Nova Scotia | | 74,500 | 3,788,706 | 3,923,170 |
| The Toronto-Dominion Bank | | 110,000 | 4,136,431 | 3,741,100 |
| Total Financials | 38.0 % | | 35,860,924 | 34,470,982 |
| Health Care | | | | |
| Biovail Corporation | | 80,000 | 3,685,123 | 3,365,600 |
| MDS Inc. | | 87,500 | 1,981,875 | 1,925,000 |
| Total Health Care | 5.8 % | | 5,666,998 | 5,290,600 |
| Industrials | | | | |
| Canadian National Railway Company | | 20,000 | 1,547,744 | 1,305,400 |
| CP Ships Limited | | 130,000 | 2,603,432 | 2,757,300 |
| Total Industrials | 4.5 % | | 4,151,176 | 4,062,700 |
| Information Technology | | | | |
| ATI Technologies Inc. | | 160,000 | 3,093,384 | 1,163,200 |
| Celestica Inc. | | 72,500 | 4,872,776 | 1,598,625 |
| Zarlink Semiconductor Inc. | | 150,000 | 3,406,457 | 529,500 |
| Total Information Technology | 3.6 % | | 11,372,617 | 3,291,325 |
| Materials | | | | |
| Alcan Inc. | | 60,000 | 3,359,789 | 2,779,800 |
| Barrick Gold Corporation | | 75,000 | 1,799,445 | 1,826,250 |
| Dofasco Inc. | | 85,000 | 2,385,295 | 2,377,450 |
| Domtar Inc. | | 125,000 | 2,189,386 | 1,962,500 |
| Placer Dome Inc. | | 133,582 | 2,324,322 | 2,385,775 |
| Total Materials | 12.5 % | | 12,058,237 | 11,331,775 |

Statement of Investments

December 31, 2002

| | % of Portfolio | Number of Shares | Average Cost | Market Value |
|---|-------------------|---------------------|-----------------|-----------------|
| INVESTMENTS (continued) | | | | |
| Canadian Common Shares (continued) | | | | |
| Telecommunication Services | | | | |
| BCE Inc. | | 110,000 | 4,118,170 | 3,135,000 |
| TELUS Corporation | | 166,773 | 3,772,655 | 2,693,384 |
| Total Telecommunication Services | 6.4 % | | 7,890,825 | 5,828,384 |
| Total Canadian Common Shares | 101.5 % | | \$104,785,277 | \$ 92,116,450 |

| | % of Portfolio | Number of Contracts | Proceeds | Market Value |
|--|-------------------|------------------------|----------------|-----------------|
| OPTIONS | | | | |
| Written Covered Call Options (100 shares per contract) | | | | |
| Bank of Montreal - January 2003 @ \$42 | | 602 | \$ (37,324) | \$ (44,420) |
| Barrick Gold Corporation - January 2003 @ \$24 | | 560 | (56,840) | (61,640) |
| BCE Inc. - January 2003 @ \$29 | | 450 | (20,250) | (20,795) |
| Canadian Imperial Bank of Commerce - February 2003 @ \$46 | | 450 | (51,300) | (40,017) |
| Canadian Imperial Bank of Commerce - January 2003 @ \$44 | | 300 | (22,500) | (28,336) |
| Canadian National Railway Company - January 2003 @ \$66 | | 100 | (15,850) | (16,396) |
| Celestica Inc. - January 2003 @ \$24 | | 400 | (64,160) | (40,718) |
| CI Fund Management Inc. - January 2003 @ \$10 | | 1,500 | (29,250) | (19,196) |
| CP Ships Limited - March 2003 @ \$21 | | 1,000 | (96,000) | (182,535) |
| Dofasco Inc. - February 2003 @ \$29 | | 643 | (64,943) | (53,555) |
| Domtar Inc. - January 2003 @ \$18 | | 312 | (11,544) | (632) |
| Domtar Inc. - January 2003 @ \$18 | | 313 | (10,016) | (65) |
| EnCana Corporation - January 2003 @ \$49 | | 708 | (87,084) | (116,785) |
| Ensign Resource Service Group Inc. - February 2003 @ \$18 | | 850 | (44,200) | (39,029) |
| Imperial Oil Ltd. - January 2003 @ \$46 | | 450 | (38,475) | (30,440) |
| Investors Group Inc. - January 2003 @ \$26 | | 500 | (16,000) | (48,553) |
| National Bank of Canada - January 2003 @ \$33 | | 770 | (39,270) | (33,671) |
| Petro-Canada - March 2003 @ \$50 | | 580 | (103,820) | (96,257) |
| Placer Dome Inc. - January 2003 @ \$17 | | 900 | (80,100) | (113,899) |
| Precision Drilling Corporation - January 2003 @ \$59 | | 450 | (79,650) | (2,218) |
| Rogers Communications Inc., Class B - February 2003 @ \$16 | | 1,300 | (130,000) | (96,412) |
| Royal Bank of Canada - January 2003 @ \$60 | | 500 | (50,000) | (50,861) |
| Sun Life Financial Services of Canada Inc. - January 2003 @ \$28 | | 300 | (20,775) | (11,859) |
| Talisman Energy Inc. - January 2003 @ \$58 | | 150 | (16,050) | (6,606) |
| TELUS Corporation - January 2003 @ \$17 | | 600 | (36,000) | (80,854) |
| The Bank of Nova Scotia - January 2003 @ \$53 | | 500 | (66,500) | (56,728) |
| The Toronto-Dominion Bank - February 2003 @ \$36 | | 550 | (59,950) | (45,292) |
| Total Written Covered Call Options | (1.5)% | | (1,347,851) | (1,337,769) |
| TOTAL OPTIONS | (1.5) % | | \$ (1,347,851) | \$ (1,337,769) |
| TOTAL INVESTMENTS | 100.0 % | | \$103,437,426 | \$ 90,778,681 |

Statements of Financial Highlights

Years ended December 31

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| DATA PER UNIT | | | | | |
| Net Asset Value, Beginning of Year | \$ 23.10 | \$ 25.16 | \$ 25.33 | \$ 24.22 | \$ 27.00 |
| INCOME FROM INVESTMENT OPERATIONS | | | | | |
| Net investment income | 0.15 | 0.29 | 0.45 | 0.60 | 0.58 |
| Net gain (loss) on investments and options | (2.28) | (0.10) | 3.38 | 3.01 | (0.61) |
| Total from Investment Operations | (2.13) | 0.19 | 3.83 | 3.61 | (0.03) |
| DISTRIBUTION TO UNITHOLDERS | | | | | |
| From net investment income | (0.09) | (0.34) | (0.40) | (0.57) | (0.47) |
| From net realized gain on sale of investments and options | – | (0.94) | (3.41) | (1.60) | (2.22) |
| Non-taxable distribution (Note 7) | (1.91) | (0.97) | (0.19) | (0.33) | (0.06) |
| Total distributions | (2.00) | (2.25) | (4.00) | (2.50) | (2.75) |
| Net Asset Value, End of Year | \$ 18.97 | \$ 23.10 | \$ 25.16 | \$ 25.33 | \$ 24.22 |
| RATIOS/SUPPLEMENTAL DATA | | | | | |
| Total net assets, end of year (\$millions) | \$ 121.51 | \$ 154.61 | \$ 167.85 | \$ 168.75 | \$ 161.13 |
| Average net assets (\$millions) | \$ 140.75 | \$ 158.53 | \$ 176.57 | \$ 164.56 | \$ 170.76 |
| Management expense ratio | 1.45% | 1.45% | 1.46% | 1.42% | 1.41% |
| Portfolio turnover rate | 90.9% | 47.0% | 33.1% | 58.9% | 82.4% |
| Annual rate of return | (9.2)% | 0.8% | 15.1% | 14.9% | (0.1)% |

1. Establishment of the Fund

First Premium Income Trust (the "Fund") is an investment trust established under the laws of the Province of Ontario on June 21, 1996. The Fund began operations on June 25, 1996 and will terminate on January 1, 2004 and its net assets will be distributed to unitholders unless unitholders determine to continue the Fund by a two-thirds 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 Canadian 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 major Canadian issuers that pay regular dividends at an annualized rate which is at least 125% of the indicated annual dividend yield for the S&P/TSX 300 Composite Index. A majority of the securities comprising the portfolio are those issued by major financial institutions, utilities and pipeline companies in Canada.

To generate additional returns above the dividend income earned on the portfolio, the Fund writes 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.

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

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.

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 enti-

tled 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 June 30 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.

Unit transactions during the year are as follows:

| | 2002 | 2001 |
|---|-----------|-----------|
| Units outstanding, beginning of year | 6,692,436 | 6,672,067 |
| Units redeemed | (291,887) | – |
| Units issued on reinvestment of distributions | 5,635 | 20,369 |
| Units outstanding, end of year | 6,406,184 | 6,692,436 |

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 the Manager in the ordinary course of business relating to the Fund's operations. The Fund is also responsible for commissions and other costs of portfolio transactions and any extraordinary expenses of the Fund which may be incurred from time to time.

Fees are payable to the Manager under the terms of the trustee agreement and to the Investment Manager under the terms of an investment management agreement. The fees are payable at annual rates of 0.10% and 1.15%, 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 capital losses of approximately \$5.8 million are available for utilization against realized gains on sale of investments in future years. Capital losses can be carried forward indefinitely.

9. Commissions

Total commissions paid in 2002 in connection with portfolio transactions were \$256,139 (2001 - \$185,876).

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 *Canadian Fund* [FPI.UN]

Board of Advisors

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

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

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Corporate Director

Robert W. Korthals
Corporate Director

C. Edward Medland
President, Beauwood Investments Inc.

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FPI.UN

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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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www.mulvihill.com

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