

Mulvihill Structured Products



Hybrid Income Funds

Annual Report 2002



Mulvihill Premium Split Share Fund

MCM Split Share Corporation

Message to
Shareholders →

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

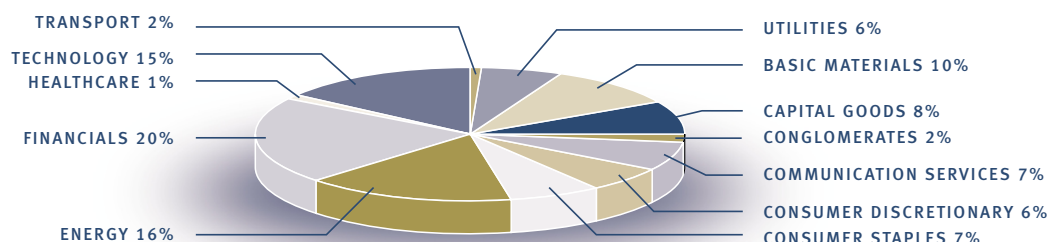
Investment Objectives

The Fund's investment objectives are to provide Preferred shareholders with quarterly cash dividends to yield 5.50 percent per annum based on the share's par value and to provide Class A shareholders with all excess realized income of the Fund at each fiscal year end. The Fund has set an initial dividend policy on the Class A shares of \$0.30 per quarter or 8 percent per annum based on the shares' issue price. The Fund intends to return, at a minimum, the original issue prices of the shares to shareholders upon windup on February 1, 2008.

Investment Strategy

The Fund intends to achieve its investment objectives by investing its net assets in a diversified portfolio consisting principally of common shares issued by some or all of a group selected from the TSE 300 Index. In order to meet its investment objectives, the Fund may, from time to time invest up to 30 percent of the cost amount of its assets in common shares issued by corporations selected from the Standard & Poor's 100 Index. To generate additional returns above the dividend income earned on the portfolio, the Fund will from time to time, write covered call options in respect of all or part of the common shares in the portfolio.

Asset Mix



Distribution History

INCEPTION DATE: FEBRUARY 1998	CLASS A REGULAR	SPECIAL DISTRIBUTION	CLASS A TOTAL	REGULAR PREFERRED DISTRIBUTION
Total for 1998*	\$ 0.8137	\$ 0.0000	\$ 0.8137	\$ 0.586000
Total for 1999	1.2000	0.1000	1.3000	0.860391
Total for 2000	1.2000	1.7500	2.9500	0.858075
January 2001	0.3000	0.3000	0.6000	0.215776
April 2001	0.3000	0.1000	0.4000	0.216007
July 2001	0.3000	0.1000	0.4000	0.215310
October 2001	0.3000	0.0000	0.3000	0.215433
Total for 2001	1.2000	0.5000	1.7000	0.862526
January 2002	0.3000	0.1000	0.4000	0.215257
Total for 2002	0.3000	0.1000	0.4000	0.215257
Total Distributions to Date	\$ 4.7137	\$ 2.4500	\$ 7.1637	\$ 3.382249

* Distributions are shown above on a calendar year basis to reflect amounts subject to tax in the year in which they are paid.

Top 10 Holdings

- Bank of Nova Scotia
- ATI Technologies Inc.
- Microsoft Corp.
- BCE Inc.
- Alcan Inc.
- Bombardier Inc.
- Royal Bank of Canada
- Loblaw Companies Ltd.
- The Toronto-Dominion Bank
- Nortel Networks Corp.

Trading History



Commentary

As of January 31, 2002, the net assets of the Fund were \$41.5 million, or \$12.59 per Class A share, a decline of \$6.5 million from net assets of \$48.0 million, or \$14.57 per Class A share at the end of the previous fiscal year. These Class A shares, listed on the Toronto Stock Exchange as MUH.A, began the year trading at \$14.80, and touched a high of \$15.25 and a low of \$11.50 before ending the year at \$13.75. Preferred shares, listed as MUH.PR.A, traded at prices ranging from \$13.70 to \$16.00, and finished the year at \$15.30, up \$0.30 from their price at the beginning of the fiscal year.

Class A shareholders received a total of \$1.50 per unit during the year, consisting of the regular dividend of \$1.20, plus special distributions of \$0.30 per share. These distributions exceeded the Fund's minimum target yield of 8 percent, and based on the initial share price of \$15.00, represent a yield of 10 percent. Holders of Preferred shares received distributions totalling \$0.86 per unit.

A slowdown in economic growth and reduced corporate earnings had negative impacts on equity markets during the year. Over the twelve-month period ending January 31, 2002, the S&P/TSE 60 Index declined by almost 20 percent, led downward by pronounced weakness in the industrial products and utilities sectors. Stronger performance in other sectors, such as financial services, was not sufficient to prevent an overall decline in the value of the Fund's portfolio.

Drastic reductions in interest rates in both Canada and the United States have created a stimulatory environment which should have a positive impact on share prices during the coming year. The Fund is maintaining well diversified exposure to a broad array of sectors in Canada, as well as some exposure to U.S. 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 shareholders for their continuing support.

Auditors' Report

To the Shareholders

We have audited the accompanying statement of investments of MCM Split Share Corporation (operating as Mulvihill Premium Split Share Fund) (the "Fund") as at January 31, 2002, the statements of financial position as at January 31, 2002 and 2001, the statements of operations and retained earnings (deficit), of changes in net assets and of changes in investments for the years then ended, and the statements of financial highlights for each of the periods or years (since inception) in the four-year period ended January 31, 2002. These financial statements are the responsibility of the Fund's management. 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 management, 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 dates indicated above, and the results of its operations, the changes in its net assets and investments, and the financial highlights for the periods indicated above, in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants

Toronto, Ontario

February 15, 2002

Statements of Financial Position

January 31, 2002 and 2001

	2002	2001
Assets		
Investments at market value (average cost - \$82,482,745; 2001 - \$86,194,087)	\$ 74,661,932	\$ 86,652,625
Short-term investments	16,928,232	10,542,961
Cash	50,303	14,115
Interest, dividends and other receivables	440,670	322,289
Total Assets	\$ 92,081,137	\$ 97,531,990
Liabilities		
Accounts payable and accrued liabilities	\$ 1,212,956	\$ 151,040
Redeemable preferred shares (Note 4)	49,401,225	49,401,225
	50,614,181	49,552,265
Equity		
Class A and Class B shares (Note 4)	43,615,295	43,615,295
Retained earnings (deficit)	(2,148,339)	4,364,430
	41,466,956	47,979,725
Total Liabilities and Equity	\$ 92,081,137	\$ 97,531,990
Net Asset Value per Class A Share	\$ 12.5906	\$ 14.5681

On Behalf of the Board of Directors



 John P. Mulvihill, Director



 Robert W. Korthals, Director

Financial Statements

Statements of Operations and Retained Earnings (Deficit)

Years ended January 31, 2002 and 2001

	2002	2001
Revenue		
Interest	\$ 1,607,915	\$ 1,974,577
Dividends	1,417,058	1,270,076
Withholding taxes	(16,186)	(20,649)
	3,008,787	3,224,004
Net realized gains on investments and options	8,038,287	12,114,088
	11,047,074	15,338,092
Expenses (Note 5)		
Management fees	1,150,693	1,346,758
Administrative and other expenses	187,028	139,529
GST and capital taxes	221,979	169,733
	1,559,700	1,656,020
Net Realized Income Before Distributions	9,487,374	13,682,072
Preferred Share Distributions (Note 7)	(2,838,946)	(2,894,766)
Net Realized Income	6,648,428	10,787,306
Change in Unrealized Appreciation/Depreciation of Investments During the Year	(8,221,074)	(650,658)
Net Income (Loss) for the Year	\$ (1,572,646)	\$ 10,136,648
Retained Earnings (Deficit)		
Balance, beginning of year	\$ 4,364,430	\$ 3,516,272
Net income (loss) for the year	(1,572,646)	10,136,648
Distributions on Class A shares	(4,940,123)	(9,288,490)
Balance, End of Year	\$ (2,148,339)	\$ 4,364,430

Statements of Changes in Net Assets

Years ended January 31, 2002 and 2001

	2002	2001
Share Capital Transactions		
Class A shares redeemed, net	\$ –	\$ (11,775,272)
Net Realized Income before Distributions	9,487,374	13,682,072
Distributions		
Preferred shares (Note 7)	(2,838,946)	(2,894,766)
Class A shares	(4,940,123)	(9,288,490)
	(7,779,069)	(12,183,256)
Change in Unrealized Appreciation/Depreciation of Investments During the Year	(8,221,074)	(650,658)
Change in Net Assets During the Year	(6,512,769)	(10,927,114)
Net Assets, Beginning of Year	47,979,725	58,906,839
Net Assets, End of Year	\$ 41,466,956	\$ 47,979,725

Statements of Changes in Investments

Years ended January 31, 2002 and 2001

	2002	2001
Investments at Market Value, Beginning of Year	\$ 86,652,625	\$122,795,100
Unrealized Appreciation of Investments, Beginning of Year	458,538	1,059,182
Investments at Cost, Beginning of Year	86,194,087	121,735,918
Cost of Investments Purchased During the Year	57,869,625	57,851,213
Cost of Investments Sold During the Year		
Proceeds from sales	69,619,254	105,507,132
Net realized gains on sales	(8,038,287)	(12,114,088)
	61,580,967	93,393,044
Investments at Cost, End of Year	82,482,745	86,194,087
Unrealized Appreciation (Depreciation) of Investments, End of Year	(7,820,813)	458,538
Investments at Market Value, End of Year	\$ 74,661,932	\$ 86,652,625

Financial Statements

Statement of Investments

January 31, 2002

	Par Value/ No. of Shares	Average Cost	Market Value	% of Portfolio
Short-term Investments				
Treasury Bills				
Government of Canada - February 14, 2002	10,235,000	\$ 10,119,675	\$ 10,119,675	
Government of Canada, USD - March 4, 2002	1,110,000	1,765,288	1,760,109	
Government of Canada - April 11, 2002	1,265,000	1,258,715	1,258,715	
Government of Canada, USD - May 2, 2002	160,000	255,063	253,323	
Government of Canada - June 6, 2002	1,195,000	1,184,866	1,184,866	
Total Treasury Bills		14,583,607	14,576,688	85.5%
Discount Commercial Paper				
Export Development Corp. - April 8, 2002	560,000	557,411	557,411	
Business Development Bank - May 6, 2002	40,000	39,786	39,786	
Farm Credit Corp. - May 13, 2002	1,265,000	1,257,967	1,257,967	
Canadian Wheat Board - June 3, 2002	500,000	496,380	496,380	
Total Discount Commercial Paper		2,351,544	2,351,544	13.8%
Accrued Interest		-	112,550	0.7%
Total Short-term Investments		\$ 16,935,151	\$ 17,040,782	100.0%
Investments				
Canadian Bonds				
Federal Bonds				
Canada Mortgage and Housing Corp., 5.500% - September 3, 2002	11,500,000	\$ 11,724,726	\$ 11,710,871	15.7%
Total Canadian Bonds		\$ 11,724,726	\$ 11,710,871	15.7%
Canadian Common Shares				
Metals and Minerals				
Alcan Inc.	40,000	\$ 2,450,817	\$ 2,474,000	3.3%
Gold and Precious Metals				
Placer Dome Inc.	98,467	1,809,354	1,929,953	2.6%
Oil and Gas				
Canadian Natural Resources Ltd.	22,000	874,500	910,800	
Imperial Oil Ltd.	35,000	1,219,917	1,492,750	
PanCanadian Energy Corp.	45,000	1,811,525	1,923,750	
Petro-Canada	40,000	922,472	1,454,000	
Precision Drilling Corp.	20,000	1,039,153	793,400	
Suncor Energy Inc.	27,500	1,140,425	1,336,500	
Total Oil and Gas		7,007,992	7,911,200	10.6%

Statement of Investments (continued)

January 31, 2002

	No. of Shares	Average Cost	Market Value	% of Portfolio
Investments (continued)				
Canadian Common Shares (continued)				
Paper and Forest Products				
Abitibi-Consolidated Inc.	100,000	1,320,451	1,272,000	
Domtar Inc.	110,000	1,986,685	1,831,500	
Total Paper and Forest Products		3,307,136	3,103,500	4.2%
Consumer Products				
Molson Inc., Class A	40,000	1,056,916	1,080,000	1.4%
Industrial Products				
ATI Technologies Inc.	117,000	1,872,823	2,515,500	
Bombardier Inc., Class B	150,000	1,929,430	2,205,000	
CAE Inc.	100,000	1,209,504	1,098,000	
Celestica Inc.	22,500	1,618,540	1,514,250	
Nortel Networks Corp.	184,000	4,473,661	2,145,440	
Zarlink Semiconductor Inc.	90,000	1,892,252	1,467,000	
Total Industrial Products		12,996,210	10,945,190	14.8%
Transportation and Environmental Services				
Canadian National Railway Co.	12,000	691,952	931,800	1.2%
Industry Conglomerates				
Brascan Corp.	45,000	1,269,192	1,275,750	1.7%
Pipelines				
Enbridge Inc.	36,000	1,441,483	1,567,440	
TransCanada PipeLines Ltd.	35,000	929,200	719,250	
Total Pipelines		2,370,683	2,286,690	3.1%
Utilities				
BCE Inc.	70,000	1,961,481	2,439,500	
TransAlta Corp.	60,000	1,492,800	1,251,000	
Total Utilities		3,454,281	3,690,500	4.9%
Communications and Media				
Thomson Corp.	36,000	1,941,500	1,744,200	2.3%
Merchandising				
Canadian Tire Corporation Ltd., Class A	45,000	1,160,550	1,125,900	
Loblaw Companies Ltd.	40,000	2,031,447	2,116,000	
Total Merchandising		3,191,997	3,241,900	4.3%

Financial Statements

Statement of Investments (continued)

January 31, 2002

	No. of Shares	Average Cost	Market Value	% of Portfolio
Investments (continued)				
Canadian Common Shares (continued)				
Financial Services				
Bank of Montreal	30,000	1,089,000	1,080,000	
Bank of Nova Scotia	55,000	2,494,725	2,672,450	
Canadian Imperial Bank of Commerce	10,000	447,629	544,500	
Manulife Financial Corp.	40,000	1,678,417	1,616,000	
Royal Bank of Canada	45,000	2,140,375	2,250,000	
Sun Life Financial Services of Canada	50,000	1,640,225	1,545,000	
The Toronto-Dominion Bank	50,000	1,847,516	2,130,000	
Total Financial Services		11,337,887	11,837,950	15.9%
Total Canadian Common Shares		\$ 52,885,917	\$ 52,452,633	70.3%
United States Common Shares				
Data Processing and Reproduction				
Microsoft Corp.	25,000	\$ 3,440,963	\$ 2,532,798	
Oracle Corp.	36,000	1,362,544	988,089	
Total Data Processing and Reproduction		4,803,507	3,520,887	4.8%
Electrical and Electronics				
General Electric Co.	10,000	711,463	590,761	0.8%
Electrical Components and Instruments				
Texas Instruments Inc.	5,000	477,847	248,151	0.3%
Energy Equipment and Services				
Halliburton Co.	26,000	1,768,325	568,498	0.8%
Food and Household Products				
Procter & Gamble Co.	10,000	1,020,174	1,298,879	1.7%
Health and Personal Care				
Amgen Inc.	10,000	941,461	882,563	1.2%
Merchandising				
Wal-Mart Stores Inc.	9,000	712,584	858,424	1.1%
Telecommunications				
AT&T Corp.	45,000	2,577,102	1,266,598	
Lucent Technologies Inc.	39,000	2,787,414	405,598	
Nextel Communications, Inc.	48,000	1,868,106	614,455	
Total Telecommunications		7,232,622	2,286,651	3.1%
Financial Services				
American Express Co.	16,000	873,524	912,141	1.2%
Total United States Common Shares		\$ 18,541,507	\$ 11,166,955	15.0%

Statement of Investments (continued)

January 31, 2002

	Number of Contracts	Proceeds	Market Value	% of Portfolio
Investments (continued)				
Options				
Written Cash Covered Put Options (100 Shares per Contract)				
TransCanada Pipelines Ltd. - April 2002 @ \$20	450	\$ (34,200)	\$ (34,200)	(0.1)%
Written Covered Call Options (100 Shares per Contract)				
ATI Technologies Inc. - February 2002 @ \$18	470	(55,930)	(164,547)	
Bank of Montreal - March 2002 @ \$38	300	(12,000)	(10,500)	
Bank of Nova Scotia - March 2002 @ \$50	275	(42,350)	(18,634)	
BCE Inc. - February 2002 @ \$40	250	(29,625)	(5)	
Brascan Corp. - April 2002 @ \$30	225	(28,350)	(12,639)	
CAE Inc. - March 2002 @ \$13	500	(20,500)	(9,345)	
Canadian National Railway Co. - February 2002 @ \$70	120	(35,760)	(92,400)	
Canadian Natural Resources Ltd. - February 2002 @ \$41	110	(15,510)	(10,537)	
Canadian Tire Corporation Ltd., Class A - April 2002 @ \$28	225	(19,238)	(9,563)	
Imperial Oil Ltd. - February 2002 @ \$45	175	(25,025)	(4,375)	
Loblaw Companies Ltd. - March 2002 @ \$52	200	(26,400)	(32,820)	
Molson Inc. Class A - March 2002 @ \$28	200	(21,200)	(4,012)	
PanCanadian Energy Corp. - April 2002 @ \$43	130	(16,770)	(42,250)	
PanCanadian Energy Corp. - February 2002 @ \$44	130	(20,280)	(9,696)	
Petro-Canada - March 2002 @ \$40	200	(27,600)	(6,000)	
Placer Dome Inc. - March 2002 @ 19	200	(26,600)	(30,000)	
Placer Dome Inc. - March 2002 @ \$20	200	(17,600)	(16,000)	
Procter & Gamble Co. - March 2002 @ \$80	100	(33,275)	(52,477)	
Royal Bank of Canada - April 2002 @ \$53	360	(43,020)	(29,700)	
Sun Life Financial Services of Canada - April 2002 @ \$34	250	(23,500)	(6,032)	
Suncor Energy Inc. - February 2002 @ \$50	220	(37,180)	(8,041)	
The Toronto-Dominion Bank - March 2002 @ \$43	310	(35,960)	(36,130)	
Wal-Mart Stores Inc. - March 2002 @ \$60	90	(21,532)	(28,624)	
Total Written Covered Call Options		(635,205)	(634,327)	(0.9)%
Total Options		\$ (669,405)	\$ (668,527)	(1.0)%
Total Investments		\$ 82,482,745	\$ 74,661,932	100.0%

Financial Statements

Statements of Financial Highlights

Years ended January 31

	2002	2001	2000	1999 *
Data Per Class A Share				
Net Asset Value, As at February 1, 2001	\$ 14.57	\$ 14.61	\$ 12.77	\$ 14.25 **
Income from Investment Operations				
Net investment income	0.44	0.45	0.36	0.72
Net gain (loss) on investments and options	(0.92)	2.26	3.28	(1.09)
Total from Investment Operations	(0.48)	2.71	3.64	(0.37)
Distributions to Shareholders				
From net investment income	–	–	–	(0.25)
From net realized gain on sale of investments and options	(1.50)	(2.75)	(1.80)	(0.86)
Total Distributions	(1.50)	(2.75)	(1.80)	(1.11)
Net Asset Value, As at January 31, 2002	\$ 12.59	\$ 14.57	\$ 14.61	\$ 12.77
Ratios/Supplemental Data				
Total net assets, end of year (\$millions)	\$ 41.47	\$ 47.98	\$ 58.91	\$ 58.88
Average net assets (\$millions)	\$ 44.63	\$ 57.81	\$ 62.00	\$ 55.28
Management expense ratio	1.69%	1.54%	1.43%	1.92%
Portfolio turnover rate	62.7%	53.7%	79.3%	77.4%
Annual rate of return	(3.3)%	18.6%	28.5%	N/A

* For the period from inception on February 12, 1998 to January 31, 1999.

** Net of agent fees.

1. Corporate Information

MCM Split Share Corporation (the "Fund") is a mutual fund corporation incorporated under the laws of the Province of Ontario on December 5, 1997. The Fund was inactive prior to the initial public offering of Preferred shares and Class A shares on February 12, 1998. All shares outstanding on February 1, 2008 will be redeemed by the Fund on that date.

The Fund operates under the registered name Mulvihill Premium Split Share Fund.

The Fund invests in a diversified portfolio consisting principally of common shares issued by some or all of the group of corporations selected from TSE 300 Index. The Fund may invest up to 20% of the cost amount of its assets in common shares issued by some or all of a group of

corporations selected from the Standard & Poor's 100 Index.

To generate additional returns above the dividend income earned on the portfolio, the Fund will from time to time write covered call options in respect of all or part of the common shares in the portfolio. In addition the Fund may write cash covered put options in respect of securities in which the Fund is permitted to invest. The Fund may also use put options to preserve the value of the portfolio where appropriate. 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 rating of at least R-1(mid).

2. 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.

Investment valuation policies

Investments are recorded in the financial statements at their market value at the end of the period, determined as follows:

Shares or other securities for which market quotations are readily available are valued at the closing sale price or, if there is no sale price, the average of the closing bid and ask prices.

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

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

Policies for the recognition of investment appreciation, investment depreciation and income

Realized gains and losses on investment sales and unrealized appreciation or depreciation in investment values are calculated on the average cost basis.

Option fees received are deferred and included in investments on the statement of financial position so long as the options are outstanding. Any difference resulting from revaluation is included in unrealized appreciation or depreciation of investments.

Dividend income is recognized on the ex-dividend date. Interest income is recognized when 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.

3. Statements of Financial Highlights

The following explanatory notes pertain to the Statements of Financial Highlights:

(a) Net investment income (loss) per Class A share consists of interest and dividend revenue less expenses, including Preferred share distributions, and is calculated based on the weighted average number of Class A shares outstanding during the year.

(b) Net gain (loss) on investments and options per Class A share includes the impact of timing of shareholder transactions.

(c) Distributions to Class A shareholders are based on the number of Class A shares outstanding on the record date for each distribution.

Notes to Financial Statements

3. Statements of Financial Highlights (continued)

(d) Management expense ratio is the ratio of all fees and expenses, including income taxes, charged to the Fund to average net assets, including redeemable Preferred shares.

(e) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by average net assets during the year,

including redeemable Preferred shares.

(f) Annual rate of return represents the historical annual total rate of return of an investment in a Class A share for the year, assuming reinvestment of distributions. Returns are not reported in the year that the Fund was established.

4. Share Capital

The Fund is authorized to issue an unlimited number of Preferred and Class A shares and 1,000 Class B shares.

All Preferred shares and Class A shares outstanding on February 1, 2008 will be redeemed by the Fund on that date.

Preferred shares and Class A shares may be surrendered at any time for retraction at specified retraction amounts. Holders of Preferred shares and Class A shares may concurrently retract one Preferred share and one Class A share (together, a "Unit") on a January 31 valuation date at their net asset values. Shares retracted at any other valuation date or not retracted concurrently at a January 31 valuation date will be retracted at a discount to net asset value. 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 Preferred shares and Class A shares tendered for retraction. The Preferred shares rank in priority to the Class A shares and the Class A shares rank in priority to the Class B shares with respect to the payment of dividends and repayment of capital on the dissolution, liquidation or winding up of the Fund.

The holders of Class B shares are not entitled to receive

dividends. The Class B shares are retractable at a price of \$1.00 per share.

Class B shares are entitled to one vote per share. Preferred shares and Class A shares are entitled to vote on certain shareholder matters.

The Fund's Preferred shares have been classified as liabilities in accordance with the accounting requirements of The Canadian Institute of Chartered Accountants. Accordingly, net income for the year is stated after Preferred share distributions.

No Preferred shares or Class A shares were redeemed during the year. A net of 737,465 Units of Preferred shares and Class A shares were redeemed in 2001.

	2002	2001
3,293,415 Preferred shares (2001 - 3,293,415)	\$ 49,401,225	\$ 49,401,225
3,293,415 Class A shares (2001 - 3,293,415)	\$ 43,614,295	\$ 43,614,295
1,000 Class B shares	1,000	1,000
	\$ 43,615,295	\$ 43,615,295

5. 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.

Fees are paid to Mulvihill Capital Management Inc. ("MCM") under the terms of an investment management

agreement and to Mulvihill Fund Services Inc. ("Mulvihill") under the terms of a management agreement. The fees are comprised of monthly fees calculated at 1/12 of 1.15% and 1/12 of 0.10%, respectively, of the net assets of the Fund at each month end, including the redeemable Preferred shares.

6. Income Taxes

The Fund is a "mutual fund corporation" as defined in the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. The Fund is generally subject to a tax of 33 1/3% under Part IV of the Act on taxable dividends received in the year. This tax is fully refundable upon payment of sufficient dividends. The Fund is also subject to tax on the amount of its interest and foreign dividend income that is not offset by operating expenses and share issue expenses.

The Fund is also a "financial intermediary corporation" as defined in the Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends received nor is it generally

liable to tax under Part VI.1 on dividends paid on taxable preferred shares.

Under the dividend policy of the Fund, premiums received in respect of written options that are still outstanding at year end are not to be distributed in the year to the shareholders. The premiums retained by the Fund are subject to a refundable tax at 41.5%.

No amount is payable on account of income taxes in 2002 or 2001.

Issue costs of approximately \$2.2 million (2001-\$3.4 million) remain undeducted for tax purposes at year end.

7. Distributions – Preferred Shares

Distributions per Preferred share paid during the period were allocated as follows:

	2002	2001	2000	1999
Taxable dividends	\$ 0.2808	\$ 0.3110	\$ 0.3303	\$ 0.2351
Capital gains dividends	0.5812	0.5488	0.5283	0.5666
	\$ 0.8620	\$ 0.8598	\$ 0.8586	\$ 0.8017

Preferred shares are entitled to a cumulative preferential quarterly dividend of \$0.20625 per share payable on the last day of April, July, October and January in each year. To the extent that a quarterly dividend is a capital gains dividend funded by net realized capital gains or option premiums, holders of Preferred shares will receive an additional capital gains dividend of \$0.068 for each \$1.00 of Preferred share dividend so funded.

8. Commissions

Total commissions paid for the year ended January 31, 2002 in connection with portfolio transactions were \$131,350 (2001 - \$214,660).

9. Financial Instruments and Risk Management

The value of the Fund's assets and liabilities is affected by changes in interest rates and equity markets. The Fund manages these risks through the use of various risk limits

and trading strategies. The Fund's assets and liabilities are included in the statements of financial position at market value.

10. Statement of Portfolio Transactions

The Fund will provide, without charge, a Statement of Portfolio Transactions (unaudited) upon written request by any shareholder 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 Global Telecom Fund, Mulvihill Summit Digital World Fund, Mulvihill Pro-AMS U.S. Fund, Mulvihill Pro-AMS RSP Fund, Mulvihill Pro-AMS 100 Plus (Cdn \$) Fund and Mulvihill Pro-AMS Plus (U.S. \$) 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	\$ 27.25	\$ 21.75
MULVIHILL PREMIUM U.S. FUND	FPU.UN	\$ 25.47	\$ 17.40
MULVIHILL PREMIUM OIL & GAS FUND	FPG.UN	\$ 10.67	\$ 7.91
MULVIHILL PREMIUM 60 PLUS FUND	SIX.UN	\$ 28.00	\$ 21.30
MULVIHILL PREMIUM GLOBAL PLUS FUND	GIP.UN	\$ 24.60	\$ 16.50
MULVIHILL PREMIUM CANADIAN BANK FUND	PIC.A/PIC.PR.A	\$ 13.55/15.80	\$ 11.45/15.00
MULVIHILL PREMIUM SPLIT SHARE FUND	MUH.A/MUH.PR.A	\$ 15.25/16.00	\$ 11.50/13.70
MULVIHILL PREMIUM GLOBAL TELECOM FUND	GT.A/GT.PR.A	\$ 15.30/14.80	\$ 6.62/11.25
MULVIHILL SUMMIT DIGITAL WORLD FUND	DWT.UN	\$ 13.99	\$ 5.06
MULVIHILL PRO-AMS U.S. FUND	PAM.UN	\$ 25.75	\$ 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	\$ 21.93	\$ 19.90

Board of Directors

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

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

*Audit Committee

Michael M. Koerner*
Corporate Director

Robert W. Korthals*
Corporate Director

C. Edward Medland*
President, Beauwood Investments Inc.

Information

Auditors:
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BCE Place
181 Bay Street, Suite 1400
Toronto, Ontario M5J 2V1

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

Shares Listed:
Toronto Stock Exchange
trading under MUH.A, MUH.PR.A

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.



Mulvihill

Mulvihill Structured Products

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