

Mulvihill Structured Products



## Hybrid Income Funds

Annual Report 2001



**Mulvihill Premium Canadian Bank Fund**

*Premium Income Corporation*



Message to Shareholders →

The Fund is pleased to present its financial statements for the fiscal year ended October 31, 2001.

The Fund outperformed the broader market where indices declined by more than 25 percent. As a result, the Fund was able to add another year to its continuing track record of paying double-digit returns to shareholders.

During the fiscal year, preferred shareholders received approximately \$0.88 per share in distributions, and Class A shareholders received \$2.15 per share, comprised of \$0.80 in regular distributions and \$1.35 in special distributions. The underlying net asset value of the Fund's Class A shares decreased from \$12.35 at October 31, 2000 to \$10.26 at October 31, 2001, after giving effect to the above distributions.

The Fund's dividend policy calls for minimum distributions to Class A shareholders of \$0.20 per quarter, or \$0.80 per annum, which is equivalent to a yield of eight percent on the original issue price. For preferred shareholders, the target is \$0.8625 per annum, equivalent to a yield of 5.75 percent on the original issue price.

Shares of banks and other financial services companies have shown stability during a period of market decline, and are now well positioned to appreciate as economic conditions improve in the coming year.



**John P. Mulvihill**  
President  
Mulvihill Capital Management Inc.



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



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Investment Highlights

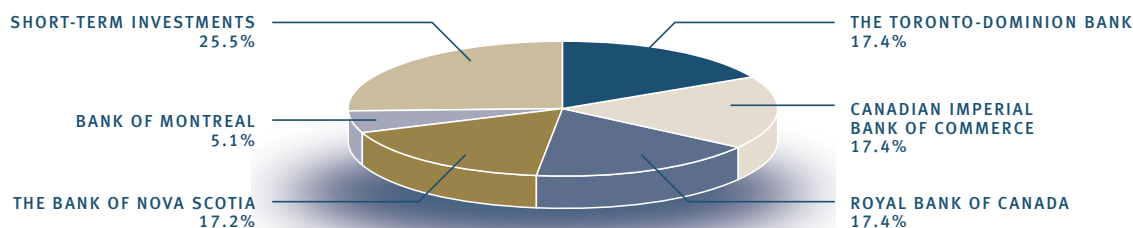
Investment Objectives

The Fund's investment objectives are to provide Preferred shareholders with quarterly cash dividends to yield 5.75% per annum based on the original issue price 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 \$0.20 per quarter or 8% 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 November 1, 2003.

Investment Strategy

The Fund intends to achieve its investment objectives by investing its net assets in a portfolio consisting primarily of common shares issued of Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank. 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 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



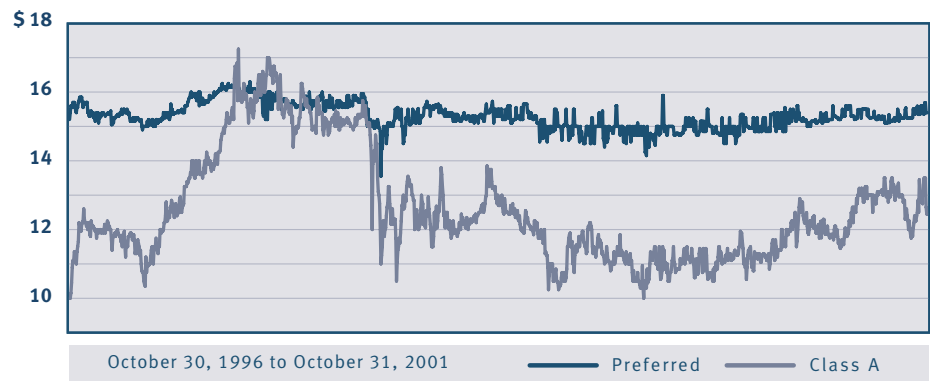
Distribution History

| INCEPTION DATE: OCTOBER 1996       | CLASS A REGULAR DISTRIBUTION | CLASS A SPECIAL DISTRIBUTION | TOTAL CLASS A DISTRIBUTION | REGULAR PREFERRED DISTRIBUTION |
|------------------------------------|------------------------------|------------------------------|----------------------------|--------------------------------|
| <b>Total for 1997</b>              | \$ 0.80                      | \$ 1.90                      | \$ 2.70                    | \$ 0.877800                    |
| <b>Total for 1998</b>              | 0.80                         | 0.50                         | 1.30                       | 0.884300                       |
| <b>Total for 1999</b>              | 0.80                         | 0.40                         | 1.20                       | 0.888610                       |
| <b>Total for 2000</b>              | 0.80                         | 0.60                         | 1.40                       | 0.880033                       |
| January 2001                       | 0.20                         | 0.20                         | 0.40                       | 0.220813                       |
| April 2001                         | 0.20                         | 0.20                         | 0.40                       | 0.221353                       |
| July 2001                          | 0.20                         | 0.20                         | 0.40                       | 0.221183                       |
| October 2001                       | 0.20                         | 0.75                         | 0.95                       | 0.220877                       |
| <b>Total for 2001</b>              | 0.80                         | 1.35                         | 2.15                       | 0.884226                       |
| <b>Total Distributions to Date</b> | \$ 4.00                      | \$ 4.75                      | \$ 8.75                    | \$ 4.414969                    |

**Eligible Holdings**

- Bank of Montreal
- The Bank of Nova Scotia
- Canadian Imperial Bank of Commerce
- Royal Bank of Canada
- The Toronto-Dominion Bank

**Trading History**



**Commentary**

The year ending October 31, 2001 was characterized by wide differentials in return between the various sectors comprising the TSE 300 Index. Technology related shares generally had poor relative performance while the more defensive sectors of the markets saw positive overall return.

The Financial Services Index occupied the middle ground between these two extremes remaining essentially unchanged from its level of November 1, 2001. This contrasts to the negative 27% performance of the TSE 300 Index itself.

In terms of individual bank performance, the only bank shares to show price increases during fiscal 2001 were those of Canadian Imperial Bank of Commerce and The Bank of Nova Scotia. Concerns about deteriorating credit quality and declining capital markets revenues due to the economic slowdown were the main factors affecting investor sentiment resulting in moderately negative performance for the shares of Bank of Montreal, Royal Bank of Canada and The Toronto-Dominion Bank.

On the positive side, personal and commercial banking revenues have remained strong. The banks have also benefited from improved net margins on loans, due to the record lowering of interest rates by both the Bank of Canada and the U.S. Federal Reserve. Improved cost controls and stronger trading revenues enhance the outlook for earnings in the coming year. Share prices of some companies in the sector are also being supported by active buyback programs. As the consensus opinion is for an economic recovery to occur beginning in 2002, the expectation is for the various banks to at least maintain or even grow their current level of earnings.

Auditors' Report

To the Shareholders

We have audited the accompanying statement of investments of Premium Income Fund (operating as Mulvihill Premium Canadian Bank Fund) (the "Fund") as at October 31, 2001, the statements of financial position as at October 31, 2001 and 2000, the statements of operations and retained earnings, 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 years in the five-year period ended October 31, 2001. 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 the dates indicated above, and the results of its operations, the changes in its net assets, the changes in its 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

November 16, 2001



**Statements of Financial Position**

October 31, 2001 and 2000

|  | 2001                 | 2000                 |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Investments at market value (average cost - \$99,179,430; 2000 - \$88,718,582) | \$ 99,717,292        | \$ 98,232,345        |
| Cash and cash equivalents  | 282,055              | 9,922,976            |
| Interest, dividends and other receivables                                      | 600,415              | 1,352,447            |
| <b>Total Assets</b>  | <b>\$100,599,762</b> | <b>\$109,507,768</b> |
| <b>Liabilities</b>   |                      |                      |
| Accounts payable and accrued liabilities                                       | \$ 98,180            | \$ 108,224           |
| Redeemable preferred shares (Note 4)   | 59,689,500           | 59,689,500           |
| Net redemption payable   | -                    | 566,143              |
|  | <b>59,787,680</b>    | <b>60,363,867</b>    |
| <b>Equity</b>  |                      |                      |
| Class A and Class B shares (Note 4)  | \$ 35,415,357        | \$ 35,415,357        |
| Retained earnings  | 5,396,725            | 13,728,544           |
|  | <b>40,812,082</b>    | <b>49,143,901</b>    |
| <b>Total Liabilities and Equity</b>  | <b>\$100,599,762</b> | <b>\$109,507,768</b> |
| <b>Net Asset Value per Class A Share</b>                                       | <b>\$ 10.26</b>      | <b>\$ 12.35</b>      |

On Behalf of the Board of Directors

  
 \_\_\_\_\_  
 John P. Mulvihill, Director

  
 \_\_\_\_\_  
 Robert W. Korthals, Director

Financial Statements

Statements of Operations and Retained Earnings

Years ended October 31, 2001 and 2000

|   | 2001                | 2000                 |
|---|---------------------|----------------------|
| <b>Revenue</b>  |                     |                      |
| Interest  | \$ 1,675,924        | \$ 1,860,971         |
| Dividends   | 2,204,730           | 2,013,499            |
|   | <b>3,880,654</b>    | <b>3,874,470</b>     |
| Net realized gains on investments and options                               | 10,176,265          | 7,561,944            |
|   | <b>14,056,919</b>   | <b>11,436,414</b>    |
| <b>Expenses (Note 5)</b>  |                     |                      |
| Management fees   | 976,299             | 902,626              |
| Administrative and other expenses   | 159,858             | 195,394              |
| Government taxes  | 202,585             | 76,861               |
|   | <b>1,338,742</b>    | <b>1,174,881</b>     |
| <b>Net Realized Income before Distributions</b>                             | <b>12,718,177</b>   | <b>10,261,533</b>    |
| <b>Preferred Share Distributions (Note 7)</b>                               | <b>3,518,600</b>    | <b>3,520,132</b>     |
| <b>Net Realized Income</b>  | <b>9,199,577</b>    | <b>6,741,401</b>     |
| <b>Change in Net Unrealized Appreciation of Investments During the Year</b> | <b>(8,975,901)</b>  | <b>13,162,520</b>    |
| <b>Net Income for the Year</b>  | <b>\$ 223,676</b>   | <b>\$ 19,903,921</b> |
| <b>Retained Earnings</b>  |                     |                      |
| Balance, beginning of year  | \$ 13,728,544       | \$ (575,377)         |
| Net income for the year   | 223,676             | 19,903,921           |
| Distributions on Class A shares   | (8,555,495)         | (5,600,000)          |
| <b>Balance, End of Year</b>   | <b>\$ 5,396,725</b> | <b>\$ 13,728,544</b> |

**Statements of Changes in Net Assets**

Years ended October 31, 2001 and 2000

|   | 2001                 | 2000                 |
|---|----------------------|----------------------|
| <b>Share Capital Transactions</b>   |                      |                      |
| Class A shares redeemed, net  | \$ –                 | \$ (255,643)         |
| <b>Net Realized Income before Distributions</b>                             | <b>12,718,177</b>    | <b>10,261,533</b>    |
| <b>Distributions</b>  |                      |                      |
| Preferred shares (Note 7)   | (3,518,600)          | (3,520,132)          |
| Class A shares  | (8,555,495)          | (5,600,000)          |
|   | (12,074,095)         | (9,120,132)          |
| <b>Change in Net Unrealized Appreciation of Investments During the Year</b> | <b>(8,975,901)</b>   | <b>13,162,520</b>    |
| <b>Change in Net Assets During the Year</b>                                 | <b>(8,331,819)</b>   | <b>14,048,278</b>    |
| <b>Net Assets, Beginning of Year</b>  | <b>49,143,901</b>    | <b>35,095,623</b>    |
| <b>Net Assets, End of Year</b>  | <b>\$ 40,812,082</b> | <b>\$ 49,143,901</b> |

**Statements of Changes in Investments**

Years ended October 31, 2001 and 2000

|   | 2001                 | 2000                 |
|---|----------------------|----------------------|
| <b>Investments at Market Value, Beginning of Year</b>                           | <b>\$ 98,232,345</b> | <b>\$ 92,933,821</b> |
| <b>Unrealized Appreciation (Depreciation) of Investments, Beginning of Year</b> | <b>9,513,763</b>     | <b>(3,648,757)</b>   |
| <b>Investments at Cost, Beginning of Year</b>                                   | <b>88,718,582</b>    | <b>96,582,578</b>    |
| <b>Cost of Investments Purchased During the Year</b>                            | <b>82,034,453</b>    | <b>98,003,462</b>    |
| <b>Cost of Investments Sold During the Year</b>                                 |                      |                      |
| Proceeds from sales   | 81,749,870           | 113,429,402          |
| Net realized gains on sales   | 10,176,265           | 7,561,944            |
|   | 71,573,605           | 105,867,458          |
| <b>Investments at Cost, End of Year</b>   | <b>99,179,430</b>    | <b>88,718,582</b>    |
| <b>Unrealized Appreciation of Investments, End of Year</b>                      | <b>537,862</b>       | <b>9,513,763</b>     |
| <b>Investments at Market Value, End of Year</b>                                 | <b>\$ 99,717,292</b> | <b>\$ 98,232,345</b> |

Financial Statements

Statement of Investments

October 31, 2001

|  | Par Value/<br>No. of Shares | Average<br>Cost      | Market<br>Value      | % of<br>Portfolio |
|--|-----------------------------|----------------------|----------------------|-------------------|
| <b>Common Shares</b>                                     |                             |                      |                      |                   |
| Bank of Montreal   | 150,000                     | \$ 5,344,087         | \$ 5,079,000         | 5.1               |
| The Bank of Nova Scotia                                  | 392,500                     | 16,822,601           | 17,211,125           | 17.3              |
| Canadian Imperial Bank of Commerce                       | 355,000                     | 16,856,394           | 17,331,100           | 17.4              |
| Royal Bank of Canada                                     | 371,300                     | 17,109,832           | 17,376,840           | 17.4              |
| The Toronto-Dominion Bank                                | 481,900                     | 18,274,176           | 17,319,486           | 17.4              |
| <b>Total Common Shares</b>                               |                             | <b>\$ 74,407,090</b> | <b>\$ 74,317,551</b> | <b>74.6</b>       |
| <b>Bonds</b>   |                             |                      |                      |                   |
| Canada Mortgage and Housing Corp., 5.5% September 2002   | 25,000,000                  | \$ 25,625,865        | \$ 25,648,819        | 25.7              |
| <b>Total Bonds</b>                                       |                             | <b>\$ 25,625,865</b> | <b>\$ 25,648,819</b> | <b>25.7</b>       |
|  | Number of<br>Contracts      | Proceeds             | Market<br>Value      | % of<br>Portfolio |
| <b>Written Call Options (100 shares per contract)</b>    |                             |                      |                      |                   |
| The Bank of Nova Scotia, December 2001 @ \$47            | 300                         | \$ (49,200)          | \$ (9,841)           |                   |
| The Bank of Nova Scotia, December 2001 @ \$48            | 200                         | (30,600)             | (6,809)              |                   |
| The Bank of Nova Scotia, January 2002 @ \$48             | 400                         | (51,200)             | (30,000)             |                   |
| The Bank of Nova Scotia, November 2001 @ \$49            | 200                         | (33,300)             | (1,342)              |                   |
| The Bank of Nova Scotia, November 2001 @ \$50            | 300                         | (46,500)             | (380)                |                   |
| Canadian Imperial Bank of Commerce, December 2001 @ \$53 | 300                         | (59,100)             | (19,909)             |                   |
| Canadian Imperial Bank of Commerce, January 2002 @ \$51  | 250                         | (46,500)             | (39,618)             |                   |
| Canadian Imperial Bank of Commerce, January 2002 @ \$53  | 500                         | (99,500)             | (55,000)             |                   |
| Canadian Imperial Bank of Commerce, November 2001 @ \$57 | 500                         | (88,000)             | (333)                |                   |
| Royal Bank of Canada, December 2001 @ \$49               | 250                         | (36,250)             | (21,006)             |                   |
| Royal Bank of Canada, January 2002 @ \$49                | 300                         | (52,350)             | (42,541)             |                   |
| Royal Bank of Canada, November 2001 @ \$51               | 350                         | (57,925)             | (350)                |                   |
| Royal Bank of Canada, November 2001 @ \$53               | 300                         | (48,900)             | (2,459)              |                   |
| The Toronto-Dominion Bank, December 2001 @ \$40          | 300                         | (45,300)             | (8,916)              |                   |
| The Toronto-Dominion Bank, December 2001 @ \$42          | 250                         | (32,375)             | (2,855)              |                   |
| The Toronto-Dominion Bank, November 2001 @ \$42          | 300                         | (42,150)             | (998)                |                   |
| The Toronto-Dominion Bank, November 2001 @ \$44          | 250                         | (34,375)             | (6,721)              |                   |
| <b>Total Written Call Options</b>                        |                             | <b>\$ (853,525)</b>  | <b>\$ (249,078)</b>  | <b>(0.3)</b>      |
| <b>Total Investments</b>                                 |                             | <b>\$ 99,179,430</b> | <b>\$ 99,717,292</b> | <b>100.0</b>      |

**Statements of Financial Highlights**

Years ended October 31

|   | 2001            | 2000            | 1999           | 1998           | 1997            |
|---|-----------------|-----------------|----------------|----------------|-----------------|
| <b>Data per Class A Share</b>                 |                 |                 |                |                |                 |
| Net asset value, beginning of year            | \$ 12.35        | \$ 8.77         | \$ 9.06        | \$ 11.84       | \$ 8.90         |
| <b>Income from Investment Operations</b>      |                 |                 |                |                |                 |
| Net investment loss                           | (0.25)          | (0.21)          | (0.32)         | (0.20)         | (0.14)          |
| Net gain (loss) on investments and options    | 0.31            | 5.19            | 1.23           | (1.28)         | 5.78            |
| <b>Total from Investment Operations</b>       | <b>0.06</b>     | <b>4.98</b>     | <b>0.91</b>    | <b>(1.48)</b>  | <b>5.64</b>     |
| <b>Distributions to Shareholders</b>          |                 |                 |                |                |                 |
| From Net Realized Gain on Sale of Investments | (2.15)          | (1.40)          | (1.20)         | (1.30)         | (2.70)          |
| <b>Net Asset Value, End of Year</b>           | <b>\$ 10.26</b> | <b>\$ 12.35</b> | <b>\$ 8.77</b> | <b>\$ 9.06</b> | <b>\$ 11.84</b> |
| <b>Ratios/Supplemental Data</b>               |                 |                 |                |                |                 |
| Total net assets, end of year (\$millions)    | \$ 40.8         | \$ 49.1         | \$ 35.1        | \$ 36.3        | \$ 47.4         |
| Average net assets (\$millions)               | \$ 49.2         | \$ 40.4         | \$ 39.4        | \$ 47.7        | \$ 44.7         |
| Management expense ratio                      | 1.23%           | 1.17%           | 1.22%          | 1.17%          | 1.04%           |
| Portfolio turnover rate                       | 75%             | 98%             | 62%            | 258%           | 323%            |
| Annual rate of return                         | 0.5%            | 56.8%           | 10.0%          | -12.5%         | 63.4%           |

Notes to Financial Statements

**1. Corporate Information**

Premium Income Fund (the "Fund") is a mutual fund corporation incorporated under the laws of the Province of Ontario on August 27, 1996. All shares outstanding on November 1, 2003 will be redeemed by the Fund on that date.

The Fund operates under the registered name Mulvihill Premium Canadian Bank Fund.

The Fund invests in a portfolio consisting principally of common shares of Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank.

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 short-term commercial paper issued by one or more of the Banks.

**2. Summary of Significant Accounting Policies**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following is a summary of the significant accounting principles:

**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 paid or 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.

**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 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.

- (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.

#### 4. Share Capital

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

All Preferred shares and Class A shares outstanding on November 1, 2003 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 on an October 31 valuation date at their net asset values. Shares retracted at any other valuation date or not retracted concurrently at an October 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 20,700 units of Preferred shares and Class A shares were redeemed in 2000.

| Issued and Outstanding     | 2001          | 2000          |
|----------------------------|---------------|---------------|
| 3,979,300 Preferred shares | \$ 59,689,500 | \$ 59,689,500 |
| 3,979,300 Class A shares   | \$ 35,414,357 | \$ 35,414,357 |
| 1,000 Class B shares       | 1,000         | 1,000         |
|                            | \$ 35,415,357 | \$ 35,415,357 |

#### 5. Management Fees And Expenses

The Fund is responsible for all ongoing custodian, manager, legal, accounting and audit fees as well as all other expenses incurred by the custodian 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 0.80% 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. Also, 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 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 42.6%. This tax, amounting to \$168,000 in 2001 (2000 - \$81,000), will be refundable to the Fund in a subsequent year when those premiums are distributed to the shareholders.

Notes to Financial Statements

**7. Distributions – Preferred Shares**

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

|                         | 2001      | 2000     | 1999      | 1998     | 1997      |
|-------------------------|-----------|----------|-----------|----------|-----------|
| Capital gains dividends | \$ 0.3412 | \$0.3673 | \$ 0.4101 | \$0.3439 | \$ 0.1439 |
| Taxable dividends       | 0.5430    | 0.5127   | 0.4785    | 0.5405   | 0.7339    |
|                         | \$ 0.8842 | \$0.8800 | \$ 0.8886 | \$0.8844 | \$ 0.8778 |

Preferred shares are entitled to a cumulative preferential quarterly dividend of \$0.215625 per share payable on the last day of January, April, July and October 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 in 2001 in connection with portfolio transactions were \$110,182 (2000 - \$169,420).

**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 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 Sixty Plus Fund, Mulvihill Premium Global Plus 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, 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         | \$ 28.75       | \$ 21.25       |
| MULVIHILL PREMIUM U.S. FUND           | FPU.UN         | \$ 26.75       | \$ 16.50       |
| MULVIHILL PREMIUM OIL & GAS FUND      | FPG.UN         | \$ 10.67       | \$ 7.91        |
| MULVIHILL PREMIUM SIXTY PLUS FUND     | SIX.UN         | \$ 28.50       | \$ 21.30       |
| MULVIHILL PREMIUM GLOBAL PLUS FUND    | GIP.UN         | \$ 26.00       | \$ 16.50       |
| MULVIHILL PREMIUM CANADIAN BANK FUND  | PIC.A/PIC.PR.A | \$ 13.50/16.00 | \$ 10.85/14.85 |
| MULVIHILL PREMIUM SPLIT SHARE FUND    | MUH.A/MUH.PR.A | \$ 16.50/16.00 | \$ 10.75/13.70 |
| MULVIHILL PREMIUM GLOBAL TELECOM FUND | GT.A/GT.PR.A   | \$ 16.00/14.80 | \$ 6.30/11.25  |
| MULVIHILL SUMMIT DIGITAL WORLD FUND   | DWT.UN         | \$ 15.00       | \$ 5.00        |
| MULVIHILL PRO-AMS U.S. FUND           | PAM.UN         | \$ 26.70       | \$ 19.50       |
| MULVIHILL PRO-AMS RSP FUND            | PR.UN          | \$ 25.65       | \$ 19.06       |

## Board of Directors

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### John P. Mulvihill\*

Chairman & President,  
Mulvihill Capital Management Inc.

### Michael M. Koerner\*

Corporate Director

### David N. Middleton

Vice President, Finance & CFO,  
Mulvihill Capital Management Inc.

### Robert W. Korthals\*

Corporate Director

### C. Edward Medland\*

President, Beauwood Investments Inc.

\*Audit Committee

## Information

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### Auditors:

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

### Shares Listed:

Toronto Stock Exchange  
trading under  
PIC.A, PIC.PR.A

### Transfer Agent:

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

### 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

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### Mulvihill Premium Funds

Mulvihill Premium Canadian Fund  
Mulvihill Premium U.S. Fund  
Mulvihill Premium Oil & Gas Fund  
Mulvihill Premium Sixty 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

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

Premium Global Income Fund  
Premium Canadian Income Fund

### Head Office:

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Mulvihill Capital Management Inc.  
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tel: 416 681-3966 or 1 800 725-7172  
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Visit our website at [www.mulvihill.com](http://www.mulvihill.com)  
for additional information on all  
Mulvihill Hybrid Income Funds.





**Mulvihill**

**Mulvihill Structured Products**

Investor Relations

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