

ANNUAL INFORMATION FORM

FIRST PREMIUM INCOME TRUST

Units and Warrants

March 30, 2010

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THE FUND

First Premium Income Trust (the “Fund”) is an investment trust established under the laws of the Province of Ontario pursuant to a trust agreement dated as of June 21, 1996, as amended from time to time (the “Trust Agreement”), between Mulvihill Fund Services Inc. (“Mulvihill” or the “Manager”), as manager, and RBC Dexia Investor Services Trust (the “Trustee”), as trustee. Mulvihill is a wholly owned subsidiary of Mulvihill Capital Management Inc. (“MCM” or the “Investment Manager”), the investment manager of the Fund. The Fund operates under the name “Mulvihill Premium Canadian Fund”.

On June 28, 1996, the Fund completed its initial public offering of 6,000,000 units (“Units”) at a price of \$25.00 per Unit. On July 19, 1996, the Fund completed an additional offering of 600,000 Units at a price of \$25.00 per Unit pursuant to the exercise of an over-allotment option granted to the Fund’s agents in connection with the Fund’s initial public offering. The outstanding Units are listed on the Toronto Stock Exchange (“TSX”) under the symbol FPI.UN.

On July 28, 1999, the Trust Agreement was amended to permit the Fund to write cash covered put options. The Trust Agreement was amended again on March 9, 2000 to eliminate the requirement that the dividend yields on the common shares in which the Fund was permitted to invest be paid at least semi-annually at a rate equal to 125% of the indicated annual dividend yield for the TSE 300 Composite Index. Finally, as a result of amendments to the Trust Agreement of December 2003, the termination date for the Fund was extended from January 1, 2004 to January 1, 2014 (the “Termination Date”) and the Fund began to pay an annual service fee of 0.30% of net asset value (“NAV”) to sales representatives whose clients hold Units.

On November 19, 2009, the Fund completed an offering (the “Warrant Offering”) of warrants (the “Warrants”) to holders of its Units (“Unitholders”). The Fund issued 1,883,543 Warrants to subscribe for and purchase an aggregate of approximately 1,883,543 Units. Each Unitholder received one transferable Warrant for each Unit held. The Warrants trade on the TSX under the ticker symbol FPI.WT.

The principal offices of the Fund, of Mulvihill and of MCM are located at 121 King Street West, Standard Life Centre, Suite 2600, Toronto, Ontario, M5H 3T9. The phone numbers, website address and e-mail address of Mulvihill are (416) 681-3900 (toll-free at 1-800-725-7172), www.mulvihill.com and hybrid@mulvihill.com, respectively.

INVESTMENT OBJECTIVES AND STRATEGY

The Fund’s investment objectives are:

- (a) to provide Unitholders with a stable stream of quarterly distributions of at least \$0.50 per Unit (\$2.00 per annum); and
- (b) to return the original issue price of the Units (\$25.00 per Unit) to Unitholders upon the “Termination Date”.

The Fund seeks to achieve its investment objectives by investing in a diversified portfolio (the “Portfolio”) consisting primarily of common shares (which may include voting common shares and fully participating non-voting, restricted voting or subordinate voting equity shares) issued by major Canadian issuers that are in the top 200 of the S&P/TSX Composite Index by market capitalization. A majority of the securities comprising the Portfolio will be those issued by major financial institution, utilities and pipeline companies in Canada. The securities comprising the Portfolio may also include instalment receipts for common shares and securities convertible into or exchangeable for or which carry the right to purchase common shares. The Portfolio will be managed by MCM to enhance returns to the Fund.

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 securities in the Portfolio. The Fund’s covered called option writing will be managed by MCM in a manner consistent with the investment objectives of the Fund. The individual securities within the Portfolio which are subject to call options and the terms of such options will vary from time to time based on MCM’s assessment of the market. 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, which may be utilized to provide cover in respect of the writing of cash covered put positions.

STATUS OF THE FUND

While the Fund is technically considered to be a mutual fund under the securities legislation of certain provinces of Canada, the Fund is not a conventional mutual fund and has obtained exemptions from certain requirements of Canadian securities laws relating to mutual funds.

The Fund differs from conventional mutual funds in a number of respects, most notably as follows: (a) while the Units of the Fund may be surrendered at any time for redemption, the redemption price is payable monthly whereas the securities of most conventional mutual funds are redeemable daily; (b) the Units of the Fund have a stock exchange listing whereas the securities of most conventional mutual funds do not; and (c) unlike most conventional mutual funds, the Units are not offered on a continuous basis.

UNITS

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Fund.

All Units have equal rights and privileges. Each whole Unit is entitled to one vote at all meetings of Unitholders and is entitled to participate equally with respect to any and all distributions made by the Fund, including distributions of net income and net realized capital gains, and distributions upon the termination of the Fund. Units are issued only as fully paid and are non-assessable. Fractions of Units are proportionately entitled to all of these rights except voting rights.

The provisions or rights attaching to the Units may only be modified, amended or varied with the consent of Unitholders given in accordance with provisions contained in the Trust Agreement as described herein under the heading "Acts Requiring Unitholder Approval".

On December 16, 2004, the *Trust Beneficiaries' Liability Act, 2004* (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust if, when the act or default occurs or the liability arises, (a) the trust is a reporting issuer under the *Securities Act* (Ontario), and (b) the trust is governed by the laws of Ontario. The Fund is a reporting issuer under the *Securities Act* (Ontario) and it is governed by the laws of Ontario by virtue of the provisions of the Trust Agreement.

The Fund does not currently intend to issue additional Units, except on reinvestment of distributions, by way of a rights offering to existing Unitholders or with the approval of Unitholders.

Distributions

The Fund will endeavour to make quarterly distributions to Unitholders of at least \$0.50 per Unit (\$2.00 per annum) on the last day of each quarter in each year (a "distribution date"). However, there can be no assurance that the Fund will be able to make distributions at such rate.

The amount of distributions in any particular calendar quarter will be determined by Mulvihill, as manager, having regard to the investment objectives of the Fund, the net income and net realized capital gains of the Fund during the calendar quarter and in the year to date, the net income and net realized capital gains of the Fund anticipated in the balance of the year and distributions made in previous calendar quarters.

If, in any year after such distributions, there would otherwise remain in the Fund additional net income or net realized capital gains, the Fund intends on December 31 of that year to make a special distribution of such portion of the remaining net income and net realized capital gains as is necessary to ensure that the Fund will not be liable for income tax thereon under the *Income Tax Act* (Canada) (the "Tax Act"), except to the extent that any tax payable on net realized capital gains of the Fund for a year that are retained by the Fund would be recoverable by it in such year.

Distributions are payable to Unitholders of record at 5:00 p.m. (Toronto time) as of the fifteenth day of each month (or the next business day thereafter if the fifteenth day is not a business day). All distributions not reinvested pursuant to the Fund's distribution reinvestment plan are paid by cheque to Unitholders proportionately based on their respective holdings of Units and are mailed to Unitholders at their addresses listed in the register of Unitholders to be maintained by the Fund's registrar and transfer agent or paid in such other manner as may be agreed to by the Trustee.

Each Unitholder is mailed annually, no later than March 31, information necessary to enable such Unitholder to complete an income tax return with respect to amounts paid or payable by the Fund in respect of the preceding taxation year of the Fund.

Distribution Reinvestment Plan

A Unitholder may elect to reinvest distributions received from the Fund in additional Units by notifying the Fund's transfer agent that the Unitholder wishes to participate in the Plan. All distributions will be automatically reinvested on behalf of those Unitholders electing to participate in the Plan.

Distributions payable to participants in the Plan (the "Participant") will be paid to Computershare Trust Company of Canada in its capacity as agent under the Plan (the "Plan Agent") and applied to purchase Units. Such purchases will either be made from the Fund through the purchase of new Units or in the market. If the closing market price plus applicable commissions or brokerage charges (collectively, the "Market Price") of the Units on the distribution date is less than the NAV per Unit as at that date, the Plan Agent will apply the distribution to purchase Units in the market. If the Market Price of the Units on the applicable distribution date is greater than the NAV per Unit, the Plan Agent will apply the distribution to purchase Units from the Fund through the issue of new whole Units at a price per Unit equal to the greater of (a) NAV per Unit on the distribution date; and (b) 95% of the weighted average of the trading prices of the Units on the TSX for the five trading days preceding the distribution date.

Purchases in the market will be made during the 15 business day period next following the distribution date at such times as the Market Price of the Units is less than the NAV per Unit as at the distribution date. Upon the expiration of such period, the unused part, if any, of the distribution attributable to the Plan Participants will be used to purchase Units from the Fund on the basis set forth above. The Units purchased in the market or from the Fund will be allocated to the Plan Participants in proportion to their share of the distribution. The Plan Agent will furnish to each Plan Participant a report of the Units purchased for the Participant's account in respect of each distribution and the cumulative total of all Units purchased for that account. The Plan Agent's charges for administering the Plan will be paid by the Fund. The reinvestment of distributions under the Plan will not relieve participants of any income tax applicable to such distributions.

Plan Participants may terminate their participation in the Plan at any time by written notice to the Plan Agent and thereafter distributions payable to such Plan Participants will be made in cash. The Trustee may terminate the Plan, in its sole discretion, upon not less than thirty days' notice to the Plan Participants.

Redemption of Units

Units may be surrendered at any time for redemption to Computershare Investor Services Inc., the Fund's registrar and transfer agent, but will be redeemed only on the monthly Valuation Date (as defined below). Units surrendered for redemption by a Unitholder at least five business days prior to the last day of a month (a "Valuation Date") will be redeemed on such Valuation Date and the Unitholder will receive payment on or before the fifth business day following such Valuation Date (the "Redemption Payment Date"). If a Unitholder makes such surrender after 5:00 p.m. (Toronto time) on the fifth business day immediately preceding a Valuation Date, the Units will be redeemed on the Valuation Date in the following month and the Unitholder will receive payment for the Units on the Redemption Payment Date in respect of such Valuation Date.

Unitholders whose Units are redeemed on the June Valuation Date in any year will be entitled to receive a redemption price per Unit (the "Unit Redemption Price") equal to the NAV per Unit determined as of such Valuation Date. Unitholders whose Units are redeemed on any other Valuation Date will be entitled to receive a redemption price per Unit equal to the NAV per Unit determined as of such other Valuation Date, less the lesser of (a) 4% of the NAV per Unit as of such other Valuation Date and (b) \$1.00. Any unpaid distribution payable on or

before a Valuation Date in respect of Units tendered for redemption on such Valuation Date will also be paid on the Redemption Payment Date.

The redemption right must be exercised by causing written notice to be given within the notice periods prescribed herein and in the manner described under “Book-Entry Only System”. Such surrender will be irrevocable upon the delivery of notice to CDS Clearing and Depository Services Inc. (“CDS”) through a participant in the CDS book-entry only system (a “CDS Participant”), except with respect to those Units which are not redeemed by the Fund on the relevant Redemption Payment Date.

Resale of Units Tendered for Redemption

Where the holder of Units tendered for redemption has not withheld his consent thereto in the manner provided in the redemption notice delivered to CDS through a CDS Participant, the Fund may, but is not obligated to, require the Recirculation Agent (as defined below) to use its best efforts to find purchasers for any Units tendered for redemption prior to the relevant Redemption Payment Date pursuant to the Recirculation Agreement (as defined below). In such event, the amount to be paid to the Unitholder on the Redemption Payment Date will be an amount equal to the proceeds of the sale of the Units less any applicable commission. Such amount will not be less than the Unit Redemption Price described above. Unitholders are free to withhold their consent to such treatment and to require the Fund to redeem their Units in accordance with their terms.

Subject to the Fund’s right to require the Recirculation Agent to use its best efforts to find purchasers for any Units tendered for redemption prior to the relevant Valuation Date, any and all Units which have been surrendered to the Fund for redemption are deemed to be outstanding until (but not after) the close of business on the relevant Valuation Date, unless not redeemed thereon, in which event such Units will remain outstanding.

The Fund has entered into an agreement (the “Recirculation Agreement”) with RBC Dominion Securities Inc. (the “Recirculation Agent”) whereby the Recirculation Agent has agreed to use its reasonable efforts to find purchasers for any Units tendered for redemption prior to the relevant Valuation Date, provided that the holder of the Units so tendered has not withheld consent thereto. The Fund is not obligated to require the Recirculation Agent to seek such purchasers but may elect to do so. In the event that a purchaser for such Units is found in this manner, the amount to be paid to the Unitholder on the relevant Redemption Payment Date will be an amount equal to the proceeds of the sale of the Unit less any applicable commission. Such amount will not be less than the applicable Unit Redemption Price described above.

Suspension of Redemptions

Mulvihill may direct the Trustee to suspend the redemption of Units or payment of redemption proceeds (a) during any period when normal trading is suspended on the TSX; or (b) with the prior permission of the Ontario Securities Commission, for any period not exceeding 120 days during which Mulvihill determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Trustee to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension but as to which payment has not been made, as well as to all requests received while the suspension is in effect. All holders of Units making such requests shall be advised by Mulvihill of the suspension and that the redemption will be effected at a price determined on the first Valuation Date following the termination of the suspension. All such Unitholders shall have and shall be advised that they have the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations promulgated by any government body having jurisdiction over the Fund, any declaration of suspension made by Mulvihill shall be conclusive.

Purchase for Cancellation

Subject to applicable law, the Fund may at any time or times purchase Units for cancellation at prices not exceeding the NAV per Unit on the Valuation Date immediately prior to such purchase.

Normal Course Issuer Bid

Under the terms of a normal course issuer bid that expired on May 8, 2009, the Fund could purchase up to a maximum of 283,144 Units. No Units were purchased by the Fund pursuant to the bid.

Book-Entry Only System

Registration of interests in and transfers of the Units are made only through the book-entry only system administered by CDS (the “book-entry only system”). Units must be purchased, transferred and surrendered for redemption through a CDS Participant. All rights of an owner of Units must be exercised through, and all payments or other property to which such owner is entitled will be made or delivered by, CDS or the CDS Participant through which the owner holds such Units. Upon purchase of any Units, the owner will receive only the customary confirmation. References in this annual information form to a holder of Units means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such owner’s interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

An owner of Units who desires to exercise redemption privileges thereunder must do so by causing a CDS Participant to deliver to CDS (at its office in the City of Toronto) on behalf of the owner a written notice of the owner’s intention to redeem Units, no later than 5:00 p.m. (Toronto time) on the relevant notice date. An owner who desires to redeem Units should ensure that the CDS Participant is provided with notice (the “Redemption Notice”) of his intention to exercise his redemption privilege sufficiently in advance of the relevant notice date so as to permit the CDS Participant to deliver notice to CDS by the required time. The Redemption Notice will be available from a CDS Participant or Computershare Investor Services Inc., the Fund’s registrar and transfer agent. Any expense associated with the preparation and delivery of Redemption Notices will be for the account of the owner exercising the redemption privilege.

By causing a CDS Participant to deliver to CDS a notice of the owner’s intention to redeem Units, an owner shall be deemed to have irrevocably surrendered his Units for redemption and appointed such CDS Participant to act as his exclusive settlement agent with respect to the exercise of the redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise.

Any Redemption Notice which CDS determines to be incomplete, not in proper form or not duly executed shall for all purposes be void and of no effect and the redemption privilege to which it relates shall be considered for all purposes not to have been exercised thereby. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with the owner’s instructions will not give rise to any obligations or liability on the part of the Fund to the CDS Participant or to the owner.

The Fund has the option to terminate registration of the Units through the book-entry only system in which case certificates for Units in fully registered form would be issued to beneficial owners of such Units or to their nominees.

WARRANTS

Each Warrant entitles the holder thereof (a “Warrantholder”) to acquire one Unit upon payment of \$11.30 (the “Subscription Price”) prior to 5:00 p.m. (Toronto time) on March 31, 2010 (the “Expiry Date”).

Exercise of Warrants and Warrant Agent

Warrants may be exercised at any time during the period (the “Exercise Period”) commencing at market open (Toronto time) on December 1, 2009 and ending at 5:00 p.m. (Toronto time) on the Expiry Date. **WARRANTS NOT EXERCISED PRIOR TO 5:00 P.M. (TORONTO TIME) ON THE EXPIRY DATE WILL BE VOID AND OF NO VALUE.** If a Unitholder does not exercise, or sells, the Warrants, then the value of the Unitholder’s investment may be diluted as a result of the exercise of Warrants by others. See “Warrant Considerations”.

Pursuant to the terms of a master warrant indenture (the “Warrant Indenture”) dated as of November 6, 2009 between Mulvihill, in its capacity as manager of the Fund and Computershare Trust Company of Canada (the “Warrant Agent”), as warrant agent, the Warrant Agent has been appointed the warrant agent of the Fund to receive subscriptions and payments from Warrantheholders, to act as registrar and transfer agent for the Warrants and to perform certain services relating to the exercise and transfer of Warrants. The Fund will pay for the services of the Warrant Agent. The Warrant Agent may resign upon at least 90 days’ notice to the Fund. The Fund may remove the Warrant Agent and appoint a new warrant agent on at least 90 days’ notice to the Warrant Agent.

Warrantheholders desiring to exercise Warrants and purchase Units should ensure that subscriptions and payment in full of the Subscription Price are received by the Warrant Agent prior to 5:00 p.m. (Toronto time) on the Expiry Date.

The Units purchased pursuant to the Warrants so exercised shall be deemed to have been issued and the person or persons in whose name or names such Units are to be registered shall be deemed to have become the holder or holders of record of such Units on the date on which such Units are entered into the register maintained by the Fund’s transfer agent for such Units. Units will only be issued pursuant to the Additional Subscription Privilege after all necessary calculations have been made following the Expiry Date as described under “Additional Subscription Privilege”.

Basic Subscription Privilege

A Warrantheholder may subscribe for the resulting whole number of Units or any lesser whole number of Units by instructing the CDS Participant holding the subscriber’s Warrants to exercise all or a specified number of such Warrants and forwarding the Subscription Price for each Unit subscribed for in accordance with the terms of the Warrant Offering and the Warrant Indenture to the CDS Participant that holds the subscriber’s Warrants.

The Subscription Price is payable in Canadian funds by certified cheque, bank draft or money order drawn to the order of a CDS Participant, by direct debit from the subscriber’s brokerage account or by electronic funds transfer or other similar payment mechanism. All payments must be forwarded to the appropriate office of the CDS Participant. The entire Subscription Price for Units subscribed for must be paid at the time of subscription and must be received by the Warrant Agent prior to 5:00 p.m. (Toronto time) on the Expiry Date. **If mail is used for delivery of subscription funds, for the protection of the subscriber, “certified mail – return receipt requested” should be used and sufficient time should be allowed to avoid the risk of late delivery. A subscriber subscribing through a CDS Participant must deliver its payment and instructions sufficiently in advance of the Expiry Date to allow the CDS Participant to properly exercise the Warrants on such subscriber’s behalf. Warrantheholders are encouraged to contact their broker or other CDS Participant as each CDS Participant may have a different cut-off time.**

CDS Participants that hold Warrants for more than one beneficial holder may, upon providing evidence satisfactory to the Fund and the Warrant Agent during the Exercise Period, exercise Warrants on behalf of their accounts on the same basis as if the beneficial owners of such Warrants were the holders of record.

Notwithstanding anything to the contrary herein, the Warrants may be exercised only by a Warrantheholder who represents at the time of exercise that the Warrantheholder is not located in the United States, did not acquire the Warrants while in the United States, is not a U.S. person (as defined in Regulation S under the U.S. Securities Act of 1933, as may be amended from time to time) and is not exercising the Warrants for resale to or for the account or benefit of a U.S. person or a person in the United States. Payment of the Subscription Price will constitute a representation to the CDS Participant that the subscriber is not located in the United States, did not acquire Warrants while in the United States, is not a U.S. person and is not exercising the Warrants for resale to or for the account or benefit of a U.S. person or a person in the United States.

Subscriptions for Units made in connection with the Warrant Offering through a CDS Participant will be irrevocable and subscribers will be unable to withdraw their subscriptions for Units once submitted.

Warrantheolders who wish to exercise their Warrants and receive Units are reminded that because Warrants must be exercised through a CDS Participant, a significant amount of time may elapse from the date of exercise and the date the Units issuable upon the exercise thereof are issued to the subscriber.

Additional Subscription Privilege

Each Warrantheolder that subscribes for all of the Units to which such holder is entitled pursuant to the Basic Subscription Privilege may, at any time during the Exercise Period, subscribe for additional Units (“Additional Units”) pursuant to the Additional Subscription Privilege, if applicable, at a price equal to the Subscription Price for each Additional Unit. Warrantheolders must exercise all of their Warrants under the Basic Subscription Privilege to be eligible for the Additional Subscription Privilege.

The aggregate number of Additional Units available under the Additional Subscription Privilege for all additional subscriptions will be the difference, if any, between the total number of Units issuable upon exercise of the Warrants and the total number of Units subscribed and paid for prior to 5:00 p.m. (Toronto time) on the Expiry Date. Subscriptions for Additional Units will be received subject to allotment only and the number of Additional Units, if any, which may be allotted to each subscriber will be equal to the lesser of: (a) the number of Additional Units which that subscriber has subscribed for under the Additional Subscription Privilege, and (b) the product (disregarding fractions) obtained by multiplying the number of available Additional Units by a fraction, the numerator of which is the number of Warrants exercised by that subscriber under the Basic Subscription Privilege and the denominator of which is the aggregate number of Warrants exercised under the Basic Subscription Privilege by Warrantheolders that have subscribed for Additional Units pursuant to the Additional Subscription Privilege. If any Warrantheolder has subscribed for fewer Additional Units than such holder’s pro rata allotment of Additional Units, the excess Additional Units will be allotted in a similar manner among the holders who were allotted fewer Additional Units than they subscribed for.

To apply for Additional Units under the Additional Subscription Privilege, a beneficial Warrantheolder must forward the holder’s request to a CDS Participant prior to 5:00 p.m. (Toronto time) on the Expiry Date. Payment for Additional Units, in the same manner as for Units, must accompany the request when it is delivered to the CDS Participant. Any excess funds will be returned by mail or credited to a subscriber’s account with its CDS Participant without interest or deduction. Payment in full of the Subscription Price must be received by the Warrant Agent prior to 5:00 p.m. (Toronto time) on the Expiry Date, failing which the subscriber’s entitlement to such Units will terminate. Accordingly, the subscriber must deliver payment and instructions sufficiently in advance of the Expiry Date to allow the CDS Participant to properly apply for Additional Units under the Additional Subscription Privilege. Units issued pursuant to the Additional Subscription Privilege will only be issued after all necessary calculations have been made following the Expiry Date.

Sale or Transfer of Warrants

Warrantheolders in Canada may, instead of exercising their Warrants to subscribe for Units, sell or transfer their Warrants. Holders of Warrants through CDS Participants who wish to sell or transfer their Warrants must do so in the same manner as they sell or transfer Units, namely, by providing instructions to the CDS Participant holding their Warrants in accordance with the policies and procedures of the CDS Participant.

Warrant Considerations

The value of a Unit will be reduced if the NAV per Unit exceeds \$11.11 and one or more Warrants is exercised. If the NAV per Unit exceeds \$11.11, then a Unitholder will face dilution of its investment to the extent Warrantheolders exercise their Warrants and acquire Units. If a Unitholder does not exercise Warrants in such circumstances, such Unitholder’s pro rata interest in the assets of the Fund will be diluted.

Due to the dilutive effect on the value of the Units when Warrants are exercised, Unitholders should carefully consider the exercise of the Warrants or the sale of the Warrants prior to the Expiry Time. The failure to take either such action in the circumstances described above will result in the loss of value to the investor. To maintain the Unitholder’s pro rata interest in the assets of the Fund, the Unitholder will be required to pay in connection with the exercise of a Warrant an additional amount equal to the Subscription Price. While a Unitholder may sell the Unitholder’s Warrants, no assurance can be given that the proceeds of such sale will compensate the Unitholder for

such dilution. The factors that would be expected to influence the price of a Warrant include the difference between the Subscription Price and the NAV per Unit calculated on a diluted basis, price volatility, distributions payable on the Units and the remaining time to expiry of the Warrant.

Anti-dilution Provisions

The Warrant Indenture contains anti-dilution provisions such that the subscription rights in effect under the Warrants for Units issuable upon the exercise of the Warrants will be subject to adjustment from time to time if, prior to the expiry time (5 p.m. Toronto time) on the Expiry Date, the Fund:

- (a) subdivides, re-divides or changes its outstanding Units into a greater number of units;
- (b) reduces, combines or consolidates its outstanding Units into a smaller number of units;
- (c) distributes to holders of all or substantially all of the outstanding Units any securities of the Fund including rights, options or warrants to acquire Units or securities convertible into or exchangeable for Units or property or assets, including evidence of indebtedness (other than in connection with the distribution and exercise of the Warrants);
- (d) reclassifies the Units or otherwise reorganizes the capital of the Fund; or
- (e) consolidates, amalgamates or merges the Fund with or into any other investment fund or other entity, or sells or conveys the property and assets of the Fund as an entirety or substantially as an entirety (other than in connection with the redemption of Units).

Delivery Form and Denomination of Warrants

All Warrantholders hold their Warrants through a CDS Participant, except where the issuance of physical certificates evidencing ownership in such securities is necessary to facilitate Warrant exercises. The Fund expects that each Unitholder will receive a confirmation of the number of Warrants issued to it under the Warrant Offering from its CDS Participant in accordance with the practices and procedures of that CDS Participant. CDS will be responsible for establishing and maintaining book-based accounts for its participants holding Warrants.

None of the Fund, the Manager or the Warrant Agent will have any liability for: (a) the records maintained by CDS or CDS Participants relating to the Warrants or the book-based accounts maintained by them; (b) maintaining, supervising or reviewing any records relating to such Warrants; or (c) any advice or representations made or given by CDS or CDS Participants with respect to the rules and regulations of CDS or any action to be taken by CDS or its participants.

The ability of a person having an interest in Warrants held through a CDS Participant to pledge such interest or otherwise take action with respect to such interest (other than through a CDS Participant) may be limited due to the lack of a physical certificate. Warrantholders must arrange purchases and transfers of, and for the issuance of Warrant certificates for the purpose of exercises of, Warrants through CDS Participants.

UNITHOLDER MATTERS

Acts Requiring Unitholder Approval

The following matters require the approval of Unitholders by a two-thirds majority vote (other than items (c), (f), (g), (h) and (i) which require approval by a simple majority vote) at a meeting called and held for such purpose:

- (a) a change in the fundamental investment objectives and strategy of the Fund as described under “Investment Objectives and Strategy”;
- (b) a change in the investment restrictions of the Fund as described under “Investment Restrictions”;

- (c) the entering into by the Fund of transactions involving derivatives other than the writing of covered call options or cash covered put options, the purchase of call options or put options and the entering into of trades by the Fund to close out positions in such derivatives or the purchase of put options to protect the Fund from declines in the market prices of individual securities in the Portfolio or in the value of the Portfolio as a whole;
- (d) any change in the basis of calculating fees or other expenses that are charged to the Fund which could result in an increase in charges to the Fund;
- (e) a change of the manager of the Fund, other than a change resulting in an affiliate of such person assuming such position or, except as described herein, a change in the investment manager or trustee of the Fund, other than a change resulting in an affiliate of such person assuming such position;
- (f) a decrease in the frequency of calculating the NAV per Unit or of redeeming Units;
- (g) a change of the auditors of the Fund;
- (h) a reorganization with, or transfer of assets to, another mutual fund, if:
 - (i) the Fund ceases to continue after the reorganization or transfer of assets; and
 - (ii) the transaction results in Unitholders becoming securityholders in the other mutual fund;
- (i) a reorganization with, or acquisition of assets of, another mutual fund, if:
 - (i) the Fund continues after the reorganization or acquisition of assets;
 - (ii) the transaction results in the securityholders of the other mutual fund becoming Unitholders of the Fund; and
 - (iii) the transaction would be a material change to the Fund;
- (j) a termination of the Investment Management Agreement (except as described under “Investment Management Agreement”);
- (k) a termination of the Fund prior to the Termination Date or an extension of the Fund beyond the Termination Date; and
- (l) an amendment, modification or variation in the provisions or rights attaching to the Units.

Mulvihill and the Trustee may, without the approval of or notice to Unitholders, amend the Trust Agreement for certain limited purposes specified therein, including to:

- (a) remove any conflicts or other inconsistencies which may exist between any terms of the Trust Agreement and any provisions of any law or regulation applicable to or affecting the Fund;
- (b) make any change or correction in the Trust Agreement which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (c) bring the Trust Agreement into conformity with National Instrument 81-102 – *Mutual Funds* (“NI 81-102”) or other applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities industry, provided that any such amendment does not adversely affect the pecuniary value of the interest of any Unitholder;

- (d) maintain the status of the Fund as a “mutual fund trust” for the purposes of the Tax Act; or
- (e) provide added protection to Unitholders.

Except for changes to the Trust Agreement which require the approval of Unitholders or changes described above which do not require approval or prior notice to Unitholders, the Trust Agreement may be amended from time to time by Mulvihill and the Trustee upon not less than 30 days’ prior written notice to Unitholders.

Reporting to Unitholders

The Fund will furnish annual and semi-annual financial statements of the Fund to Unitholders in accordance with applicable laws.

INVESTMENT RESTRICTIONS

The Fund is subject to certain investment criteria that, among other things, limit the common shares and other securities the Fund may acquire to comprise the Portfolio. The Fund’s investment criteria may not be changed without the approval of Unitholders by a two-thirds majority vote at a meeting called for such purpose. The Fund’s investment criteria provide that the Fund may not:

- (a) except as provided in paragraphs (b) and (g), purchase securities of an issuer unless:
 - (i) such securities are common shares or are convertible into or exchangeable for or carry the right to purchase common shares of the issuer; and
 - (ii) the common shares of the issuer rank, or are reasonably expected by MCM to rank within 12 months of the date of purchase in the top 200 of the S&P/TSX Composite Index on the basis of capitalization;
- (b) purchase debt securities unless such securities are cash equivalents;
- (c) write a call option in respect of any security unless such security is actually held by the Fund at the time the option is written;
- (d) dispose of any security included in the Portfolio that is subject to a call option written by the Fund unless such option has either terminated or expired;
- (e) write put options in respect of any security unless (i) the Fund is permitted to invest in such securities and (ii) so long as the options are exercisable, the Fund continues to hold cash equivalents sufficient to acquire the securities underlying the options at the aggregate strike price of such options;
- (f) reduce the total amount of cash equivalents held by the Fund to an amount less than the aggregate strike price of all outstanding put options written by the Fund;
- (g) purchase call options or put options except as specifically permitted under NI 81-102;
- (h) until such time as the Fund has met all of the requirements under the Tax Act to qualify as a mutual fund trust within the meaning of the Tax Act, and at any time thereafter when the Fund does not meet all of such requirements, hold any property that is not a qualified investment for a trust governed by a registered retirement savings plan, deferred profit sharing plan or registered retirement income fund under the Tax Act; or
- (i) make or retain investments which render the Units “foreign property” under Part XI of the Tax Act or, if the Fund is a registered investment within the meaning of the Tax Act, which render it liable to tax under Part XI of the Tax Act.

In addition, but subject to these investment restrictions, the Fund has adopted the standard investment restrictions and practices set forth in NI 81-102. A copy of such standard investment restrictions and practices will be provided by the Manager to any person on request.

The Fund obtained an exemption from certain of the provisions of National Policy Statement No. 39, including section 11.05, to permit the Fund to calculate its NAV monthly. As discussed below in “Calculation of Net Asset Value and Net Asset Value per Unit”, the Fund now calculates its NAV weekly.

Use of Other Derivative Instruments

In addition to writing covered call options and cash covered put options, and to the extent permitted by Canadian securities regulators, from time to time, the Fund may purchase call options and put options with the effect of closing out existing call options and put options written by the Fund. The Fund may also purchase put options in order to protect the Fund from declines in the market prices of the individual securities in the Portfolio or in the value of the Portfolio as a whole. The Fund may enter into trades to close out positions in such permitted derivatives.

CALCULATION OF NET ASSET VALUE AND NET ASSET VALUE PER UNIT

The NAV of the Fund on a particular date will be equal to the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities of the Fund, including any income, net realized capital gains and other amounts payable to Unitholders on or before such date. The NAV per Unit on any day is obtained by dividing the NAV of the Fund on such day by the number of Units outstanding on such day.

The NAV per Unit will be calculated at the close of business on each Valuation Date. Such information will be provided by Mulvihill to Unitholders on request.

Valuation Policies and Procedures

In determining the NAV of the Fund at any time:

- (a) the value of any security, index futures or index options thereon that is listed on any recognized exchange shall be determined by the closing sale price at the valuation time or, if there is no closing sale price, the average between the closing bid and the closing asked price on the day on which the NAV is being determined, all as reported by any report in common use or authorized as official by a recognized stock exchange; provided that if such stock exchange is not open for trading on that date, then on the last previous date on which such stock exchange was open for trading;
- (b) where a covered clearing corporation option, option on futures or over-the-counter option is written, the premium received by the Fund shall be reflected as a deferred credit that shall be valued at an amount equal to the current market value of the clearing corporation option, option on futures or over-the-counter option that would have the effect of closing the position. Any difference resulting from revaluation of such options shall be treated as an unrealized gain or loss on investment. The deferred credit shall be deducted in arriving at the NAV. The securities, if any, which are the subject of a written clearing corporation option, or over-the-counter option shall be valued at their then current market value;
- (c) purchased or written clearing corporation options, options on futures, over-the-counter options, debt-like securities and listed warrants shall be valued at the current market value thereof;
- (d) the value of any cash on hand, on deposit or on call, prepaid expenses, cash dividends declared and interest accrued and not yet received, shall be deemed to be the face amount thereof, unless the Fund determines that any such deposit or call loan is not worth the face amount thereof, in which event the value thereof shall be deemed to be such value as the Fund determines to be the reasonable value thereof;
- (e) the value of a futures contract or a forward contract shall be the gain or loss with respect thereto that would be realized if, at the valuation time, the position in the futures contract or the forward contract were to be

- closed out unless daily limits are in effect in which case fair value shall be based on the current market value of the underlying interest;
- (f) margin paid or deposited in respect of futures contracts and forward contracts shall be reflected as an account receivable and margin consisting of assets other than cash shall be noted as held as margin;
 - (g) the value of any bonds, debentures, and other debt obligations shall be valued by taking the average of the bid and ask prices on the valuation date at such times as the Fund, in its discretion, deems appropriate. Short-term investments including notes and money market instruments shall be valued at cost plus accrued interest;
 - (h) the value of any security, the resale of which is restricted or limited, shall be the lesser of the value thereof based on reported quotations in common use and that percentage of the market value of securities of the same class, the trading of which is not restricted or limited by reason of any representation, undertaking or agreement or by law, equal to the percentage that the Fund's acquisition cost was of the market value of such securities at the time of acquisition; provided that a gradual taking into account of the actual value of the securities may be made where the date on which the restriction will be lifted is known;
 - (i) securities of any unlisted underlying fund held by the Fund will be valued at the net asset value of such securities as provided by such fund from time to time;
 - (j) all Fund property valued in a foreign currency and all liabilities and obligations of the Fund payable by the Fund in foreign currency shall be converted into Canadian dollars by applying the rate of exchange obtained from the best available sources to the Fund, including, but not limited to, the Fund or any of its affiliates;
 - (k) all expenses or liabilities (including fees payable to the Fund) of the Fund shall be calculated on an accrual basis; and
 - (l) the value of any security or property to which, in the opinion of the Fund, the above valuation principles cannot be applied shall be the fair value thereof determined in such manner as the Fund from time to time provides.

The above principles are used to calculate NAV for all purposes other than financial statement reporting. With respect to financial reporting, the *Canadian Institute of Chartered Accountants Handbook* (the "CICA Handbook") requires that portfolio securities in an active market be valued using the latest available bid price. The primary differences between the valuation policy of the Fund and the approach in the CICA Handbook is that the Fund will generally determine the fair value of its equity securities traded on a stock exchange by using the closing price on the exchange. For bonds, debentures and other debt obligations (excluding money-market instruments), the Fund will generally use the average of the bid and ask prices to determine the fair value.

RESPONSIBILITY FOR OPERATIONS

The Manager

Pursuant to the Trust Agreement, Mulvihill is the manager of the Fund and, as such, is responsible for providing or arranging for required administrative services to the Fund including, without limitation: authorizing the payment of operating expenses incurred on behalf of the Fund; preparing financial statements and financial and accounting information as required by the Fund; ensuring that Unitholders are provided with financial statements (including interim and annual financial statements) and other reports as are required by applicable law from time to time; ensuring that the Fund complies with regulatory requirements and applicable stock exchange listing requirements; preparing the Fund's reports to Unitholders and the Canadian securities regulatory authorities; providing the Trustee with information and reports necessary for it to fulfil its fiduciary responsibilities; determining the amount of distributions to be made by the Fund; and negotiating contractual agreements with third-party providers of services, including registrars, transfer agents, auditors and printers.

Mulvihill shall exercise the powers and discharge the duties of its office honestly, in good faith and in the best interests of Unitholders, and in connection therewith, shall exercise the degree of care, diligence and skill that a reasonably prudent manager would exercise in similar circumstances.

Mulvihill may resign as manager of the Fund upon 60 days' notice to the Fund and to the Unitholders or upon such lesser notice period as the Trustee may accept. If Mulvihill resigns it may appoint its successor but, unless its successor is an affiliate of Mulvihill, its successor must be approved by Unitholders. If Mulvihill is in material default of its obligations under the Trust Agreement and such default has not been cured within 30 days after notice of the same has been given to Mulvihill, the Trustee shall give notice thereof to Unitholders and the Unitholders may direct the Trustee to remove Mulvihill and appoint a successor manager.

Mulvihill is entitled to fees for its services under the Trust Agreement and will be reimbursed for all reasonable costs and expenses incurred by Mulvihill on behalf of the Fund. In addition, Mulvihill and each of its directors, officers, employees and agents will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against Mulvihill or any of its officers, directors, employees or agents in the exercise of its duties as manager, except those resulting from Mulvihill's wilful misconduct, bad faith, negligence or breach of its obligations under the Trust Agreement.

The management services of Mulvihill under the Trust Agreement are not exclusive and nothing in the Trust Agreement prevents Mulvihill from providing similar management services to other investment funds and other clients (whether or not their investment objectives and policies are similar to those of the Fund) or from engaging in other activities.

The Investment Manager

MCM manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an investment management agreement (the "Investment Management Agreement") made between Mulvihill as manager and on behalf of the Fund and MCM dated June 21, 1996.

MCM was incorporated in 1984 by The Canada Trust Company under the name CT Investment Counsel Inc. ("CTIC") to manage the institutional pension fund business of The Canada Trust Company. In 1985, The Canada Trust Company and The Canada Permanent Trust Company amalgamated resulting in all of the pension assets managed by The Canada Permanent Trust Company being transferred to CTIC management. In addition, the investment professionals of The Canada Permanent Trust Company joined the CTIC team.

In February 1995, John P. Mulvihill purchased 100% of CTIC from The Canada Trust Company and changed CTIC's name to Mulvihill Capital Management Inc.

All the individuals on the team responsible for investment management at MCM have significant experience in managing investment portfolios. The officers of MCM who are primarily responsible for the management of the Fund's portfolio are John P. Mulvihill and John Germain. Also assisting in the management of the portfolio are Dylan D'Costa, Jeff Dobson, Peggy Shiu and Jack Way.

John P. Mulvihill, Chairman, President, Chief Executive Officer, Secretary and Sole Director of MCM, is the senior portfolio manager of MCM and has over 30 years of investment management experience. Prior to purchasing CTIC from The Canada Trust Company in 1995, Mr. Mulvihill had been Chairman of CTIC since 1988. At CTIC he had primary responsibility for the asset allocation and portfolio management of CTIC's pension and mutual fund assets.

John Germain, Senior Vice-President, has been with MCM and the Structured Products Team since March 1997. Prior to joining MCM, he had been employed at Merrill Lynch Canada Inc. since 1992. For the last two years of his employment at Merrill Lynch Canada Inc., he was a member of the Fixed Income Trading Group.

Dylan D'Costa, Portfolio Manager, has been with MCM and the Structured Products Team since January 2001 where he has worked extensively on valuing, pricing and trading equity options. Prior to joining MCM, he had been employed at CIBC Mellon where he worked with the valuations group.

Jeff Dobson, Portfolio Manager, joined MCM in April 2001 after nearly 16 years at Scotia Capital. He brings extensive experience in portfolio management, especially in the use of equity options. His most recent position prior to joining MCM involved managing a portfolio comprised of equity options, their underlying stocks, as well as equity index derivatives.

Peggy Shiu, Vice-President, has been with MCM since April 1995. She is a member of the investment management team and has extensive experience in the Canadian, U.S. and ADR (American Depository Receipt) equity markets.

Jack Way, Vice-President, has been with MCM since August 1998 and brings an extensive background in asset management with over 23 years of experience as an investment manager during which he spent considerable time working in the U.S. market.

Investment Management Agreement

The services provided by MCM pursuant to the Investment Management Agreement include making all investment decisions for the Fund and managing the call option writing and put option writing of the Fund, all in accordance with the investment objectives, strategy and criteria of the Fund. Decisions as to the purchase and sale of securities and as to the execution of all portfolio and other transactions will be made by MCM. In the purchase and sale of securities for the Fund and the writing of option contracts, MCM will seek to obtain overall services and prompt execution of orders on favourable terms.

Under the Investment Management Agreement, MCM is required to act at all times on a basis which is fair and reasonable to the Fund, to act honestly and in good faith with a view to the best interests of the Unitholders of the Fund and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent portfolio manager would exercise in comparable circumstances. The Investment Management Agreement provides that MCM shall not be liable in any way for any default, failure or defect in any of the securities of the Fund, nor shall it be liable if it has satisfied the duties and standard of care, diligence and skill set forth above. MCM will, however, incur liability in cases of wilful misfeasance, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

The Investment Management Agreement, unless terminated as described below, will continue in effect until the termination of the Fund on the Termination Date. The Trustee may terminate the Investment Management Agreement if MCM has committed certain events of bankruptcy or insolvency or is in material breach or default of the provisions thereof and such breach has not been cured within 30 days after notice thereof has been given to MCM by the Trustee. Except as described above, MCM cannot be terminated as investment manager of the Fund.

Except as set out below, MCM may not terminate the Investment Management Agreement or assign the same except to an affiliate of MCM, without Unitholder approval. MCM may terminate the Investment Management Agreement if the Fund is in material breach or default of the provisions thereof and such breach or default has not been cured within 30 days of notice of the same to the Trustee or if there is a material change in the fundamental investment objectives, strategy or criteria of the Fund.

If the Investment Management Agreement is terminated, Mulvihill will promptly appoint a successor investment manager to carry out the activities of MCM until a meeting of Unitholders is held to confirm such appointment.

MCM is entitled to fees for its services under the Investment Management Agreement and will be reimbursed for all reasonable costs and expenses incurred by MCM on behalf of the Fund. In addition, MCM and each of its directors, officers, employees and agents will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against MCM or any of its officers, directors, employees or agents in the exercise of its duties as investment manager, except those resulting from MCM's wilful misconduct, bad faith, negligence or breach of its obligations under the

Investment Management Agreement and provided the Fund has reasonable grounds to believe the action or inaction that gave rise to such claim was in the best interests of the Fund.

Independent Review Committee

National Instrument 81-107 – *Independent Review Committee for Investment Funds* (“NI 81-107”) requires all publicly offered investment funds, including the Fund, to establish an independent review committee to whom the manager of the fund must refer all conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the manager to establish written policies and procedures for dealing with conflict of interest matters, maintain records in respect of those matters and provide assistance to the independent review committee in carrying out its functions. The independent review committee is required to conduct regular assessments and provide reports to the manager and securityholders in respect of its activities.

The members of the independent review committee (the “IRC”) of the Fund and the other Funds managed by Mulvihill are Michael M. Koerner, Robert W. Korthals and Robert G. Bertram.

The Fund and the other investment funds managed by the Manager (collectively, the “Mulvihill Funds”) compensate the members of the IRC for their services. The Manager allocates such compensation among the Mulvihill Funds on an equitable and reasonable basis. The compensation paid by the Fund to the members of the IRC for the year ended December 31, 2009 was \$6,207.

The Advisory Board

The Fund has established an advisory board (the “Advisory Board”) currently consisting of five members appointed by Mulvihill to assist Mulvihill in performing its services under the Trust Agreement. The following are the names, municipalities of residence and principal occupations of each member of the Advisory Board of the Fund:

<i>Name and Municipality of Residence</i>	<i>Principal Occupation</i>
John P. Mulvihill Toronto, Ontario	Chairman, President, Chief Executive Officer, Secretary and Director, MCM
Michael M. Koerner ⁽¹⁾ Toronto, Ontario	President, Canada Overseas Investments, Ltd. (private investment company)
Robert W. Korthals ⁽¹⁾ Toronto, Ontario	Corporate Director
Robert G. Bertram ⁽¹⁾ Aurora, Ontario	Corporate Director
Sheila S. Szela Toronto, Ontario	Vice-President, Finance and Chief Financial Officer, MCM

(1) Independent of the Manager.

During the past five years all of the Advisory Board members have held the principal occupations noted opposite their respective names, or other occupations with their current employer or a predecessor company with the exception of Robert G. Bertram, who served as Executive Vice President of the Ontario Teachers’ Pension Plan Board from 1990 until 2008.

Each member of the Advisory Board, other than Mr. Koerner, Ms. Szela and Mr. Bertram, has served as a member of the Advisory Board since its initial public offering. Mr. Koerner became an Advisory Board member on June 16, 2000, Ms. Szela became an Advisory Board member on November 23, 2004 and Mr. Bertram became an Advisory Board member on January 1, 2009. Each member of the Advisory Board has been appointed by the Manager and will serve until his or her successor is appointed.

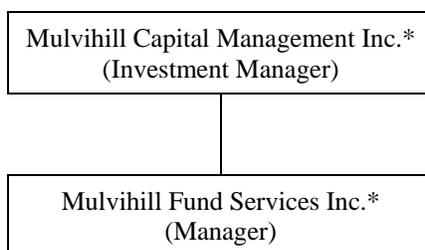
Directors and Officers of the Manager

The name and municipality of residence, position held with Mulvihill and current principal occupation of each of the directors and officers of Mulvihill are as follows:

<i>Name and Municipality of Residence</i>	<i>Office or Position with Mulvihill</i>	<i>Principal Occupation</i>
John P. Mulvihill Toronto, Ontario	Chairman, President, Chief Executive Officer, Secretary and Director	Chairman, President, Chief Executive Officer, Secretary and Director, MCM
Sheila S. Szela Toronto, Ontario	Chief Financial Officer and Director	Vice-President, Finance and Chief Financial Officer, MCM
John Germain Toronto, Ontario	Director	Senior Vice-President, MCM

Each of the foregoing individuals has held his or her current office or has held a similar office with Mulvihill or an affiliate during the five years preceding the date hereof.

MCM owns the sole outstanding share of Mulvihill, as shown below.



* Fees received by these entities from the Fund are disclosed in the audited financial statements of the Fund.

As of March 30, 2010, John P. Mulvihill owned of record and beneficially 95,073 shares (100%) of MCM Group Holdings Inc., the sole shareholder of MCM.

CORPORATE GOVERNANCE

The Advisory Board of the Fund is responsible for the overall stewardship of the Fund's business and affairs. Mulvihill, the Fund's manager, administers many functions associated with the operations of the Fund pursuant to the Trust Agreement. Under this agreement, the Manager is responsible for certain day to day operations of the Fund including the payment of distributions on its Units and attending to the redemption of Units in accordance with their terms.

The Advisory Board consists of five members, three of whom are independent of the Manager. The Fund believes that the number of Advisory Board members is appropriate for the Fund and only members independent of the Manager are compensated. Amounts paid as compensation are reviewed for adequacy to ensure that they realistically reflect the responsibilities and risk involved in being an effective member of the Advisory Board. Individual members may engage an outside advisor at the expense of the Fund in appropriate circumstances subject to the approval of the Fund.

The Advisory Board is responsible for developing the Fund's approach to governance issues and, together with the Investment Manager, is evolving a best practices governance procedure. The Fund maintains an Investor Relations line and website to respond to inquiries from Unitholders.

Mulvihill has adopted policies, procedures and guidelines concerning the governance of the Fund and to ensure the proper management of the Fund. These policies, procedures and guidelines aim to monitor and manage the business, risks and internal conflicts of interest relating to the Fund, and to ensure compliance with regulatory and corporate requirements.

In addition, MCM has an asset mix committee consisting of the following individuals: John Mulvihill, John Germain, Jack Way, Peggy Shiu and John Mulvihill, Jr. The investment process for the Fund begins at the asset mix committee. Members of this committee meet monthly to examine macro-economic variables and relationships among dominant economic factors. This process culminates in an outlook for the various capital markets around the world and provides the fundamental basis for MCM's long-term market outlook. These views are integrated into the investment decision making process at the portfolio management level. The asset mix committee of MCM oversees investment decisions made by the portfolio managers of the Fund and reports to John Mulvihill, the sole director and chairman, president, chief executive officer and secretary of MCM.

The Fund may use derivatives as permitted by the policies of Canadian securities authorities and consistent with the investment objectives and restrictions of the Fund and with the investment policies set by the asset mix committee of MCM. Policies, procedures and guidelines regarding investing in derivatives, including objectives and goals for derivatives trading and the risk management procedures applicable to such trading are reviewed by Mulvihill on a regular basis. If the Fund uses derivatives, it will hold enough assets to cover any obligations it has under the derivative contracts. The exposure of the Fund to derivatives is monitored daily by senior management.

Mulvihill and MCM also employ certain risk assessment tools including mark to market valuing of securities, reporting and monitoring of securities exposure and reconciliations of security transactions.

Because Unitholders may only redeem their Units on notice for payment not more frequently than monthly, they cannot engage in short-term trading of the Fund's securities with the Fund and the Fund has no policies and procedures in relation to such activities.

Proxy Voting Policy

The Fund has adopted the following proxy guidelines (the "Proxy Guidelines") with respect to the voting of proxies received by it relating to voting securities held by the Fund. The Proxy Guidelines establish standing policies and procedures for dealing with routine matters, as well as the circumstances under which deviations may occur from such standing policies. A general description of certain such policies is outlined below.

(a) *Auditors*

The Fund will generally vote for proposals to ratify auditors except where non-audit-related fees paid to such auditors exceed audit-related fees.

(b) *Board of Directors*

The Fund will vote for nominees of management on a case-by-case basis, examining the following factors: independence of the board and key board committees, attendance at board meetings, corporate governance positions, takeover activity, long-term company performance, excessive executive compensation, responsiveness to shareholder proposals and any egregious board actions. The Fund will generally withhold votes from any nominee who is an insider and sits on the audit committee or the compensation committee. The Fund will also withhold support from those individual nominees who have attended fewer than 75% of the board meetings held within the past year without a valid excuse for these absences.

(c) *Compensation Plans*

The Fund will vote on matters dealing with share-based compensation plans on a case-by-case basis. The Fund will review share-based compensation plans with a primary focus on the transfer of shareholder wealth. The Fund will generally vote for compensation plans only where the cost is within the industry maximum except where (i) participation by outsiders is discretionary or excessive or the plan does not include reasonable limits on participation or (ii) the plan provides for option re-pricing without shareholder approval. The Fund will generally also vote against any proposals to re-price options, unless such re-pricing is part of a broader plan amendment that substantially improves the plan and provided that (i) a value-for-value exchange is proposed; (ii) the top five paid officers are excluded; and (iii) exercised options do not go back into the plan or the company commits to an annual burn rate cap.

(d) *Management Compensation*

The Fund will vote on employee stock purchase plans (“ESPPs”) on a case-by-case basis. The Fund will generally vote for broadly based ESPPs where all of the following apply: (i) there is a limit on employee contribution; (ii) the purchase price is at least 80% of fair market value; (iii) there is no discount purchase price with maximum employer contribution of up to 20% of employee contribution; (iv) the offering period is 27 months or less; and (v) potential dilution is 10% of outstanding securities or less. The Fund will also vote on a case-by-case basis for shareholder proposals targeting executive and director pay, taking into account the issuer’s performance, absolute and relative pay levels as well as the wording of the proposal itself. The Fund will generally vote for shareholder proposals requesting that the issuer expense options or that the exercise of some, but not all options be tied to the achievement of performance hurdles.

(e) *Capital Structure*

The Fund will vote on proposals to increase the number of securities of an issuer authorized for issuance on a case-by-case basis. The Fund will generally vote for proposals to approve increases where the issuer’s securities are in danger of being de-listed or if the issuer’s ability to continue to operate is uncertain. The Fund will generally vote against proposals to approve unlimited capital authorization.

(f) *Constituting Documents*

The Fund will generally vote for changes to constituting documents that are necessary and can be classified as “housekeeping”. The following amendments will be opposed:

- (i) the quorum for a meeting of shareholders is set below two persons holding 25% of the eligible vote (this may be reduced in the case of a small organization where it clearly has difficulty achieving quorum at a higher level, but the Fund will oppose any quorum below 10%);
- (ii) the quorum for a meeting of the board of directors should not be less than 50% of the number of directors; and
- (iii) the chair of the board has a casting vote in the event of a deadlock at a meeting of directors if that chair is not an independent director.

The Proxy Guidelines also include policies and procedures pursuant to which the Fund will determine how to cause proxies to be voted on non-routine matters including shareholder rights plans, proxy contests, mergers and restructurings and social and environmental issues.

The Proxy Guidelines apply to proxy votes that present a conflict between the interests of Mulvihill, MCM or an entity related thereto, on the one hand, and the interests of the securityholders of the Fund, on the other.

The Fund has retained ISS Governance Services, a subsidiary of RiskMetrics Group to administer and implement the Proxy Guidelines for the Fund.

The Proxy Guidelines are available upon request at no cost by calling toll-free at 1-800-725-7172 or by e-mail at hybrid@mulvihill.com.

The Fund maintains annual proxy voting records for the period beginning July 1 and ending June 30 of each year. These records are available after August 31 of each year at no cost by calling toll-free 1-800-725-7172 or on Mulvihill's website at www.mulvihill.com.

BROKERAGE ARRANGEMENTS

The Investment Manager has been delegated authority to determine the brokerage arrangements of the Fund. Decisions that the Investment Manager may make as to the purchase and sale of portfolio securities and the execution of portfolio transactions for the Fund, including the selection of markets and dealers and the negotiation of commissions, are based on elements such as price, speed of execution, certainty of execution and total transactions costs.

During the year, certain companies provided investment decision-making services to the Manager and the Investment Manager. These included access to news wire services, real time and historical data, analyses and reports concerning various securities, company-specific research and opinions, quantitative and fundamental analyses, as well as trade execution and analyses through traditional and electronic trading platforms. The following companies provided such services: Bloomberg Tradebook Canada Company, Bloomberg Tradebook LLC, BMO Capital Markets Corp., CIBC World Markets Inc., Citigroup Global Markets Inc., International Strategy & Investment Group Inc., Merrill Lynch Canada Inc., National Bank Financial Inc., RBC Capital Markets Corporation, Sanford C. Bernstein & Co., LLC, TD Securities Inc. and UBS Securities Canada Inc.

TRUSTEE AND CUSTODIAN

RBC Dexia Investor Services Trust, as successor to The Royal Trust Company, is the trustee of the Fund and acts as custodian of the assets of the Fund under the Trust Agreement. Pursuant to the terms of the Trust Agreement, the assets of the Fund may also be held by subcustodians.

The Trustee is responsible for certain aspects of the day-to-day administration of the Fund as described in the Trust Agreement, including calculating NAV, net income and net realized capital gains of the Fund and maintaining the books and records of the Fund in relation to its portfolio.

The Trustee may resign upon 60 days' notice to Unitholders and Mulvihill or such lesser notice as Mulvihill may accept. The Trustee may be removed with the approval of a two-thirds majority vote cast at a meeting of Unitholders called for such purpose or by Mulvihill in the event the Trustee has committed certain events of bankruptcy or insolvency or is in material breach or default of its obligations under the Trust Agreement which breach has not been cured within 30 days after notice thereof has been given to the Trustee. Any such resignation or removal shall become effective only upon the acceptance of appointment by a successor. If the Trustee resigns or is removed by Mulvihill, its successor may be appointed by Mulvihill. The successor must be approved by Unitholders if the Trustee is removed by Unitholders. If no successor has been appointed within 60 days, the Trustee or any Unitholder may apply to a court of competent jurisdiction for the appointment of a successor.

The address of the Trustee is 155 Wellington Street West, Toronto, Ontario, M5V 3L3.

The Trustee receives fees from the Fund for acting as trustee and custodian of the assets of the Fund and performing certain administrative services under the Trust Agreement and is reimbursed for all expenses and liabilities which are properly incurred by the Trustee in connection with the activities of the Fund.

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc. provides the Fund with registrar, transfer and distribution agency services in respect of the Units from its principal offices in Toronto, Ontario. Under the Warrant Indenture, the warrant agent and the registrar and transfer agent for the Warrants is Computershare Trust Company of Canada at its principal office in Toronto, Ontario.

AUDITORS

The auditors of the Fund are Deloitte & Touche LLP, Bay Wellington Tower - Brookfield Place, 181 Bay Street, Suite 1400, Toronto, Ontario, M5J 2V1.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is, at the date hereof, a summary of the principal Canadian federal income tax considerations generally relevant to holders of Units who are individuals (other than trusts) and who, for purposes of the Tax Act, are resident in Canada, deal at arm's length with the Fund, are not affiliated with the Fund, and hold their Units as capital property (each a "Holder"). This summary is based upon the current provisions of the Tax Act, the regulations thereunder, and the Fund's understanding of the current administrative practices of the Canada Revenue Agency (the "CRA") and the specific proposals to amend the Tax Act and regulations thereunder announced prior to the date hereof by the Minister of Finance (Canada) (the "Proposed Amendments"). No assurances can be given that the Proposed Amendments will become law as proposed or at all.

This summary is based on the following assumptions:

- (a) the Fund was not established and will not be maintained primarily for the benefit of non-resident persons;
- (b) the Fund will not make or hold any investment that would result in the Fund becoming a "SIFT trust" for purposes of the Tax Act. Among other requirements, in order for the Fund to so qualify:
 - (i) the Fund must not hold "securities" of a "subject entity" other than a "portfolio investment entity" (as defined in the Tax Act) if such securities have a total fair market value that is greater than 10% of the fair market value of all of the issued and outstanding shares or interests in such entity; and
 - (ii) the Fund must not hold "securities" of a "subject entity" other than a "portfolio investment entity" (as defined in the Tax Act) if, together with all of the securities that the Fund holds of entities affiliated with the particular subject entity, such securities have a total fair market value that is greater than 50% of the fair market value of all of the issued and outstanding Units of the Fund;
- (c) none of the issuers of the securities acquired or held by the Fund will be foreign affiliates of the Fund or of any Holder; and
- (d) none of the securities acquired or held by the Fund will be a "tax shelter investment" within the meaning of section 143.2 of the Tax Act.

This summary is not exhaustive of all possible federal income tax considerations and does not take into account or anticipate any changes in law, whether by legislative, governmental or judicial action, other than the Proposed Amendments. This summary does not deal with foreign, provincial or territorial income tax considerations, which might differ from the federal considerations summarized herein.

This summary is of a general nature only and does not constitute legal or tax advice to any particular investor. Investors are advised to consult their own tax advisors with respect to the tax consequences to them of an investment in Units in their individual circumstances.

Status of the Fund

The Fund will qualify as a "mutual fund trust" as defined in the Tax Act at a particular time provided that it meets certain prescribed conditions ("minimum distribution requirements") relating to the number of Unitholders, dispersal of ownership of Units and public trading of its Units at such time and provided that its sole undertaking is the investing of its funds in property (other than real property). The sole undertaking of the Fund as described in this annual information form is the investing of its funds (other than in real property) and this summary assumes that this will continue to be the case at all relevant times. This summary assumes that the Fund has satisfied, and will satisfy at all relevant times the minimum distribution and other requirements to qualify as a mutual fund trust. An additional condition to qualify as a mutual fund trust for purposes of the Tax Act is that the Fund may not be established or

maintained primarily for the benefit of non-resident persons unless, at all times, substantially all of its property consists of property other than “taxable Canadian property” within the meaning of the Tax Act. If certain Tax Proposals released on September 16, 2004 are enacted as proposed, the Fund would cease to qualify as a mutual fund trust for purposes of the Tax Act if, at any time after 2004, the fair market value of all Units held by non-residents, or partnerships that are not “Canadian partnerships” for the purpose of the Tax Act, or any combination of the foregoing, is more than 50% of the fair market value of all issued and outstanding Units unless no more than 10% (based on fair market value) of the Fund’s property is at any time “taxable Canadian property” within the meaning of the Tax Act and certain other types of specified property. Bill C-52, which received Royal Assent on June 22, 2007, amended the relevant provision of the Tax Act such that a trust is deemed not to be a mutual fund trust after any time when it can be reasonably considered that the trust was established or maintained primarily for the benefit of non-resident persons, unless at that time all or substantially all of its property is property other than taxable Canadian property. It is not clear whether this amendment supersedes the Tax Proposals released on September 16, 2004. If the Fund were not to so qualify as a mutual fund trust, the income tax consequences described below would in some respects be materially different.

Taxation of the Fund

The Fund is subject to tax in each taxation year under Part I of the Tax 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 Tax Act.

In determining the income of the Fund, premiums received by the Fund on covered call options and cash covered put options written by the Fund (and which are not exercised prior to the end of the year) will constitute capital gains of the Fund in the year received, and gains or losses realized upon dispositions of securities of the Fund (whether upon the exercise of call options written by the Fund or otherwise) will constitute capital gains or capital losses of the Fund in the year realized unless the Fund is considered to be trading or dealing in securities or otherwise carrying on a business of buying and selling securities or the Fund has acquired the securities in a transaction or transactions considered to be an adventure in the nature of trade. The Fund has purchased, and will continue to purchase securities in the Portfolio with the objective of earning dividends thereon over the life of the Fund including dividends on securities acquired upon the exercise of cash covered put options written by the Fund, will write covered call options with the objective of increasing the yield on the Portfolio beyond the dividends received on the Portfolio and will write cash covered put options to increase returns and to reduce the net cost of purchasing securities subject to put options. In accordance with CRA’s published administrative practice, transactions undertaken by the Fund in respect of covered options and shares will be treated and reported for purposes of the Tax Act on capital account and designations by the Fund with respect to its income and capital gains, as described below, will be made and reported to Unitholders on this basis. Premiums received by the Fund on covered call (or cash covered put) options which are exercised in the taxation year in which the option is written by the Fund are added in computing the proceeds of disposition (deducted in computing the adjusted cost base) to the Fund of the securities disposed of (acquired by) the Fund on exercise of such call (put) options.

The Fund generally intends to deduct in computing its income in each taxation year, the full amount available for deduction in each year and, therefore, provided the Fund makes distributions in each year of its net income and net realized capital gains as described under the heading “Units - Distributions”, it will generally not be liable in such year for income tax under Part I of the Tax Act other than such tax on net realized capital gains that would be recoverable by it in such year.

Taxation of Holders

A Holder will generally be required to include in the calculation of the Holder’s income under the Tax Act the net income and the net realized taxable capital gains of the Fund paid or payable to the Holder in the year, whether received in cash or reinvested in additional Units. Taxable capital gains and taxable dividends from taxable Canadian corporations (in each case, designated as such by the Fund) will retain their identity in the hands of Holders for income tax purposes. To the extent that amounts are designated as taxable dividends (including “eligible dividends”) from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply.

To the extent that distributions by the Fund to a Holder in any year exceed the net income and net realized capital gains of the Fund for the year paid or payable to the Holder, such distributions will not be taxable but will reduce the adjusted cost base of the Holder's Units.

Under the Tax Act, a trust is permitted to deduct in computing its income an amount which is less than the amount of its distributions. This will enable the Fund to utilize, in a particular year, losses from prior years without affecting the ability of the Fund to distribute its income annually. The amount distributed to a Holder but not deducted by the Fund will not be required to be included in the income of the Holder. However, unless such amount relates to the non-taxable portion of capital gains, the taxable portion of which has been allocated to the Holder, the adjusted cost base of the Holder's Units would be reduced by such amount.

The NAV per Unit will reflect any income and gains of the Fund that have accrued or have been realized but not made payable at the time Units are acquired. Consequently, Holders that acquire additional Units including on the reinvestment of distributions may become taxable on their share of income and gains of the Fund that accrued or were realized before the Units are acquired and not made payable at such time.

Upon the actual or deemed disposition of a Unit, including on a sale or redemption, a capital gain (or capital loss) will be realized by the Holder to the extent that the Holder's proceeds of disposition exceed (or are exceeded by) the aggregate of the adjusted cost base to the Holder of the Unit and any reasonable costs of disposition. For the purpose of determining the adjusted cost base to a Holder of Units, when a Unit is acquired, whether on a reinvestment of distributions or otherwise, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Holder as capital property at that time. The cost to a Holder of Units received on the reinvestment of distributions of the Fund will be equal to the amount reinvested. If a Holder participates in the Plan and acquires a Unit from the Fund at a price that is less than the then fair market value of the Unit, it is the administrative position of the CRA that the Holder must include the difference in income and that the cost of the Unit will be correspondingly increased.

One-half of any capital gains ("taxable capital gains") realized on the disposition of Units will be included in the Holder's income and one-half of any capital loss realized may be deducted from taxable capital gains in accordance with the provisions of the Tax Act.

Eligibility for Investment

Provided that the Fund continues to qualify at all times as a mutual fund trust within the meaning of the Tax Act or Units are listed on a "designated stock exchange" for purposes of the Tax Act (which includes the TSX), Units will be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered disability savings plans, registered education savings plans and tax-free savings accounts.

However, if the Units are a "prohibited investment" for a tax-free savings account, the holder of a tax-free savings account that governs a trust that holds Units will be subject to a penalty tax as set out in the Tax Act. An investment in the Units will not generally be a "prohibited investment" unless the holder of a tax-free savings account does not deal at arm's length with the Fund for purposes of the Tax Act or if the holder has a significant interest (within the meaning of the Tax Act) in the Fund or in a corporation, partnership or trust with which the Fund does not deal at arm's length for purposes of the Tax Act. Holders of tax-free savings accounts should consult their own tax advisors to ensure that their Units would not be a "prohibited investment" in their particular circumstances.

RISK FACTORS

An investment in the Fund may be deemed to be speculative and involves significant risks. Investors should review closely the investment objectives and investment strategies to be utilized by the Fund to familiarize themselves with the risks associated with an investment in the Fund. The following are certain considerations relating to an investment in the Fund which should also be considered before purchasing its securities.

Recent Global Financial Developments

Global financial markets have experienced a sharp rise in volatility during recent months. This has been, in part, the result of a revaluation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. Notwithstanding that central banks as well as global governments are attempting to restore liquidity to the world economy, no assurance can be given that these efforts will abate, in the near to medium term, the combined impact of the significant revaluations and constraints on the availability of credit on economies around the world. Some economies are experiencing diminished growth or a recession. Continuing adverse market conditions and unexpected volatility or illiquidity in financial markets may adversely affect the prospects of the Fund.

Interest Rate Fluctuations

It is anticipated that the market price of the Units at any given time will be affected by the level of interest rates prevailing at such time. A rise in interest rates may have a negative effect on the market price of the Units.

Use of Options and Other Derivative Instruments

The Fund is subject to the full risk of its investment position in the securities comprising the Portfolio which are subject to outstanding call options should the market price of the underlying securities decline during the term of the option, although writing covered call options will reduce such risk. However, the Fund will not participate in any gain on the securities subject to the option above the strike price of the option.

There can be no assurance that a liquid exchange or over-the-counter market will exist to permit the Fund to write covered call options on desired terms or to close out option positions should MCM desire to do so. In purchasing call or put options, the Fund is subject to the credit risk that its counterparty (whether a clearing corporation in the case of exchange traded instruments, or other third party in the case of over-the-counter instruments) may be unable to realize its profits or limit its losses until such time as the option becomes exercisable or expires.

Net Asset Value and Distributions

The NAV per Unit and the funds available for distribution to Unitholders will vary according, among other things, to the value of the securities included in the Portfolio, the dividends paid thereon and the level of option premiums received. These will be influenced by factors which are not within the control of the Fund, including the financial performance of the respective issuers of such securities, their dividend payment policies and financial market and economic conditions generally. Although many investors and financial market professionals price call options based on the Black-Scholes Model, in practice actual option premiums are determined in the marketplace. There is no assurance that the Fund will be able to achieve its investment objective of paying quarterly distributions at a rate of \$0.50 per Units (\$2.00 per annum).

Reliance on Investment Manager

MCM manages the Portfolio in a manner consistent with the investment objective, strategy and restrictions of the Fund. The officers of MCM who are primarily responsible for the management of the Portfolio have extensive experience in managing investment portfolios. There is no certainty that such individuals will continue to be employees of MCM throughout the term of the Fund.

Significant Redemptions

Units are redeemable annually and monthly for a price based on NAV per Unit (which represents the value that the Fund is able to obtain in the market when it sells portfolio securities to fund the redemption). The purpose of the annual redemption right is to prevent the Units from trading at a substantial discount to this value and to provide Unitholders with the right to realize their investment once per year without any trading discount to such value. While the annual redemption right provides Unitholders the option of annual liquidity, there can be no assurance that it will reduce trading discounts. If a significant number of Units are redeemed, the trading liquidity of the Units could be significantly reduced. In addition the expenses of the Fund would be spread among fewer Units potentially resulting in lower NAV.

Dilution to Existing Unitholders

The value of a Unit will be reduced if the NAV per Unit exceeds \$11.11 and one or more Warrants is exercised. If a Unitholder does not exercise Warrants in such circumstances, such Unitholder's pro rata interest in the assets of the Fund will be diluted. To maintain the Unitholder's pro rata interest in the assets of the Fund, the Unitholder will be required to pay in connection with the exercise of a Warrant an additional amount equal to the Subscription Price. While a Unitholder may sell the Unitholder's Warrants, no assurance can be given that the proceeds of such sale will compensate the Unitholder for such dilution.

Tax Changes

There can be no assurance that changes will not be made to the tax rules affecting the taxation of the Fund or the Fund's investments, or that such tax rules will not be administered in a way that is less advantageous to the Fund or its securityholders.

The Province of Ontario has taken steps to harmonize its existing provincial sales tax with the federal goods and services tax ("GST"). It is expected that, effective July 1, 2010, a harmonized sales tax ("HST") of 13% will apply to management fees and investment management fees paid by the Fund, rather than the currently imposed 5% GST, which may increase the costs borne by the Fund and its investors.

It is currently uncertain as to whether GST/HST will be applied to trailer commissions paid to an investment dealer. If GST/HST is applied to trailer commissions, the Fund may be required to pay GST/HST on the service fee payable to dealers whose clients hold Units of the Fund, thereby increasing the costs borne by the Fund and Unitholders.

Taxation of the Fund

In determining its income for tax purposes, the Fund intends to treat gains and losses realized on the disposition of securities in the Portfolio, option premiums received on the writing of covered call options and any losses sustained on closing out options as capital gains and capital losses. No advance income tax ruling has been requested or obtained from CRA concerning such position and counsel express no opinion thereon. CRA may disagree with such position and successfully assert that some or all of such gains and losses are on income account which could reduce after-tax returns to Unitholders.

On October 31, 2003 the Department of Finance announced a Proposed Amendment relating to the deductibility of losses under the Tax Act which is supposed to apply for all taxation years beginning after 2004. Under this Proposed Amendment, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. On February 23, 2005 the Minister of Finance announced that an alternative proposal to replace such Proposed Amendment would be released for comment. No such proposal has been released as of the date hereof. There can be no assurance that such an alternative proposal will not adversely affect the Fund.

Currently, a trust will be deemed not to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is property other than taxable Canadian property as defined in the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released Proposed Amendments which propose that a trust would lose its status as a mutual fund trust if at any time after 2004 the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships, or any combination thereof, is more than 50% of the aggregate fair market value of all units issued by the trust where, at that time or any previous time, more than 10% (based on fair market value) of the trust's property is taxable Canadian property or certain other types of specified property (the "September 16th Proposed Amendments"). If these circumstances applied to the Fund, the Fund would thereafter cease to be a mutual fund trust and the income tax considerations as described under "Canadian Federal Income Tax Considerations" would in some respects be materially different. The September 16th Proposed Amendments do not currently provide any means of rectifying a loss of mutual fund trust status. Bill C-52, which received Royal Assent on June 22, 2007, amended the relevant provision of the Tax Act such that a trust is deemed not to be a mutual fund trust after any time when it can be reasonably considered that the trust was established or maintained primarily for the benefit of

non-resident persons, unless at that time all or substantially all of its property is property other than taxable Canadian property. It is not clear whether this amendment supersedes the September 16th Tax Proposals.

As a result of the application of the rules (the “SIFT Rules”) under the Tax Act applicable to certain trusts or partnerships (defined as “SIFT trusts” and “SIFT partnerships”, respectively) the securities of which are listed or traded on a public market and that hold one or more “non-portfolio properties” (as defined in the Tax Act), such trusts and partnerships are effectively taxed on income and capital gains in respect of such non-portfolio properties at combined rates comparable to the rates that apply to income earned and distributed by Canadian public corporations. Distributions of such income received by unitholders of SIFT trusts (and allocations of such income made to members of SIFT partnerships) are treated as eligible dividends from a taxable Canadian corporation. If the Fund were to qualify as a SIFT trust within the meaning of the Tax Act, the income tax considerations described under the heading “Canadian Federal Income Tax Considerations” would be materially and adversely different in certain respects.

MATERIAL CONTRACTS

The following contracts can reasonably be regarded as material to holders of Units:

- (a) the Trust Agreement;
- (b) the Investment Management Agreement; and
- (c) the Warrant Indenture.

Copies of the foregoing agreements may be inspected during business hours at the principal office of the Fund.

ADDITIONAL INFORMATION

Additional information about the Fund is available in the Fund's management reports of fund performance and financial statements.

You can get a copy of these documents at no cost by calling toll-free at 1-800-725-7172 or by e-mail at hybrid@mulvihill.com.

These documents and other information about the Fund, such as information circulars and material contracts, are also available at www.sedar.com.

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FIRST PREMIUM INCOME TRUST