



## Hybrid Income Funds



Annual Report 2003

*Mulvihill Premium U.S. Fund*

First Premium U.S. Income Trust



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## Message to Unitholders

Equity markets in 2003 made positive returns, strongly outperforming both bonds and cash instruments. The S&P TSX composite index rose 27 percent, with advances in all major industry groups. This reflected the underlying stability of the Canadian economy, which continued to perform well, despite the temporary setbacks of the SARS outbreak, mad cow disease, forest fires in the West and the Ontario power blackout. One other development, however, is having a more lasting effect—the sharp rise in the value of the Canadian dollar. This has hurt the competitiveness of Canadian manufacturers in export markets, and will continue to have a dampening effect on economic growth in 2004.

In the U.S., equity markets rebounded strongly after a sluggish first quarter, buoyed by a surging American economy. The S&P 500 index recorded a 29 percent gain for the year, and the NASDAQ rose by a full 50 percent. The sinking value of the U.S. dollar, however, turned these advances into only 5 percent and 23 percent gains in Canadian currency terms. Low interest rates, tax cuts and depleted inventories have contributed to the resurgence of the American economy, and the weaker dollar is also improving U.S. export prospects for this year. The present federal budget deficit and the chronic and now massive U.S. current account deficit are shifting investor sentiment away from U.S. dollar denominated assets. Commodities priced in depreciating U.S. dollars are thus more affordable, encouraging a rise in global demand.

In both Canada and the U.S., equity investors favoured stocks with depressed prices in sectors poised for renewed growth. This propelled the formerly devastated information technology sector into the forefront of performers, along with the materials and financial sectors. Price volatility was high in the first quarter, but has decreased substantially since then, though it remains sufficient to sustain limited option writing programs.

The outlook at present is for solid economic growth this year, accompanied by low inflation and higher corporate profits. The Canadian economy will benefit from the strong U.S. recovery, though this will be dampened somewhat by the strength of the Canadian dollar. Short-term interest rates are likely to remain low and could even ease from current levels. The U.S. Federal Reserve has probably finished its easing cycle, and will remain on hold for a while, with potential for tightening in the second half of the year.

With valuation levels already quite high, especially in the U.S., equity markets are unlikely to rise as much in 2004 as they did in 2003. Nevertheless, the equity investment environment remains distinctly positive for the year.



John P. Mulvihill

President

Mulvihill Capital Management Inc.

## Investment Objectives

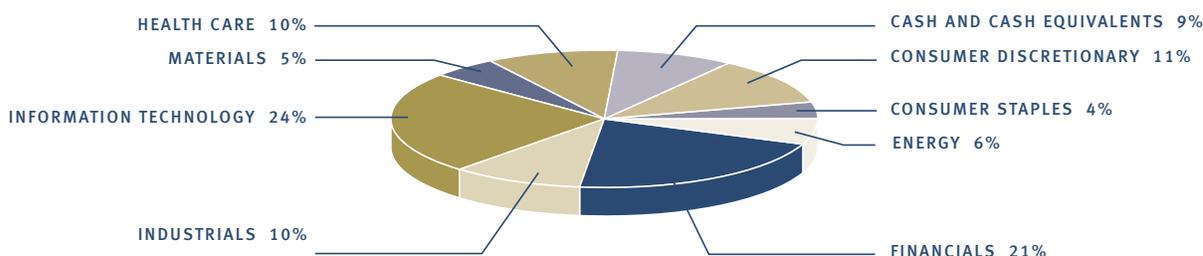
The Fund objectives are to provide unitholders of the Fund with a stable stream of quarterly distributions while returning the original issue price of the units (\$25.00 per unit) to unitholders upon termination of the Fund on January 1, 2007.

## Investment Strategy

The Fund achieves its investment objectives by investing in a diversified portfolio consisting primarily of common shares issued by corporations that rank in the top 50 of the Standard & Poor's 100 Index on the basis of market capitalization. To generate additional returns above the dividend income generated by the portfolio, the Fund may engage in a program of covered call option writing in respect of all or part of the securities in the portfolio. From time to time, the Fund may hold a portion of its assets in cash equivalents, which may be utilized to provide cover in respect of the writing of cash covered put positions.

## Asset Mix

December 31, 2003



## Distribution History

INCEPTION DATE: FEBRUARY 1997	REGULAR DISTRIBUTION	SPECIAL DISTRIBUTION	TOTAL DISTRIBUTION
Total for 1997	\$ 1.83	\$ 0.75	\$ 2.58
Total for 1998	2.00	1.25	3.25
Total for 1999	2.00	2.50	4.50
Total for 2000	2.00	0.75	2.75
Total for 2001	2.00	0.00	2.00
Total for 2002	1.60	0.00	1.60
March 2003	0.30	0.00	0.30
June 2003	0.30	0.00	0.30
September 2003	0.40	0.00	0.40
December 2003	0.40	0.00	0.40
Total for 2003	1.40	0.00	1.40
<b>Total Distributions to Date</b>	<b>\$ 12.83</b>	<b>\$ 5.25</b>	<b>\$ 18.08</b>

For complete distribution history and income tax information, please see our website [www.mulvihill.com](http://www.mulvihill.com).

Top 10 Holdings

- Pfizer Inc.
- Microsoft Corporation
- Cisco Systems Inc.
- Intel Corporation
- Merrill Lynch & Co.
- IBM Corporation
- United Technologies Corporation
- Tyco International Ltd.
- Citigroup Inc.
- Alcoa Inc.

Trading History



Commentary

As of December 31, 2003, the net assets of the Fund were \$134.3 million, or \$14.27 per unit, down from net assets of \$155.9 million, or \$14.38 per unit, at the end of 2002. The Fund’s units, listed on the Toronto Stock Exchange as FPU.UN, reached a high of \$14.25 during the year, but closed on December 31 trading at \$13.70 per unit, virtually unchanged from the previous year-end price of \$13.74.

Distributions during the year totaled \$1.40 per unit, consisting of two quarterly payments of \$0.30 per unit, followed by two of \$0.40 per unit. Based on year-end net asset value, these distributions represent a distribution yield of 9.8 percent. Capital losses from previous years are still being carried forward, and are sufficient to shelter 2003 distributions from current taxation, as well as some future gains. These non-taxable distributions effectively reduce the investment cost base for all unitholders.

While net assets declined, the Fund’s total return for the year was positive. Overall performance was enhanced by overweight positions in the strongest sectors, information technology and materials, and underweight positions in the weaker sectors of health care and consumer staples. The Fund also benefited from reduced covered call writing activity and an increased invested position, which allowed the Fund to take advantage of rising equity markets. Unfortunately, the large depreciation of the U.S. dollar versus its Canadian counterpart during the year eroded the value of advances in U.S. markets. Notwithstanding this, the Fund achieved an annual return of 9 percent, outperforming the Canadian dollar return on the S&P 100 index of 3.9 percent. A portion of the Fund’s U.S. equity exposure was hedged in foreign exchange markets, diminishing the impact of the declining American dollar.

The Fund remains well-diversified, and is continuing to generate income from option writing. Improving corporate profits in an environment of low inflation make the outlook for equities in 2004 strongly positive.

Financial statements and a summary of the Fund’s investments are included in this annual report. We would like to take this opportunity to thank each of the Fund’s unitholders for their continuing support.



## Management's Responsibility for Financial Reporting

This report has been prepared in accordance with the Accounting Standards Board guidelines.

The accompanying financial statements of First Premium U.S. Income Trust (operating as Mulvihill Premium U.S. Fund) (the "Fund") and all the information in this annual report are the responsibility of the management of Mulvihill Fund Services Inc., (the "Manager"), and have been reviewed by the Board of Advisors (the "Board").

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 of the financial statements. The financial statements have been audited by Deloitte & Touche LLP on behalf of the unitholders.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board meets periodically with management and external auditors to discuss internal controls, the financial reporting process, various auditing and financial reporting issues, and to review the annual report, the financial statements and the external auditors' report. Deloitte & Touche LLP has full and unrestricted access to the Board.



John P. Mulvihill  
Director  
Mulvihill Fund Services Inc.



David N. Middleton  
Director  
Mulvihill Fund Services Inc.

February 20, 2004

**To the Unitholders of Mulvihill Premium U.S. Fund**

We have audited the accompanying statement of investments of First Premium U.S. Income Trust (operating as Mulvihill Premium U.S. Fund) (the "Fund") as at December 31, 2003, the statements of net assets as at December 31, 2003 and 2002, the statements of financial operations, of changes in net assets and of loss on sale of investments and options for the years then ended, and the statements of financial highlights for each of the years in the five-year period then ended. These financial statements are the responsibility of the Fund's Manager. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

The signature of Deloitte & Touche LLP is written in a cursive, handwritten style in dark ink.

Chartered Accountants  
Toronto, Ontario  
February 20, 2004

Statements of Net Assets

December 31, 2003 and 2002

	2003	2002
<b>ASSETS</b>		
Investments at market value (average cost - \$146,733,763; 2002 - \$163,742,796)	\$ 132,494,737	\$ 125,282,051
Short-term investments (average cost - \$13,618,808; 2002 - \$40,538,510)	13,509,426	40,562,749
Cash	38,689	11,180
Dividends receivable	134,948	141,302
Interest receivable	14,000	150,326
Due from brokers	120,746	1,215,859
<b>TOTAL ASSETS</b>	<b>146,312,546</b>	<b>167,363,467</b>
<b>LIABILITIES</b>		
Redemptions payable	9,032,818	11,168,606
Due to brokers	2,760,126	551
Accrued liabilities	244,540	311,200
<b>TOTAL LIABILITIES</b>	<b>12,037,484</b>	<b>11,480,357</b>
<b>NET ASSETS, REPRESENTED BY UNITHOLDERS' EQUITY</b>	<b>\$ 134,275,062</b>	<b>\$ 155,883,110</b>
<b>Number of Units Outstanding (Note 5)</b>	<b>9,408,604</b>	<b>10,841,735</b>
<b>Net Asset Value per Unit</b>	<b>\$ 14.2715</b>	<b>\$ 14.3781</b>

On Behalf of the Manager,  
Mulvihill Fund Services Inc.

  
John P. Mulvihill, Director

  
David N. Middleton, Director

Statements of Financial Operations

Years ended December 31, 2003 and 2002

	2003	2002
<b>REVENUE</b>		
Dividends	\$ 1,937,215	\$ 2,943,378
Interest, net of foreign exchange	(1,524,187)	379,700
Withholding taxes	(251,904)	(320,282)
<b>TOTAL REVENUE</b>	<b>161,124</b>	<b>3,002,796</b>
<b>EXPENSES (Note 6)</b>		
Management fees	2,559,230	3,351,637
Custodian and other expenses	178,869	217,730
Goods and services taxes	190,490	248,934
<b>TOTAL EXPENSES</b>	<b>2,928,589</b>	<b>3,818,301</b>
<b>Net Investment Loss</b>	<b>(2,767,465)</b>	<b>(815,505)</b>
Loss on sale of investments and options	(8,674,284)	(26,206,032)
Change in unrealized depreciation of investments, options and foreign currency	24,085,999	(17,033,585)
<b>Net Income (Loss) on Investments</b>	<b>15,411,715</b>	<b>(43,239,617)</b>
<b>TOTAL RESULTS OF FINANCIAL OPERATIONS</b>	<b>\$ 12,644,250</b>	<b>\$ (44,055,122)</b>

### Statements of Changes in Net Assets

Years ended December 31, 2003 and 2002

	2003	2002
NET ASSETS, BEGINNING OF YEAR	\$ 155,883,110	\$ 234,069,011
<b>Total Results of Financial Operations</b>	<b>12,644,250</b>	<b>(44,055,122)</b>
<b>Unit Transactions</b>		
Proceeds from reinvestment of distributions	–	133,208
Amount paid for units redeemed	<b>(19,932,104)</b>	<b>(15,348,751)</b>
	<b>(19,932,104)</b>	<b>(15,215,543)</b>
<b>Distributions to Unitholders (Note 7)</b>		
Non-taxable distribution	<b>(14,320,194)</b>	<b>(18,915,236)</b>
<b>Changes in Net Assets during the Year</b>	<b>(21,608,048)</b>	<b>(78,185,901)</b>
NET ASSETS, END OF YEAR	\$ 134,275,062	\$ 155,833,110

### Statements of Loss on Sale of Investments and Options

Years ended December 31, 2003 and 2002

	2003	2002
Proceeds from Sale of Investments	\$ 85,523,404	\$ 66,907,818
<b>Cost of Investments Sold</b>		
Cost of investments, beginning of year	163,742,796	192,691,975
Cost of investments purchased	<b>77,188,655</b>	64,164,671
	<b>240,931,451</b>	<b>256,856,646</b>
<b>Cost of Investments, End of Year</b>	<b>(146,733,763)</b>	<b>(163,742,796)</b>
	<b>94,197,688</b>	<b>93,113,850</b>
LOSS ON SALE OF INVESTMENTS AND OPTIONS	\$ (8,674,284)	\$ (26,206,032)

Statement of Investments

December 31, 2003

	% of Portfolio	Par Value/ Number of Shares	Average Cost	Market Value
<b>SHORT-TERM INVESTMENTS</b>				
<b>Treasury Bills</b>				
Government of Canada - February 26, 2004		10,000	\$ 9,937	\$ 9,937
Government of Canada - April 8, 2004		3,925,000	3,894,102	3,894,102
Government of Canada - May 6, 2004		900,000	891,990	891,990
<b>Total Treasury Bills</b>	35.5%		<b>4,796,029</b>	<b>4,796,029</b>
<b>Discount Commercial Paper</b>				
Canadian Wheat Board, USD - January 21, 2004		2,575,000	3,361,340	3,320,336
Canadian Wheat Board, USD - February 23, 2004		680,000	894,625	876,555
Export Development Corporation, USD - January 15, 2004		2,580,000	3,369,989	3,330,512
Export Development Corporation, USD - February 19, 2004		870,000	1,131,053	1,121,509
Province of Ontario, USD - January 14, 2004		50,000	65,772	64,485
<b>Total Discount Commercial Paper</b>	64.4%		<b>8,822,779</b>	<b>8,713,397</b>
	99.9%		<b>13,618,808</b>	<b>13,509,426</b>
<b>Accrued Interest</b>	0.1%			<b>14,000</b>
<b>TOTAL SHORT-TERM INVESTMENTS</b>	<b>100.0%</b>		<b>\$ 13,618,808</b>	<b>\$ 13,523,426</b>

INVESTMENTS

United States Common Shares

Consumer Discretionary

Clear Channel Communications, Inc.		68,000	\$ 4,094,809	\$ 4,115,114
The Home Depot, Inc.		75,000	3,544,416	3,439,665
Viacom Inc., Class B		77,500	4,116,396	4,444,653
Wal-Mart Stores, Inc.		51,000	4,156,697	3,496,265
<b>Total Consumer Discretionary</b>	11.7%		<b>15,912,318</b>	<b>15,495,697</b>

Consumer Staples

Colgate-Palmolive Company		50,000	3,742,973	3,233,873
PepsiCo Inc.		57,000	3,565,060	3,433,966
<b>Total Consumer Staples</b>	5.0%		<b>7,308,033</b>	<b>6,667,839</b>

Energy

Exxon Mobil Corporation		81,000	5,147,222	4,291,585
Schlumberger Limited		55,000	5,920,702	3,889,176
<b>Total Energy</b>	6.2%		<b>11,067,924</b>	<b>8,180,761</b>

Financials

American Express Company		74,000	4,488,828	4,612,090
American International Group Inc.		41,500	4,254,397	3,554,507
Citigroup Inc.		81,000	5,480,012	5,080,818
J.P. Morgan Chase and Co.		60,000	2,921,191	2,847,875
Merrill Lynch & Co.		71,500	5,240,594	5,419,047
Morgan Stanley		66,000	4,425,666	4,935,671
U.S. Bancorp		101,500	3,209,475	3,906,066
<b>Total Financials</b>	22.9%		<b>30,020,163</b>	<b>30,356,074</b>

## Statement of Investments

December 31, 2003

	% of Portfolio	Number of Shares	Average Cost	Market Value
INVESTMENTS (continued)				
<b>United States Common Shares (continued)</b>				
<b>Health Care</b>				
Amgen Inc.		45,000	4,335,857	3,593,766
Merck & Co. Inc.		42,500	3,293,995	2,537,346
Medtronic Inc.		30,000	2,143,563	1,884,498
Pfizer Inc.		133,100	7,973,783	6,076,738
<b>Total Health Care</b>	10.7%		17,747,198	14,092,348
<b>Industrials</b>				
General Electric Company		113,000	7,572,170	4,523,855
Tyco International Ltd.		151,500	4,299,688	5,188,088
United Technologies Corporation		43,000	4,723,935	5,266,089
<b>Total Industrials</b>	11.3%		16,595,793	14,978,032
<b>Information Technology</b>				
Cisco Systems Inc.		175,000	5,934,777	5,493,061
EMC Corporation		232,000	4,359,633	3,873,462
IBM Corporation		44,500	6,355,579	5,329,603
Intel Corporation		132,000	5,818,113	5,492,608
Microsoft Corporation		156,000	8,821,072	5,551,845
Oracle Corporation		294,000	6,525,691	5,014,990
Texas Instruments Incorporated		104,200	2,814,634	3,956,110
<b>Total Information Technology</b>	26.2%		40,629,499	34,711,679
<b>Materials</b>				
Alcoa Inc.		102,500	5,231,949	5,033,340
The Dow Chemical Company		57,000	2,890,552	3,061,990
<b>Total Materials</b>	6.1%		8,122,501	8,095,330
<b>Total United States Common Shares</b>	100.1%		\$147,403,429	\$132,577,760
<b>Forward Exchange Contracts</b>				
Sold USD \$8,250,000, Bought CAD \$11,320,289 @ 0.72878 - January 12, 2004				\$ 653,243
Sold USD \$11,065,000, Bought CAD \$14,518,330 @ 0.76214 - January 27, 2004				201,562
Bought USD \$10,542,000, Sold CAD \$13,875,617 @ 0.75975 - January 27, 2004				(235,548)
Sold USD \$10,257,000, Bought CAD \$13,509,028 @ 0.75927 - February 11, 2004				229,296
Sold USD \$9,339,000, Bought CAD \$12,184,748 @ 0.76645 - February 25, 2004				86,657
Sold USD \$6,695,000, Bought CAD \$8,977,178 @ 0.74578 - March 10, 2004				299,053
<b>Total Forward Exchange Contracts</b>		0.9%		\$ 1,234,263

Statement of Investments

December 31, 2003

	% of Portfolio	Number of Contracts	Proceeds	Market Value
INVESTMENTS (continued)				
OPTIONS				
<b>Written Covered Call Options</b> (100 shares per contract)				
American Express Company - January 2004 @ \$48		370	\$ (31,674)	\$ (39,486)
American International Group Inc. - January 2004 @ \$60		207	(27,569)	(174,092)
Amgen Inc. - January 2004 @ \$61		300	(46,064)	(53,689)
Clear Channel Communications, Inc. - January 2004 @ \$45		170	(25,361)	(45,596)
Colgate-Palmolive Company - January 2004 @ \$54		500	(39,189)	(921)
Exxon Mobil Corporation - January 2004 @ \$38		810	(35,842)	(320,843)
IBM Corporation - January 2004 @ \$94		220	(51,789)	(22,510)
Medtronic Inc. - January 2004 @ \$48		300	(29,214)	(31,548)
Merck & Co. Inc. - January 2004 @ \$46		425	(28,424)	(70,389)
PepsiCo Inc. - January 2004 @ \$48		570	(22,645)	(21,526)
Pfizer Inc. - January 2004 @ \$35		1,000	(63,788)	(83,001)
Schlumberger Limited - January 2004 @ \$54		400	(60,662)	(77,987)
The Dow Chemical Company - January 2004 @ \$42		428	(35,823)	(42,428)
The Home Depot, Inc. - January 2004 @ \$36		563	(33,133)	(39,481)
U.S. Bancorp - January 2004 @ \$29		1,015	(59,469)	(131,659)
United Technologies Corporation - January 2004 @ \$90		215	(44,024)	(127,488)
Wal-Mart Stores, Inc. - January 2004 @ \$54		383	(34,996)	(34,642)
<b>Total Written Covered Call Options</b>	(1.0)%		(669,666)	(1,317,286)
<b>TOTAL OPTIONS</b>	(1.0)%		\$ (669,666)	\$ (1,317,286)
<b>TOTAL INVESTMENTS</b>	100.0%		\$146,733,763	\$132,494,737

## Statements of Financial Highlights

Years ended December 31

	2003	2002	2001	2000	1999
DATA PER UNIT					
Net Asset Value, Beginning of Year	\$ 14.38	\$ 19.67	\$ 21.91	\$ 25.82	\$ 26.11
INCOME (LOSS) FROM INVESTMENT OPERATIONS					
Net investment income (loss)	(0.27)	(0.08)	0.27	0.28	(0.02)
Net gain (loss) on sale of investments and options	1.56	(3.61)	(0.51)	(1.44)	4.23
<b>Total from Investment Operations</b>	<b>1.29</b>	<b>(3.69)</b>	<b>(0.24)</b>	<b>(1.16)</b>	<b>4.21</b>
DISTRIBUTIONS TO UNITHOLDERS					
From net realized gain on sale of investments and options	-	-	-	(2.55)	(4.20)
Non-taxable distribution (Note 7)	(1.40)	(1.60)	(2.00)	(0.20)	(0.30)
<b>Total distributions</b>	<b>(1.40)</b>	<b>(1.60)</b>	<b>(2.00)</b>	<b>(2.75)</b>	<b>(4.50)</b>
Net Asset Value, End of Year	\$ 14.27	\$ 14.38	\$ 19.67	\$ 21.91	\$ 25.82
RATIOS/SUPPLEMENTAL DATA					
Total net assets, end of year (\$millions)	\$ 134.28	\$ 155.88	\$ 234.07	\$ 260.31	\$ 306.35
Average net assets (\$millions)	\$ 147.80	\$ 191.52	\$ 246.85	\$ 294.83	\$ 316.24
Management expense ratio	1.98%	1.99%	1.99%	1.96%	1.96%
Portfolio turnover rate	65.2%	46.8%	36.8%	31.2%	61.5%
Annual rate of return	9.0%	(18.8)%	(1.1)%	(4.5)%	16.1%

## 1. Establishment of the Fund

First Premium U.S. Income Trust (the "Fund") is an investment trust established under the laws of the Province of Ontario on January 22, 1997. The Fund began operations on February 4, 1997 and will terminate on January 1, 2007 and its net assets will be distributed to unitholders unless unitholders determine to continue the Fund by a majority vote at a meeting called for such purpose.

The manager of the Fund is Mulvihill Fund Services Inc. (the "Manager") and the Fund's investment manager is Mulvihill Capital Management Inc. (the "Investment Manager"). The Royal Trust Company (the "Trustee") is the trustee and acts as custodian of the assets of the Fund.

The Fund operates under the registered name Mulvihill Premium U.S. Fund.

## 2. Investment Objectives of the Fund

The Fund achieves its investment objectives by investing in a diversified portfolio consisting primarily of common shares issued by corporations that rank in the top 50 of the Standard & Poor's 100 Index on the basis of market capitalization. The securities comprising the portfolio may also include installment receipts for common shares and securities convertible into or exchangeable for common shares.

To generate additional returns above the dividend income earned on the portfolio, the Fund may from time to time, write covered call and put options in respect of all or some of the securities in the portfolio. Additionally, the Fund may purchase call options with the effect of closing out existing call options written by the Fund and may also purchase put options to preserve the value of the portfolio where appropriate. The Fund may enter into trades to close out positions in such permitted derivatives.

From time to time, the portfolio may include debt securities having a remaining term to maturity of less than one year issued or guaranteed by the government of Canada or a province or the government of the United States or short-term commercial paper with a minimum specified credit rating.

## 3. Summary of Significant Accounting Policies

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

### Valuation of investments

Securities are valued at market value, which is determined by the closing sale price on the recognized stock exchange on which the securities are listed or principally traded. If no sale has taken place on that day, valuation will be at the last published sale price if this is between the last recorded bid price (the price someone is willing to pay) and the last recorded asked price (the price at which someone is willing to sell). If the last published sale price is not between the bid and the asked price, the bid or the asked price is used, whichever is nearer the last published sale price.

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

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

The value of a forward contract shall be the gain or loss with respect

thereto that would be realized if, on the Valuation Date, the position in the forward contract, as the case may be, were to be closed out.

### Investment transactions and income

Investment transactions are accounted for on a trade date basis. Realized gains and losses on the sale of investments and change in unrealized appreciation (depreciation) of investments, options and foreign currency are determined on an average cost basis. Realized gains and losses relating to written options may arise from:

- (i) Expiration of written options whereby realized gains are equivalent to the premium received;
- (ii) Exercise of written covered call options whereby realized gains or losses are equivalent to the premium received in addition to the realized gain or loss from disposition of the related investments at the exercise price of the option; and
- (iii) Closing of written options whereby realized gains or losses are equivalent to the cost of purchasing options to close the positions, net of any premium received.

Realized gains and losses related to options are included in gain (loss) on sale of investments and options.

Option premiums received are reflected as deferred credits in investments so long as the options are outstanding. Any difference resulting from revaluation is included in change in unrealized appreciation (depreciation) of investments, options and foreign currency. Premiums received on written put options that are exercised are included in the cost of the security purchased.

Dividend income is recorded on the ex-dividend date. Interest income is recorded daily as it is earned.

### Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing rate of exchange on each valuation date. Purchases and sales of investments, and income derived from investments, are translated at the rate of exchange prevailing on the respective dates of such transactions.

## 4. Statements of Financial Highlights

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

- (a) Net investment income (loss) per unit is calculated based on the weighted average number of units outstanding during the year.
- (b) Net gain (loss) on investments and options per unit includes the impact of timing of unitholder transactions.
- (c) Distributions to unitholders are based on the number of units outstanding on the record date for each distribution.
- (d) Management expense ratio is the ratio of all fees and expenses charged to the Fund to average net assets.
- (e) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, divided by the average value of portfolio securities, excluding short-term investments.
- (f) Annual rate of return represents the historical annual total rate of return of an investment in a unit for the year, assuming reinvestment of current year distributions.

## 5. Unitholders' Equity

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

All units have equal voting rights and privileges. Each whole unit is 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. Fractional units are not entitled to voting privileges.

Units may be surrendered at any time for redemption but will be redeemed only on the monthly valuation date. Unitholders whose units are redeemed on a December 31 valuation date will be entitled to receive a redemption price per unit equal to the net asset value per unit. Unitholders whose units are redeemed on any other valuation date will be entitled to receive a redemption price per unit equal to the net asset value per unit less the lesser of (i) 4 percent of such net asset value per unit and (ii) \$1.00. Under the terms of a Recirculation Agreement, the Fund may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any units tendered for redemption.

Following are the unit transactions for the year:

	2003	2002
Units outstanding, beginning of year	10,841,735	11,901,171
Units issued on reinvestment of distributions	-	6,593
Units redeemed	(1,433,131)	(1,066,029)
Units outstanding, end of year	9,408,604	10,841,735

Under the terms of the normal course issuer bid, the Fund proposes to purchase, if considered advisable, up to a maximum of 1,061,173 units, 10% of its public float as determined in accordance with the rules of the Exchange. The normal course issuer bid will remain in effect until the earlier of April 27, 2004 or until the Fund has purchased the maximum number of units permitted under the bid. As at December 31, 2003, no units have been purchased by the Fund.

Unitholders may obtain a copy of the Notice of Intention to make a normal course issuer bid, without charge, by writing to Mulvihill Investors Services at: Mulvihill Premium U.S. Fund, Investor Relations, 121 King Street West, Suite 2600, Toronto, Ontario, M5H 3T9.

## 6. Management Fees and Expenses

The Fund is responsible for all ongoing trustee, manager, legal, accounting and audit fees as well as all other expenses incurred by the Trustee and Manager in the ordinary course of business relating to the Fund's operations. The Fund is also responsible for commissions and other costs of portfolio transactions and any extraordinary expenses of the Fund which may be incurred from time to time.

Fees are payable to the Manager under the terms of the trustee agreement and to the Investment Manager under the terms of an investment management agreement. The fees are payable at annual rates of 0.10 percent and 1.65 percent, respectively, of the Fund's net asset value calculated and payable monthly, plus applicable taxes.

## 7. Distributions

The Fund endeavours to make quarterly distributions of net income and

net realized capital gains and options to unitholders on the last day of March, June, September and December in each year. Unitholders may elect to reinvest distributions received from the Fund in additional units.

The non-taxable distributions received by the unitholders reduce the adjusted cost base of the unit for tax purposes.

## 8. Income Taxes

The Fund is a "mutual fund trust" as defined in the Income Tax Act (Canada) (the "Act"). The Fund is subject to tax in each taxation year under Part I of the Act on the amount of its income for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amount paid or payable to unitholders in the year. Income tax paid by the Fund on any net realized capital gains not paid or payable to unitholders is recoverable by the Fund to the extent and in the circumstances provided in the Act.

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

No amount is payable on account of income taxes in 2003 or 2002.

Accumulated non-capital losses of approximately \$5.9 million (2002 - \$2.7 million) and capital losses of approximately \$44.8 million (2002 - \$34.1 million) are available for utilization against net investment income and realized gains on sale of investments, respectively, in future years. The non-capital losses have expiration dates extending to 2010, and capital losses can be carried forward indefinitely.

## 9. Commission Charges

Total commissions paid in 2003 in connection with portfolio transactions were \$229,585 (2002 - \$330,639).

## 10. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

## 11. Financial Instruments and Risk Management

The Fund's financial statements consist of cash, investments, and certain derivative contracts (options and forward exchange contracts).

Risks of these contracts arise from the potential inability of the counterparties to meet the terms of their contracts and from future movement in currency, stock values and interest rates. The maximum credit risk exposure is the aggregate of all contracts with a positive value as disclosed on the statement of investments. The Fund manages these risks through the use of various risk limits and trading strategies.

Investments and derivative contracts are carried at fair market values. Other instruments are carried at cost, which approximates fair value.

## 12. Statement of Portfolio Transactions

The Fund will provide, without charge, a Statement of Portfolio Transactions (unaudited) upon written request by any unitholder to the Fund at 121 King Street West, Suite 2600, Toronto, Ontario, M5H 3T9.

## Mulvihill Capital Management Inc.

Mulvihill Capital Management is a leading independent investment manager responsible for managing more than \$3.3 billion in segregated and pooled funds on behalf of institutional and high net worth clients. Founded by Canada Trust in 1985, Mulvihill Capital Management emerged in 1995 as an independent company. Today, Mulvihill is managed by a cohesive team of senior managers and owners who have worked together for more than a decade. Our scale and independent structure allow us to provide our clients with a uniquely customized approach to asset management.

Mulvihill Capital Management operates three main lines of business:

- Mulvihill Institutional Asset Management → provides asset growth management of pension funds, corporations, management companies, endowment foundations and mutual funds with a wide variety of investment mandates. Our reputation has been built on the ability to provide customized portfolios that meet the stated needs of our clients.
- Mulvihill Wealth Management → offers a comprehensive specialized approach tailored to a client's personal investment strategies. Personalized service and customized reporting ensure that our clients are fully aware of the progress they are making.
- Mulvihill Structured Products → is responsible for the development and management of Mulvihill Hybrid Income Funds tailored to meet very specific investment objectives. Assets are generally managed to meet absolute rather than relative returns.

Mulvihill's Hybrid Income Funds are exchange-traded, equity-based funds that are enhanced by virtue of their broad distribution, special structure and performance characteristics. The Hybrid Income Funds are prime examples of our customized approach to asset management.

MULVIHILL HYBRID INCOME FUNDS	SYMBOL	HIGH	LOW
<b>MULVIHILL PLATINUM</b>			
Mulvihill Pro-AMS U.S. Fund	PAM.UN	\$ 20.81	\$ 18.79
Mulvihill Pro-AMS RSP Fund	PR.UN	\$ 19.78	\$ 18.15
Mulvihill Pro-AMS 100 Plus (Cdn \$) Fund	PRC.UN	\$ 20.70	\$ 17.45
Mulvihill Pro-AMS 100 Plus (U.S. \$) Fund	PRU.U	\$ 19.90 USD	\$ 15.40 USD
Mulvihill Pro-AMS RSP Split Share Fund	SPL.A/SPL.B	\$ 9.50/\$ 17.24	\$ 7.78/\$ 14.30
<b>MULVIHILL PREMIUM</b>			
Mulvihill Premium Canadian Fund	FPI.UN	\$ 20.55	\$ 17.70
Mulvihill Premium U.S. Fund	FPU.UN	\$ 14.25	\$ 12.36
Mulvihill Premium Oil & Gas Fund	FPG.UN	\$ 9.50	\$ 8.13
Mulvihill Premium 60 Plus Fund	SIX.UN	\$ 20.60	\$ 17.91
Mulvihill Premium Global Plus Fund	GIP.UN	\$ 13.89	\$ 11.82
Mulvihill Premium Canadian Bank Fund	PIC.A/PIC.PR.A	\$ 12.65/\$ 17.00	\$ 9.22/\$ 15.00
Mulvihill Premium Split Share Fund	MUH.A/MUH.PR.A	\$ 11.19/\$ 16.00	\$ 7.71/\$ 15.00
Mulvihill Premium Global Telecom Fund	GT.A/GT.PR.A	\$ 2.35/\$ 11.66	\$ 1.00/\$ 9.60
<b>MULVIHILL SUMMIT</b>			
Mulvihill Summit Digital World Fund	DWT.UN	\$ 4.00	\$ 3.25

## Mulvihill Premium U.S. Fund [FPU.UN]

### Board of Advisors

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

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

Michael M. Koerner  
Corporate Director

Robert W. Korthals  
Corporate Director

C. Edward Medland  
President, Beauwood Investments Inc.

### Information

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#### Auditors:

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

#### Transfer Agent:

Computershare Investor Services Inc.  
100 University Avenue, 8th Floor  
Toronto, Ontario M5J 2Y1

#### Shares Listed:

Toronto Stock Exchange  
trading under  
FPU.UN

#### Trustee:

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

Visit our website at [www.mulvihill.com](http://www.mulvihill.com) for additional information on all Mulvihill Hybrid Income Funds.

### Hybrid Income Funds

#### Managed by Mulvihill Structured Products

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#### Mulvihill Platinum

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

#### Mulvihill Premium

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

#### Mulvihill Summit

Mulvihill Summit Digital World Fund

#### Mutual Funds Managed by Mulvihill Capital Management

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

#### Head Office:

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Contact your broker directly for address changes.





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**Mulvihill Structured Products**

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Mulvihill Capital Management Inc.

*Please contact your broker directly for address changes.*