

ANNUAL REPORT

FIRST PREMIUM INCOME TRUST

MANAGED BY



MULVIHILL

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FIRST PREMIUM INCOME TRUST

MESSAGE TO UNITHOLDERS

First Premium Income Trust (the "Trust") was launched in June 1996 to provide investors with an attractive alternative to fixed income vehicles. The Trust's objective is to provide a quarterly distribution based on net income and realized capital gains in the Trust during the year to yield 8% on the initial offering price of \$25.00.

This product has enjoyed an enthusiastic response from investors since its inception. In 1996, the Trust paid an additional \$0.50 above the projected distribution of \$1.00.

The Trust has continued to perform well in 1997 as reflected by the total distributions of \$3.50 for the year. This represents \$1.50 over the target distribution composed of two special distributions: an extra \$0.50 paid in June 1997 and \$1.00 paid on December 31, 1997. Based

on the initial price of \$25.00, this represents a total distribution of 14% for 1997 or 6% above the target yield of 8%.

These special distributions were the result of continuing growth throughout 1997 in the Canadian equity markets. Favorable price performance and increased price volatility both have had positive effects on the performance of the Trust.

As well, the unit price (listed as FPI.UN on the Toronto Stock Exchange and Montreal Exchange) has performed well throughout 1997 reaching a new high of \$30.50. The Trust units closed out the year at \$29.15.

We would like to take this opportunity to thank each of the Trust's unitholders for all their support in 1997.

John P. Mulvihill
President & CEO
Mulvihill Capital Management Inc.

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



FIRST PREMIUM INCOME TRUST

INVESTMENT OBJECTIVES

The Trust's investment objectives are to provide unitholders of the Trust with a stable stream of quarterly distributions of at least \$0.50 (\$2.00 annually) per unit while returning at a minimum the original issue price of the units (\$25.00 per unit) to unitholders upon termination of the Trust.

INVESTMENT STRATEGY

The Trust intends to achieve its investment objectives by investing its net assets in a diversified portfolio consisting primarily of common shares issued by major Canadian issuers that pay regular dividends at an annualized rate which is at least 125% of the indicated annual dividend yield for TSE 300 Composite Index.

To generate additional returns above the dividend income generated by the portfolio, the Trust will write covered call options in respect of all or part of the securities in the portfolio.

DISTRIBUTION HISTORY

Date	Regular	Special	Total
September 1996	\$ 0.50	\$ -	\$ 0.50
December 1996	0.50	0.50	1.00
Total 1996	\$ 1.00	\$ 0.50	\$ 1.50
March 1997	0.50	-	0.50
June 1997	0.50	0.50	1.00
September 1997	0.50	-	0.50
December 1997	0.50	1.00	1.50
Total 1997	\$ 2.00	\$ 1.50	\$ 3.50
Total from Inception	\$ 3.00	\$ 2.00	\$ 5.00

TEN LARGEST HOLDINGS

POWER CORP OF CANADA

BCE INC.

ROYAL BANK OF CANADA

TELUS CORPORATION

WESTCOAST ENERGY INC.

NATIONAL BANK OF CANADA

EDPERBRASCAN CORPORATION
CLASS A

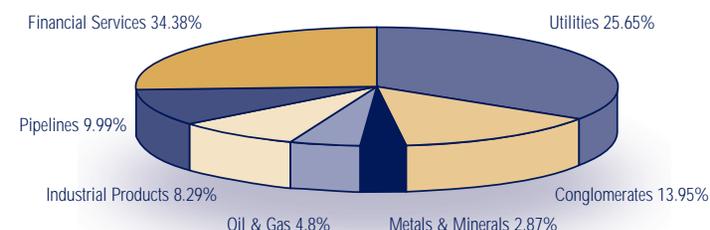
TRILON FINANCIAL
CORPORATION CLASS A

IMPERIAL OIL LTD.

NOVA CORPORATION

ASSET MIX

December 31, 1997



TRADING HISTORY



COMMENTARY

As of December 31, 1997 the net assets of the Trust were \$178.99 million or \$27.01 per unit. Compared to December 31, 1996 this represents an increase of \$9.52 million or \$1.33 per unit. In addition, distributions of \$3.50 per unit were made during 1997, comprised of the \$2.00 target distribution (equivalent to the 8% target yield) and \$1.50 in special distributions. Accordingly the cash yield on this product was 14%, based on the initial issue price of \$25. Moreover, there was a significant increase in the market value of the underlying assets of the Trust.

This strong performance was attributable to rising equity markets and high price volatility

in the underlying securities. The latter enabled the Trust to generate high levels of premium income from its covered call option writing program.

The Trust remains well positioned for 1998 and management believes that the income orientation of this product renders it an attractive vehicle for the current investment climate. The Trust's conservative strategy of enhancing income by way of covered call writing will also reduce downside risk in the event of a market correction.

AUDITORS' REPORT

To the Unitholders of the
First Premium Income Trust

We have audited the statement of net assets and the schedule of investments of First Premium Income Trust as at December 31, 1997 and the statements of financial operations, changes in net assets and gain on sale of investments for the year then ended. These financial statements are the responsibility of the Trustee. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 Trustee, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position and the investments of the Trust as at December 31, 1997, and the results of its operations and changes in its net assets for the year then ended in accordance with generally accepted accounting principles.

Deloitte + Touche

Chartered Accountants

Toronto, Ontario
March 6, 1998

STATEMENT OF NET ASSETS

As at December 31, 1997

	1997	1996
Assets		
Investments at market value (average cost - \$120,568,150; 1996 - \$120,508,141)	\$ 141,643,465	\$ 133,657,160
Short-term notes (average cost - \$36,998,324; 1996 - \$34,301,331)	37,111,314	34,409,590
Cash	46,422	29,795
Dividends receivable	520,859	686,323
Due from brokers	-	929,600
	179,322,060	169,712,468
Liabilities		
Accrued liabilities	332,185	242,112
Net Assets, represented by Unitholders' Equity	\$ 178,989,875	\$ 169,470,356
Number of Units outstanding (Note 4)	6,627,261	6,600,294
Net Asset Value per Unit	\$ 27.0081	\$ 25.6762

On behalf of the Trustee,
The Royal Trust Company


Trustee


Trustee

FIRST PREMIUM INCOME TRUST

STATEMENT OF FINANCIAL OPERATIONS

Year Ended December 31, 1997

	<u>1997</u>	1996 (Note 1)
Income		
Dividends	\$ 4,322,590	\$ 2,908,716
Interest	<u>1,504,537</u>	<u>818,953</u>
	<u>5,827,127</u>	<u>3,727,669</u>
Expenses (Note 5)		
Management fees	2,265,311	1,057,441
Goods and services tax	172,919	74,021
Custodian and other fees	118,344	38,606
Filing fees	<u>86,620</u>	<u>51,657</u>
	<u>2,643,194</u>	<u>1,221,725</u>
Net investment income	<u>3,183,933</u>	<u>2,505,944</u>
Gain on sale of investments and options	20,832,751	7,679,657
Change in unrealized appreciation of investments	<u>7,931,027</u>	<u>13,257,278</u>
Net gain on investments	<u>28,763,778</u>	<u>20,936,935</u>
Total results of financial operations	<u>\$ 31,947,711</u>	<u>\$ 23,442,879</u>
Net investment income per unit	\$ 0.4811	0.3847
Net gain on investments per unit	<u>4.3465</u>	<u>3.2139</u>
Total results of financial operations per unit (Based on the weighted average number of units outstanding during the year of 6,617,734; 1996 - 6,514,412)	<u>\$ 4.8276</u>	<u>\$ 3.5986</u>

STATEMENT OF CHANGES IN NET ASSETS

Year ended December 31, 1997

	<u>1997</u>	1996 (Note 1)
Unit transactions		
Proceeds from units issued, net of issue costs	\$ -	\$ 155,920,097
Proceeds from reinvestment of distributions	<u>742,134</u>	<u>7,675</u>
	<u>742,134</u>	<u>155,927,772</u>
Total results from financial operations	<u>31,947,711</u>	<u>23,442,879</u>
Distributions to unitholders (Note 6)		
From net investment income	<u>(4,488,054)</u>	<u>(2,220,638)</u>
From net realized gain on sale of investment	<u>(17,186,849)</u>	<u>(5,635,640)</u>
Non-taxable distribution	<u>(1,495,423)</u>	<u>(2,044,017)</u>
	<u>(23,170,326)</u>	<u>(9,900,295)</u>
Changes in net assets during the period	<u>9,519,519</u>	<u>169,470,356</u>
Net assets, beginning of period	<u>169,470,356</u>	<u>-</u>
Net assets, end of period	<u>\$ 178,989,875</u>	<u>\$ 169,470,356</u>

FIRST PREMIUM INCOME TRUST

SCHEDULE OF INVESTMENTS (cont'd)

December 31, 1997

Par Value/ Number of Shares		Average Cost	Market Value	% of Total
Gas and Electrical Utilities				
115,100	Canadian Utilities Ltd. Class A	4,642,045	4,678,815	
178,200	Nova Scotia Power Incorporated	2,824,278	3,100,680	
180,000	TransAlta Corporation	3,615,986	4,059,000	
		11,082,309	11,838,495	
	Total Utilities	31,532,114	36,375,585	25.7%
Financial Services				
Banks and Trusts				
100,000	Bank of Montreal	5,503,580	6,335,000	
94,800	Bank of Nova Scotia	5,348,252	6,384,780	
135,000	Canadian Imperial Bank of Commerce	5,289,907	6,021,000	
350,000	National Bank of Canada	5,145,916	8,260,000	
125,000	Royal Bank of Canada	7,128,750	9,450,000	
		28,416,405	36,450,780	
Insurance				
125,000	Great-West Lifeco Inc.	4,193,750	4,812,500	
Financial Management				
650,000	Trilon Financial Corporation Class A	5,543,543	7,475,000	
	Total Financial Services	38,153,698	48,738,280	34.4%
	Total Canadian Common Stocks	120,632,400	141,722,215	100.1%
Covered Calls				
(250)	Bank of Nova Scotia	(18,250)	(27,500)	
(500)	BCE Inc.	(30,250)	(38,750)	
(250)	Royal Bank of Canada	(15,750)	(12,500)	
		(64,250)	(78,750)	(0.1%)
	Total Investments	\$ 120,568,150	\$ 141,643,465	100.0%

NOTES TO THE FINANCIAL STATEMENTS

1. Establishment of the Trust

First Premium Income Trust (the "Trust") is an investment trust established under the laws of the Province of Ontario on June 21, 1996. The Trust began operations on June 25, 1996 and will terminate on January 1, 2004 and its net assets will be distributed to unitholders unless unitholders determine to continue the Trust by a two-thirds majority vote at a meeting called for such purpose.

The manager of the Trust is Mulvihill Fund Services Inc. (the "Manager") and the Trust'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 Trust.

2. Investment Objectives of the Trust

The Trust intends to achieve its investment objectives by investing in a diversified portfolio consisting primarily of common shares issued by major Canadian issuers that pay regular dividends at an annualized rate which is at least 125% of the indicated annual dividend yield for the TSE 300 Composite Index. A majority of the securities comprising the portfolio will be those issued by major financial institutions, utilities and pipeline companies in Canada.

To generate additional returns above the dividend income earned on the portfolio, the Trust will from time to time write covered call options in respect of all or some of the securities in the portfolio. Additionally, the Trust may purchase call options with the effect of closing out existing call options written by the Trust and may also purchase put options to preserve the value of the port-

folio where appropriate. The Trust may enter into trades to close out positions in such permitted derivatives.

From time to time, the portfolio may include debt securities having a remaining term to maturity of less than one year issued or guaranteed by the government of Canada or a province.

3. Summary of Significant Accounting Policies

Valuation of investments

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

Shares or other securities for which market quotations are readily available are valued at the closing sale price or, if there is no sale price, the average of the closing bid and ask prices. Shares or other securities for which market quotations are not readily available are valued at fair market value as determined by management.

Options are valued at an amount equal to the current market value of an option which would have the effect of closing the position.

Treasury bills are valued at quoted market values.

Investment transactions and income

Investment transactions are accounted for on a trade date basis. Realized gains and losses on the sale of investments and unrealized appreciation or depreciation of investments are determined on an average cost basis.

Option fees paid or received are reflected as deferred credits in investments so long as the

FIRST PREMIUM INCOME TRUST

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

options are outstanding. Any difference resulting from revaluation is included in unrealized appreciation or depreciation on investments.

Dividend income is recorded on the ex-dividend date.

4. Unitholders' Equity

The Trust 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 Trust.

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 Trust. Fractional units are not entitled to voting privileges.

Units may be surrendered at any time for redemption but will be redeemed only on the monthly valuation date. Unitholders whose units are redeemed on a June 30 valuation date will be entitled to receive a redemption price per unit equal to the net asset value per unit. Unitholders whose units are redeemed on any other valuation date will be entitled to receive a redemption price per unit equal to the net asset value per unit less the lesser of (i) 4% of such net asset value per unit and (ii) \$1.00.

On June 21, 1996, the Trust issued 6,000,000 units at \$25.00 per unit for total gross cash proceeds of \$150,000,000. On July 19, 1996, the Trust issued 600,000 units at \$25.00 per unit for total gross cash proceeds of \$15,000,000. Costs of \$9,079,903 were incurred in connec-

tion with these offerings and the establishment of the Trust.

Following are the unit transactions for the period:

	1997	1996
Units outstanding, beginning of period	6,600,294	-
Units issued for cash	-	6,600,000
Units issued on reinvestment of distribution from net income	26,967	294
Units outstanding, end of period	<u>6,627,261</u>	<u>6,600,294</u>

5. Management Fees And Expenses

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

Fees are payable to the Manager under the terms of the trustee agreement and to the Investment Manager under the terms of an investment management agreement. The fees are payable at annual rates of 0.10% and 1.15%, respectively, of the Trust's net asset value calculated and payable monthly, plus applicable taxes.

Charges to the Trust for the period, excluding taxes, were as follows:

	1997	1996
Expenses	<u>\$ 2,470,275</u>	\$ 1,147,704
Expenses as a percent of average net assets	1.39%	1.14%*

(*annualized)

Average net assets are calculated to be the average of the net assets determined at each valuation date of the Trust.

6. Distributions

The Trust endeavours to make quarterly distributions of net income and net realized capital gains and option premiums to unitholders on the last day of March, June, September and December in each year.

Unitholders may elect to reinvest distributions received from the Trust in additional units.

Distributions for the period were as follows:

	1997	1996
<i>Distribution per unit:</i>		
Dividend income	\$ 0.6779	\$ 0.3367
Net realized capital gains	2.5962	0.8539
Non-taxable distribution	0.2259	0.3094
	<u>\$ 3.5000</u>	<u>\$ 1.5000</u>

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

7. Income Taxes

The Trust is a "mutual fund trust" as defined in the Income Tax Act (Canada) (the "Act"). The Trust 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 Trust on any net realized capital gains not paid or payable to unitholders is recoverable by the Trust to the extent and in the circumstances provided in the Act.

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

No amount is payable on account of income taxes in 1997 or 1996.

8. Commissions

Total commissions paid in connection with portfolio transactions were \$677,295 (1996 - \$672,799)

9. Comparative Amounts

Certain of the prior year amounts have been restated to conform to the current year's presentation.

10. Statement of Portfolio Transactions

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

Mulvihill Capital Management Inc. is a leading Canadian investment counsellor responsible for the care of institutional and personal assets. The company manages corporate, pension, insurance, endowment, trust and mutual funds under a wide variety of investment mandates. Founded in 1985 as CT Investment Counsel Inc., the investment arm of Canada Trust, the company emerged in 1995 as an independent Company operated by a cohesive team of senior managers and owners who have been together for more than a decade. The Company's scale and independent structure allow them to provide clients with a uniquely customized approach to asset management.

First Premium Income Trust is managed by Mulvihill Capital's structured finance group. This area of Mulvihill Capital concentrates exclusively on creating and managing products tailored to meet very specific investment objectives. Assets are generally managed to meet specific absolute return levels rather than taking on the additional risk of targeting relative returns. This methodology allows Mulvihill Capital to make investment decisions that meet the client's needs rather than to make investments to rival the competition.

Mulvihill Capital's personal asset management division, Mulvihill Wealth Management, offers a comprehensive specialized approach tailored to clients' personal strategies. This not only relieves the client's burden of day-to-day investment decisions but also provides financial peace of mind for today and tomorrow. The Company's personalized service and customized reporting

assure that its powerful team of professionals is always working toward your current objectives and that you are fully aware of the progress you are making.

Mulvihill's reputation has been built on its ability to provide customized portfolios that meet the stated needs of its clients. The First Premium investments are prime examples of that customized approach to asset management.

Other Premium Income products within the Mulvihill Group include Premium Income Corporation, First Premium U.S. Income Trust, First Premium Oil & Gas Income Trust and MCM Split Share Corp. These Funds are Unit Trusts and have traded on the Toronto Stock Exchange and the Montreal Exchange as follows over the past year:

	High	Low
Premium Income Corporation PIC.A (Class A)	\$ 17.25	\$ 10.00
Premium Income Corporation PIC.PRA (Preferred)	\$ 16.30	\$ 14.90
First Premium U.S. Income Trust FPU.UN	\$ 26.00	\$ 20.00
First Premium Oil & Gas Income Trust FPG.UN	\$ 13.00	\$ 8.50

First Premium Income Trust

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Visit our website at www.mulvihill.com for additional information on all First Premium Funds.

Board of Advisors

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Chairman & President
Mulvihill Capital Management Inc.

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

Robert W. Korthals
Corporate Director

R. John Lawrence
Chairman
Lawrence & Company

C. Edward Medland
President
Beauwood Investments Inc.

Auditors

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