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*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons authorized to sell such securities.*

*Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of Mulvihill Capital Management Inc., the manager of the issuer, at 121 King Street West, Standard Life Centre, Suite 2600, Toronto, Ontario, M5H 3T9 or info@mulvihill.com or by calling 416.681.3900, toll-free at 1.800.725.7172 and are also available electronically at www.sedar.com.*

## PRELIMINARY SHORT FORM PROSPECTUS

Warrant Offering

March 16, 2011



### Warrants to Subscribe for up to ● Units (each Unit consisting of one Class A Share and one Preferred Share) at a Subscription Price of \$●

Premium Income Corporation (the “Fund”) will issue to the holders of record of outstanding Class A Shares of the Fund at the close of business on ●, 2011, ● warrants (“Warrants”) to subscribe for and purchase an aggregate of approximately ● units (“Unit”). Each Unit consists of one transferable, redeemable Class A Share and one transferable, redeemable Preferred Share of the Fund (the “Offering”). This short form prospectus qualifies the distribution of the Warrants and the Class A Shares and the Preferred Shares issuable upon the exercise thereof. See “Details of the Offering”.

**Record Date:** ●, 2011 (the “Record Date”), subject to obtaining all necessary regulatory and exchange approvals.

**Exercise Date and Time:** Warrants may be exercised only on December 15, 2011. Warrants not exercised by 5:00 p.m. (Toronto time) on December 15, 2011 will be void and of no value.

**Subscription Price:** The subscription price (the “Subscription Price”) for the Warrants will be the lesser of: (a) \$23.46, being the most recently calculated net asset value (“NAV”) per Unit prior to the date hereof, plus the estimated per Unit fees and expenses of the Offering and plus the Warrant Exercise Fee (as defined below) and (b) the most recently calculated NAV per Unit prior to the date of filing the final short form prospectus, plus the estimated per Unit fees and expenses of the Offering and plus the Warrant Exercise Fee.

**Basic Subscription Privilege:** Each holder (a “Shareholder”) of a Class A Share at the close of business (Toronto time) on the Record Date will receive one transferable Warrant for each Class A Share held. Two Warrants will entitle the holder thereof (a “Warrantholder”) to acquire one Unit upon payment of the Subscription Price prior to 5:00 p.m. (Toronto time) on the Exercise Date. See “Details of the Offering — Basic Subscription Privilege”.

**Additional Subscription Privilege:** Warrantholders who exercise their Warrants under the Basic Subscription Privilege are entitled to purchase, on a *pro rata* basis, Units not issued pursuant to the

exercise of the Basic Subscription Privilege by other Warrantholders, if any. See “Details of the Offering — Additional Subscription Privilege”.

**No Minimum Issue Size:** The completion of the Offering is not conditional upon the receipt by the Fund of any minimum amount of subscription proceeds.

The Class A Shares and the Preferred Shares are listed on the Toronto Stock Exchange (the “TSX”) under the symbols PIC.A and PIC.PR.A, respectively. On March 15, 2011, the closing price on the TSX of the Class A Shares was \$7.70 per Class A Share and of the Preferred Shares was \$15.22 per Preferred Share. The Fund has applied to list the Warrants distributed under this short form prospectus and the Class A Shares and the Preferred Shares issuable upon the exercise thereof on the TSX. Listing will be subject to the Fund’s fulfilling all of the listing requirements of the TSX. **There is currently no market through which the Warrants may be sold and purchasers may not be able to resell the Warrants purchased under this short form prospectus. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants and the extent of issuer regulation. See “Risk Factors”.**

	Subscription Price <sup>(1)(2)</sup>	Fee to Dealer on Warrant Exercise <sup>(2)(3)</sup>	Net Proceeds to the Fund <sup>(2)(4)</sup>
Per Unit .....	\$●	\$●	\$●
Total.....	\$●	\$●	\$●

- (1) The Subscription Price for the Warrants will be the lesser of: (a) \$23.46, being the most recently calculated NAV per Unit prior to the date hereof, plus the estimated per Unit fees and expenses of the Offering and plus the Warrant Exercise Fee (as defined below) and (b) the most recently calculated NAV per Unit prior to the date of filing the final short form prospectus, plus the estimated per Unit fees and expenses of the Offering and plus the Warrant Exercise Fee.
- (2) Assumes that all Warrants are exercised.
- (3) The Fund will pay a fee, referred to herein as the Warrant Exercise Fee, of \$● per Warrant to the dealer whose client exercised the Warrant.
- (4) Before deducting the estimated fees and expenses of the Offering of \$●, which will be paid by the Fund.

The Fund is a mutual fund corporation incorporated under the laws of the Province of Ontario on August 27, 1996. The principal office of the Fund is located at 121 King Street West, Standard Life Centre, Suite 2600, Toronto, Ontario, M5H 3T9. The Fund invests in a portfolio (the “Portfolio”) consisting principally of common shares of Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank (collectively, the “Banks”).

The Fund’s investment objectives are: (a) to provide holders of Preferred Shares with cumulative preferential quarterly cash distributions in the amount of \$0.215625 per Preferred Share (resulting in distributions on the initial public offering price of 5.75% per annum); (b) to continue paying holders of Class A Shares quarterly cash distributions at a rate of \$0.60 per annum until the NAV per Unit reaches \$25.00 at which time, quarterly distributions paid by the Fund will vary and will be calculated as approximately 8.0% per annum of the NAV per Class A Share; and (c) to return the issue price on the initial public offering of the shares to holders of both Preferred Shares and Class A Shares at the time of redemption of such shares.

**There is no assurance that the Fund will be able to achieve its investment objectives. See “Risk Factors” for a discussion of certain factors that should be considered by Warrantholders.**

The value of a Unit will be reduced if the NAV per Unit exceeds \$● and two or more Warrants are exercised. If a Shareholder does not exercise Warrants in such circumstances, such Shareholder’s *pro rata* interest in the assets of the Fund will be diluted. To maintain the Shareholder’s *pro rata* interest in the assets of the Fund, the Shareholder will be required to pay in connection with the exercise of Warrants an additional amount equal to the Subscription Price. While a Shareholder may sell the Shareholder’s Warrants, no assurance can be given that the proceeds of such sale will compensate the Shareholder for such dilution. Holders of Preferred Shares will not receive any Warrants under the Offering. While the exercise of Warrants should not dilute the interests of the holders of Preferred Shares, such exercise could reduce the then-current asset coverage ratio applicable to the Preferred Shares. In no circumstances, however, should such asset coverage ratio, even if so reduced, be less than the asset coverage ratio that will apply immediately prior to the date of setting the Subscription Price. See “Details of the Offering — Dilution”.

**Warrant certificates will not be issued to Shareholders in connection with the Offering.**

The Fund utilizes the book-entry only system with respect to the Class A Shares and the Preferred Shares which is administered by CDS Clearing and Depository Services Inc. (“CDS”). The Fund may also use the book-entry only system with respect to the Warrants, the non-certificated issue system or another system acceptable to the Fund. A Warrantholder may subscribe for Units by instructing the participant in CDS (a “CDS Participant”) holding the subscriber’s Warrants to exercise all or a specified number of such Warrants and concurrently forwarding the Subscription Price for each Unit subscribed for to such CDS Participant. See “Details of the Offering — Basic Subscription Privilege”.

Warrantholders wishing to subscribe for additional Units (“Additional Units”) under the Additional Subscription Privilege must forward their request to their CDS Participant prior to 5:00 p.m. (Toronto time) on the Exercise Date, along with payment for the Additional Units requested. Any excess funds will be returned by mail or credited to the subscriber’s account with its CDS Participant without interest or deduction. See “Details of the Offering — Additional Subscription Privilege”.

**Warrantholders that wish to acquire Units pursuant to the Offering must provide the CDS Participant holding their Warrants with instructions and the required payment sufficiently in advance of the Exercise Date to permit the proper exercise of their Warrants. CDS Participants will have an earlier deadline for receipt of instructions and payment.**

Computershare Trust Company of Canada (the “Warrant Agent”) has been appointed the warrant agent of the Fund to receive subscriptions and payments from Warrantholders, to act as registrar and transfer agent for the Warrants and to perform certain services relating to the exercise and transfer of Warrants. Warrantholders 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 Exercise Date. See “Details of the Offering — Exercise of Warrants and Warrant Agent”.

Provided that the Fund continues to qualify at all times as a mutual fund corporation within the meaning of the *Income Tax Act* (Canada) (the “Tax Act”) or the Class A Shares or the Preferred Shares are listed on a “designated stock exchange” for purposes of the Tax Act (which includes the TSX), Class A Shares and Preferred Shares issued as a result of the exercise of Warrants 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 (each, a “registered plan”). Provided that the Warrants are listed on a designated stock exchange, or provided that at all times the Class A Shares and the Preferred Shares are qualified investments for registered plans and the Fund is not, and deals at arm’s length with each person who is, an annuitant, a beneficiary, an employer or a subscriber under, or a holder of, the relevant registered plan within the meaning of the Tax Act, the Warrants will be a qualified investment under the Tax Act for a registered plan. However, if the Class A Shares, Preferred Shares or Warrants are a “prohibited investment” for a trust governed by a tax-free savings account, the holder of such trust that holds Class A Shares, Preferred Shares or Warrants will be subject to a penalty tax as set out in the Tax Act. An investment in the Class A Shares, the Preferred Shares or the Warrants will not generally be a “prohibited investment” unless the holder of a trust governed by 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. Generally, a holder will have a significant interest in the Fund if the holder, together with persons with whom the holder does not deal at arm’s length, owns directly or indirectly 10% or more of the issued shares of any class of the shares of the Fund or any corporation related to the Fund within the meaning of the Tax Act. See “Eligibility for Investment”.

**No underwriter has been involved in the preparation of this short form prospectus or has performed any review of the contents of this short form prospectus.**

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## GLOSSARY

<b>1933 Act</b>	the U.S. <i>Securities Act of 1933</i> , as may be amended from time to time.
<b>Additional Subscription Privilege</b>	means the right given to Warrantheolders who exercise their Warrants under the Basic Subscription Privilege to purchase, on a <i>pro rata</i> basis, Class A Shares or Preferred Shares not issued pursuant to the Basic Subscription Privilege by other Warrantheolders, if any.
<b>Additional Units</b>	means the additional units a Warrantheolder is entitled to subscribe for pursuant to the Additional Subscription Privilege.
<b>AIF</b>	means the annual information form of the Fund dated January 29, 2011.
<b>Basic Subscription Privilege</b>	means the right given to Warrantheolders to subscribe for Units in accordance with the terms of the Offering and the Warrant Indenture.
<b>Banks</b>	means the Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank.
<b>business day</b>	any day on which the Toronto Stock Exchange is open for business.
<b>CDS</b>	means CDS Clearing and Depository Services Inc.
<b>CDS Participant</b>	means a participant in CDS.
<b>Class A Market Price</b>	means the weighted average trading price of the Class A Shares on the principal stock exchange on which the Class A Shares are listed (or, if the Class A Shares are not listed on any stock exchange, on the principal market on which the Class A Shares are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date.
<b>Class A Share</b>	a transferable, redeemable class A share of the Fund.
<b>Class B Share</b>	a transferable class B share of the Fund.
<b>Closing</b>	means ●, 2011.
<b>CRA</b>	means the Canada Revenue Agency.
<b>Diluted NAV per Unit</b>	means, if Warrants of the Fund are outstanding on a particular date and the NAV per Unit on such date is greater than the Dilution Threshold, the fraction equal to (A) the NAV on such date plus the product of (1) the number of Units issuable upon the exercise of the Warrants then outstanding and (2) the Dilution Threshold over (B) the number of Units outstanding on such date plus the number of Units issuable upon the exercise of such Warrants as of the applicable October Valuation Date.
<b>Dilution Threshold</b>	means the threshold calculated on the basis that, if Warrants of the Fund are outstanding, the Subscription Price payable on the exercise of Warrants less the Warrant Exercise Fee, if any, for such Warrants.
<b>Dividend Payment Date</b>	means the last day of January, April, July and October in each year on which the Fund will pay a cumulative preferential quarterly distribution per Preferred Share to holders of Preferred Shares.

<b>Escrow Agreement</b>	means the escrow agreement dated October 17, 1996 between MCM, RBC Dexia Investor Services Trust and the Fund.
<b>Exercise Date</b>	means December 15, 2011, the only date on which a Shareholder may exercise a Warrant. Warrants not exercised by 5:00 p.m. (Toronto time) on December 15, 2011 will be void and of no value.
<b>Fund</b>	means Premium Income Corporation.
<b>Investment Manager</b>	means Mulvihill Capital Management Inc. as investment manager of the Fund.
<b>Manager</b>	means Mulvihill Capital Management Inc. as manager of the Fund.
<b>MCM</b>	means Mulvihill Capital Management Inc.
<b>NAV or NAV of the Fund</b>	the net asset value of the Fund which, on any date, will be equal to (a) the aggregate value of the assets of the Fund, less (b) the aggregate value of the liabilities of the Fund, including any distributions declared and not paid that are payable to shareholders on or before such date, less (c) the stated capital of the Class B Shares of the Fund, being \$1,000.
<b>NAV per Unit</b>	in general, the net asset value of the Fund divided by the number of Units then outstanding. See “Details of the Offering — Dilution”.
<b>NI 81-102</b>	means National Instrument 81-102 – <i>Mutual Funds</i> .
<b>October Valuation Date</b>	means the last day of October in any year on which holders of Preferred Shares or Class A Shares may concurrently retract an equal number of Preferred Shares and Class A Shares at a retraction price equal to the NAV per Unit on that date.
<b>Offering</b>	the offering of up to ● Warrants and the up to ● Units issuable upon the exercise thereof, as contemplated in this short form prospectus.
<b>Portfolio</b>	means the portfolio of securities in which the Fund invests.
<b>Preferred Market Price</b>	means the weighted average trading price of the Preferred Shares on the principal stock exchange on which the Preferred Shares are listed (or, if the Preferred Shares are not listed on any stock exchange, on the principal market on which the Preferred Shares are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date.
<b>Preferred Share</b>	a transferable, redeemable Preferred Share of the Fund.
<b>Record Date</b>	means ●, 2011.
<b>Retraction Payment Date</b>	means the tenth business day following a Valuation Date.
<b>Shareholder</b>	means a holder of Class A Shares of the Fund.
<b>Subscription Price</b>	means the lesser of: (a) \$23.46, being the most recently calculated NAV per Unit prior to the date hereof, plus the estimated per Unit fees and expenses of the Offering and plus the Warrant Exercise Fee and (b) the most recently calculated NAV per Unit prior to the date of filing the final short form prospectus, plus the estimated per Unit fees and expenses of the Offering and plus the Warrant Exercise Fee.

<b>Tax Act</b>	means the current provisions of the <i>Income Tax Act</i> (Canada), including current published administrative policies and assessing practices of the CRA made publicly available prior to the date hereof, and the regulations thereunder.
<b>Termination Date</b>	means the date on which the Board of Directors of the Fund determine to redeem the Class A Shares and Preferred Shares.
<b>Unit</b>	a notional unit consisting of one Class A Share and one Preferred Share. The number of Units outstanding at any time is equal to the sum of the number of Class A Shares and Preferred Shares then outstanding divided by two.
<b>United States</b>	the United States of America, its territories and possessions.
<b>Unit Market Price</b>	means the sum of the Class A Market Price and the Preferred Market Price.
<b>U.S. person</b>	has the meaning given to such term in Regulation S under the 1933 Act.
<b>Valuation Date</b>	means the last day of a month in any year, on which Class A Shares or Preferred Shares surrendered for retraction will be retracted.
<b>Warrant</b>	a transferable Warrant of the Fund to be issued to Shareholders of record on the Record Date on the terms and conditions of the Warrant Indenture.
<b>Warrant Agent</b>	means Computershare Trust Company of Canada as warrant agent of the Fund.
<b>Warrant Exercise Fee</b>	means the fee payable by the Fund per Warrant to the dealer whose client exercised a Warrant.
<b>Warrant Indenture</b>	means the master warrant indenture dated as of the Closing of the Offering between MCM and Computershare Trust Company of Canada.
<b>\$</b>	means Canadian dollars unless otherwise indicated.

## FORWARD-LOOKING STATEMENTS

Certain statements in this short form prospectus are forward-looking statements, including those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “expect”, “intend” and similar expressions to the extent they relate to the Fund or MCM. Forward-looking statements are not historical facts but reflect the current expectations of the Fund and MCM regarding future results or events. Such forward-looking statements reflect the Fund’s and MCM’s current beliefs and are based on information currently available to them. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results or events to differ materially from current expectations. Some of these risks, uncertainties and other factors are described in this short form prospectus under the heading “Risk Factors”. Although the forward-looking statements contained in this short form prospectus are based upon assumptions that the Fund and MCM believe to be reasonable, neither the Fund nor MCM can assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained herein were prepared for the purpose of providing investors with information about the Fund and may not be appropriate for other purposes. Neither the Fund nor MCM assumes any obligation to update or revise them to reflect new events or circumstances, except as required by law.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents filed with the securities commissions or similar authorities in each of the provinces of Canada are specifically incorporated by reference and form an integral part of this short form prospectus:

- (a) the AIF of the Fund dated January 29, 2011; and
- (b) the annual financial statements of the Fund, together with the accompanying report of the auditors, for the year ended October 31, 2010; and
- (c) the management report of fund performance related to the annual financial statements of the Fund for the year ended October 31, 2010.

Any of the documents of the type referred to above including AIFs, financial statements and related management reports of fund performance filed by the Fund with a securities commission or similar authority in Canada after the date of this short form prospectus and prior to the termination of the distribution hereunder shall be deemed to be incorporated by reference into this short form prospectus.

**Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus. Information on any of the websites maintained by the Fund or MCM does not constitute a part of this short form prospectus. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.**



## THE FUND

Premium Income Corporation is a mutual fund corporation incorporated under the laws of the Province of Ontario on August 27, 1996. The principal office of the Fund is located at 121 King Street West, Standard Life Centre, Suite 2600, Toronto, Ontario, M5H 3T9.

While the Fund is technically considered to be a mutual fund corporation under the securities legislation of certain provinces of Canada, the Fund is not a conventional mutual fund and has received exemptions from certain requirements of NI 81-102.

### Summary Description of the Fund

#### *Investment Objectives*

The investment objectives for the Class A Shares are:

- (a) to continue paying holders of Class A Shares quarterly cash distributions at a rate of \$0.60 per annum until the NAV per Unit reaches \$25.00 at which time, quarterly distributions paid by the Fund will vary and will be calculated as approximately 8.0% per annum of the NAV per Class A Share; and
- (b) to return the issue price on the initial public offering of the Class A Shares to holders of Class A Shares at the time of redemption of such shares.

The investment objectives for the Preferred Shares are:

- (a) to provide holders of Preferred Shares with cumulative preferential quarterly cash distributions in the amount of \$0.215625 per Preferred Share (resulting in distributions on the initial public offering price of 5.75% per annum); and
- (b) to return the issue price on the initial public offering of the Preferred Shares to holders of Preferred Shares at the time of redemption of such shares.

#### *Investment Strategies*

To achieve its investment objectives, the Fund invests in a Portfolio consisting of Canada's leading Banks, being Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank. To generate additional returns above the dividend income earned on the Portfolio, the Fund may, from time to time, write covered call options in respect of some or all of the common shares in the Portfolio. The Fund may also, from time to time, hold a portion of its assets in cash equivalents, which may be used to provide cover in respect of the writing of cash-covered put options in respect of securities in which the Fund is permitted to invest. From time to time, the Fund may also hold short-term debt instruments issued by the Government of Canada or a Province of Canada or by one or more of the Banks. The composition of the Portfolio, the common shares that may be subject to call options and put options and the terms of such options will vary from time to time based on MCM's assessment of market conditions.

#### *Current Portfolio*

The following table presents unaudited information relating to the allocation of the Fund's Portfolio as of March 10, 2011:

Bank of Montreal	19.55%
The Bank of Nova Scotia	14.85%
Canadian Imperial Bank of Commerce	15.08%
Royal Bank of Canada	24.41%
The Toronto-Dominion Bank	24.73%
Portfolio in Cash & Short Term Investments	1.38%

## ***Recent Developments***

On September 29, 2010, the articles of incorporation of the Fund were amended to extend the redemption date of the Preferred Shares and the Class A Shares to November 1, 2017 and, thereafter, to allow for the automatic extension of the redemption date for an additional seven years, as well as to provide a special retraction right, to allow Shareholders who do not wish to continue their investment upon any such automatic extension to redeem their shares, to change the monthly retraction prices so that such prices are calculated by reference to market price in addition to NAV, to allow the Fund to calculate a Diluted NAV per Unit and to calculate and pay retraction prices based on the Diluted NAV per Unit while Warrants of the Fund remain outstanding, to permit the issuance of additional classes of shares of the Fund issuable in series, and to permit the Fund to make return of capital distributions on the Preferred Shares and the Class A Shares.

On December 16, 2010, the Fund made a normal course issuer bid. Under the bid, the Fund has the right to purchase up to a maximum of 947,069 Class A Shares and 947,069 Preferred Shares (respectively representing approximately 10% of the Fund's public float of 9,470,693 Class A Shares and 9,470,693 Preferred Shares, both as of December 7, 2010), together in Units. The Fund may not purchase more than 190,470 of its Units (representing approximately 2% of the Fund's 9,523,493 issued and outstanding Class A Shares and approximately 2% of the Fund's 9,523,493 issued and outstanding Preferred Shares, both as of December 7, 2010) in any 30-day period under the bid. Purchases made pursuant to the bid will be made in the open market through the facilities of the TSX. The normal course issuer bid will remain in effect until the earliest of December 20, 2011, the termination of the bid by the Fund, or the Fund purchasing the maximum number of Units permitted under the bid. Units purchased by the Fund pursuant to the normal course issuer bid will be cancelled. The directors of the Fund believe that the Units of the Fund may become available during the proposed purchase period at prices that would make such purchases in the best interests of the Fund. As of the date hereof, the Fund has not purchased any Class A Share or Preferred Share under this bid.

## **Management and Investment Management**

The manager and investment manager of the Fund is MCM. MCM became the manager of the Fund on September 1, 2010 as successor by amalgamation with Mulvihill Fund Services Inc.

## **RATIONALE FOR THE OFFERING**

The exercise of Warrants by holders will provide the Fund with additional capital that can be used to take advantage of attractive investment opportunities and is also expected to increase the trading liquidity of the Class A Shares and the Preferred Shares and to reduce the management expense ratio of the Fund.

## **DETAILS OF THE OFFERING**

The following is a summary only and is subject to, and is qualified in its entirety by reference to the detailed provisions of the Warrant Indenture, to be dated as of the date of the Closing of the Offering, between MCM and Computershare Trust Company of Canada.

## **Warrants**

Subject to the Fund obtaining all necessary regulatory and exchange approvals, Shareholders at the close of business (Toronto time) on the Record Date, being ●, 2011, will be issued ● Warrants to subscribe for and purchase an aggregate of approximately ● Units. Each Shareholder will receive one transferable Warrant for each Class A Share held. Two Warrants will entitle the Warrantholder to acquire one Unit upon payment of the Subscription Price prior to 5:00 p.m. (Toronto time) on the Exercise Date. The subscription price for the Warrants will be the lesser of: (a) \$23.46, being the most recently calculated NAV per Unit prior to the date hereof, plus the estimated per Unit fees and expenses of the Offering and plus the Warrant Exercise Fee and (b) the most recently calculated NAV per Unit prior to the date of filing the final short form prospectus, plus the estimated per Unit fees and expenses of the Offering and plus the Warrant Exercise Fee. Each Unit consists of one transferable, redeemable Class A Share and one transferable, redeemable Preferred Share. The Fund will also issue Warrants on the same basis to the holder of the Class B Shares.

## Exercise of Warrants and Warrant Agent

Warrants may be exercised only on December 15, 2011, the Exercise Date, commencing at market open (Toronto time) and ending at 5:00 p.m. (Toronto time) on the Exercise Date. **WARRANTS NOT EXERCISED PRIOR TO 5:00 P.M. (TORONTO TIME) ON THE EXERCISE DATE WILL BE VOID AND OF NO VALUE.** If a Shareholder does not exercise, or sells, the Warrants, then the value of the Shareholder's investment may be diluted as a result of the exercise of Warrants by others. See "Details of the Offering — Dilution".

The Warrant Agent has been appointed by the Fund to receive subscriptions and payments from Warrantholders, 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. Warrantholders desiring to exercise Warrants and purchase Units should ensure that subscriptions and payments in full of the Subscription Price are received by the Warrant Agent prior to 5:00 p.m. (Toronto time) on the Exercise Date.

The Class A Shares and the Preferred Shares 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 shares are to be registered shall be deemed to have become the holder or holders of record of such shares on the date on which such shares are entered into the register maintained by the Fund's transfer agent for such shares. Units will only be issued pursuant to the Additional Subscription Privilege after all necessary calculations have been made following the Exercise Date as described under "Details of the Offering — Additional Subscription Privilege".

## Basic Subscription Privilege

A Warrantholder 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 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 Exercise 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 Exercise Date to allow the CDS Participant to properly exercise the Warrants on such subscriber's behalf. Warrantholders 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, 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 in this short form prospectus, the Warrants may be exercised only by a Warrantholder who represents at the time of exercise that the Warrantholder 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 1933 Act) 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.

## **Additional Subscription Privilege**

Each Warrantholder that subscribes for Units to which such holder is entitled pursuant to the Basic Subscription Privilege may subscribe for Additional Units pursuant to the Additional Subscription Privilege, if applicable, at a price equal to the Subscription Price for each Additional Unit. Warrantholders will not be required to 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 Exercise 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 Warrantholders that have subscribed for Additional Units pursuant to the Additional Subscription Privilege. If any Warrantholder 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 Warrantholder must forward the holder's request to a CDS Participant prior to 5:00 p.m. (Toronto time) on the Exercise 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 Exercise 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 Exercise 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 Exercise Date.

## **Sale or Transfer of Warrants**

Warrantholders in Canada may, instead of exercising their Warrants to subscribe for Units, sell or transfer their Warrants. Holders of Warrants who wish to sell or transfer their Warrants through CDS Participants must do so in the same manner as they sell or transfer Class A Shares or Preferred Shares, namely, by providing instructions to the CDS Participant holding their Warrants in accordance with the policies and procedures of the CDS Participant. The Fund has applied to list the Warrants on the TSX. Listing will be subject to the Fund's fulfilling all of the listing requirements of the TSX.

## **Dilution**

The value of a Unit will be reduced if the NAV per Unit exceeds \$● (being the Subscription Price payable on the exercise of two Warrants less the Warrant Exercise Fee) and two or more Warrants are exercised. If the NAV per Unit exceeds \$●, then a Shareholder will face dilution of its investment to the extent Warrantholders exercise their Warrants and acquire Units. If a Shareholder does not exercise Warrants in such circumstances, such Shareholder'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, Shareholders should carefully consider the exercise of the Warrants or the sale of the Warrants prior to the Exercise Date. 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 Shareholder's *pro rata* interest in the assets of the Fund, the Shareholder will be required to pay in connection with the exercise of two Warrants an additional amount equal to the Subscription Price payable on the exercise of two Warrants. While a Shareholder may sell the Shareholder's Warrants, no assurance can be given that

the proceeds of such sale will compensate the Shareholder 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 Class A Shares and the remaining time to expiry of the Warrant.

Holders of Preferred Shares will not receive any Warrants under the Offering. While the exercise of Warrants should not dilute the interests of the holders of Preferred Shares, such exercise could reduce the then-current asset coverage ratio applicable to the Preferred Shares. In no circumstances, however, should such asset coverage ratio, even if so reduced, be less than the asset coverage ratio that will apply immediately prior to the date of setting the Subscription Price.

### **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 of 5:00 p.m. (Toronto time) on the Exercise Date, the Fund:

- (a) subdivides, re-divides or changes its outstanding Class A Shares or Preferred Shares into a greater number of shares;
- (b) reduces, combines or consolidates its outstanding Class A Shares or Preferred Shares into a smaller number of shares;
- (c) distributes to holders of all or substantially all of the outstanding Class A Shares or Preferred Shares any securities of the Fund including rights, options or warrants to acquire Class A Shares or Preferred Shares or securities convertible into or exchangeable for Class A Shares or Preferred Shares or property or assets, including evidence of indebtedness (other than in connection with the distribution and exercise of the Warrants);
- (d) reclassifies the Class A Shares or Preferred Shares 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 retraction or redemption of Class A Shares or Preferred Shares).

### **Delivery Form and Denomination of Warrants**

The Fund may use the book-entry only system administered by CDS with respect to the Warrants, the non-certificated issue system or another system acceptable to the Fund. Shareholders hold their Class A Shares through a CDS Participant will not receive physical certificates evidencing their ownership of Warrants and all Warrantholders will hold their Warrants through a CDS Participant. The Fund expects that each Shareholder will receive a confirmation of the number of Warrants issued to it under the Offering from its CDS Participant in accordance with the practices and procedures of that CDS Participant. CDS will be responsible for establishing and maintaining 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 accounts maintained by them; (b) maintaining, supervising or reviewing any records relating to the 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 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, transfers and exercises of Warrants through CDS Participants.

## **FEES AND EXPENSES**

### ***Expenses of the Offering***

The expenses of the Offering (including the costs of preparing and printing this short form prospectus, legal expenses, expenses of the auditors and translation fees), which are estimated to be \$● in the aggregate, will be paid by the Fund.

### ***Warrant Exercise Fee***

The Fund will pay a Warrant Exercise Fee of approximately 1.5% of the Subscription Price of two Warrants to the dealer whose client exercised such Warrants.

### ***Management Fees***

The Manager receives a management fee equal to 0.10% per annum of the NAV, calculated and payable monthly, plus any applicable taxes.

### ***Investment Management Fees***

The Investment Manager receives an investment management fee equal to 0.80% per annum of the NAV, calculated and payable monthly, plus any applicable taxes.

### ***Ongoing Expenses***

The Fund pays for all fees and expenses incurred in connection with its operation and administration. In addition to those expenses described in the AIF incorporated by reference herein, these expenses will include fees payable to the Warrant Agent.

## **DESCRIPTION OF SHARE CAPITAL**

The Fund is authorized to issue an unlimited number of Class A Shares, Preferred Shares and 1,000 Class B Shares. In addition, the Fund is authorized to issue an unlimited number of Class C Shares, Class D Shares, Class E Shares, Class C Preferred Shares, Class D Preferred Shares and Class E Preferred Shares, each such class of shares issuable in series. The Class B Shares are held in escrow by RBC Dexia Investor Services Trust pursuant to an Escrow Agreement dated October 17, 1996 between MCM, RBC Dexia Investor Services Trust and the Fund.

The Class A Shares and the Preferred Shares have been issued on the basis that an equal number of shares of each class will be issued and outstanding at all times. As at March 15, 2011 there were 9,523,493 Class A Shares and 9,523,493 Preferred Shares outstanding. The following is a summary of certain provisions of the Class A Shares and the Preferred Shares which are more fully described in the AIF.

### ***Distributions***

The Fund intends to pay to holders of Class A Shares, quarterly cash distributions on the Class A Shares of \$0.15 per Class A Share (\$0.60 per annum) subject to the prior rights of holders of Preferred Shares to receive cumulative, fixed, preferential dividends. The Fund intends to continue to pay distributions at this rate until the NAV per Unit reaches \$25.00. At such time, quarterly distributions paid by the Fund will vary and will be calculated as approximately 8.0% per annum of the NAV of a Class A Share. The quarterly distributions will be determined using the last published NAV prior to the declaration date for the distribution.

Holders of Preferred Shares will be entitled to receive cumulative preferential quarterly distributions of \$0.215625 per Preferred Share on the last day of January, April, July and October in each year. In the event that dividends earned by the Fund on the Portfolio are not sufficient on any Dividend Payment Date to cover the total amount of the distribution payable to holders of Preferred Shares on such date, the balance of the distributions payable will be paid as capital gains dividends out of net realized capital gains and option premiums (other than option premiums in respect of options outstanding at year end) earned by the Fund on the Portfolio. Commencing with each seven-year period starting November 1, 2017, the Board of Directors of the Fund shall determine the dividend rate in respect of the Preferred Shares for such period, provided that any such new rate is announced by way of press release. Dividends payable on the Preferred Shares may take the form of ordinary dividends, capital gains dividends or distributions representing a return of capital or any combination thereof.

### ***Retractions***

Class A Shares and Preferred Shares may be surrendered at any time for retraction but will be retracted only on the last day of a month, a Valuation Date. Shareholders whose Class A Shares are retracted on a Valuation Date other than the October Valuation Date will be entitled to receive a retraction price per Class A Share equal to the lesser of: (A) the sum of (1) 96% of the difference between (I) the NAV per Unit as of the applicable Valuation Date and (II) the cost to the Fund of purchasing a Preferred Share in the market for cancellation at any time after the applicable Valuation Date and prior to the applicable Retraction Payment Date and (2) any accrued and unpaid dividends thereon; and (B) the sum of (1) 96% of the difference between (I) the Unit Market Price as of the applicable Valuation Date and (II) the cost to the Fund of purchasing a Preferred Share in the market for cancellation at any time after the applicable Valuation Date and prior to the applicable Retraction Payment Date and (2) any accrued and unpaid dividends thereon. For purposes of the calculation noted above, the cost to the Fund of purchasing a Preferred Share in the market for cancellation may include the purchase price of such Preferred Share, commissions and such other costs, if any, related to the liquidation of any part of the Fund's portfolio to fund such purchase; and the NAV per Unit shall be the NAV per Unit unless warrants of the Fund are outstanding on the applicable Valuation Date and the NAV per Unit as of the applicable Valuation Date exceeds the Dilution Threshold, in which case the NAV per Unit shall be the Diluted NAV per Unit as of the applicable Valuation Date.

Shareholders whose Preferred Shares are retracted on a Valuation Date other than the October Valuation Date will be entitled to receive a retraction price per Preferred Share equal to the lesser of: (A) the sum of (1) 96% of the lesser of (I) NAV per Unit as of the applicable Valuation Date less the cost to the Fund of purchasing a Class A Share in the market for cancellation at any time after the applicable Valuation Date and prior to the applicable Retraction Payment Date and (II) \$15.00 and (2) any accrued and unpaid dividends thereon; and (B) the sum of (1) 96% of the lesser of (I) the Unit Market Price as of the applicable Valuation Date less the cost to the Fund of purchasing a Class A Share in the market for cancellation at any time after the applicable Valuation Date and prior to the applicable Retraction Payment Date and (II) \$15.00 and (2) any accrued and unpaid dividends thereon. For purposes of the calculation noted above, the cost to the Fund of purchasing a Class A Share in the market for cancellation may include the purchase price of such Class A Share, commissions and such other costs, if any, related to the liquidation of any part of the Fund's portfolio to fund such purchase; and the NAV per Unit shall be the NAV per Unit unless warrants of the Fund are outstanding on the applicable Valuation Date and the NAV per Unit as of the applicable Valuation Date exceeds the Dilution Threshold, in which case the NAV per Unit shall be the Diluted NAV per Unit as of the applicable Valuation Date.

A Shareholder may concurrently retract an equal number of Class A Shares and Preferred Shares on the October Valuation Date of each year at a retraction price equal to the NAV per Unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the Fund's Portfolio required to fund such retraction.

### ***Redemptions***

The Class A Shares and the Preferred Shares will be redeemed by the Fund on the Termination Date. The redemption price payable by the Fund for each Class A Share outstanding on that date will be equal to the greater of (a) the NAV per Unit on that date minus the sum of \$15.00 plus any accrued and unpaid dividends on a Preferred Share, and (b) nil. The redemption price payable by the Fund for each Preferred Share outstanding on the Termination Date will be equal to the lesser of (a) \$15.00 plus any accrued and unpaid dividends thereon, and (b) the NAV of the Fund on that date divided by the number of Preferred Shares then outstanding.

## CONSOLIDATED CAPITALIZATION

The following table sets forth the unaudited capitalization of the Fund before and after giving effect to the Offering:

	<u>Authorized</u>	<u>Outstanding as at February 28, 2011<sup>(1)</sup></u>	<u>Outstanding as at February 28, 2011 after giving effect to the Offering<sup>(1)(2)</sup></u>
<b>Liabilities</b>			
Preferred Shares .....	Unlimited	\$142,852,395 (9,523,493 Preferred Shares)	\$● (●Preferred Shares)
<b>Share Capital</b>			
Class A Shares .....	Unlimited	\$80,318,249 (9,523,493 Class A Shares)	\$● (● Class A Shares)
Class B Shares.....	Unlimited	\$1,000 (1,000 Class B Shares)	\$1,000 (1,000 Class B Shares)
<b>Total Capitalization .....</b>		<b>\$223,171,644</b>	<b>\$●</b>

<sup>(1)</sup> For this purpose, Portfolio securities are valued at closing market prices.

<sup>(2)</sup> Based on the number of Class A Shares and Preferred Shares outstanding as at February 28, 2011, less the payment of the fees and expenses of the Offering, estimated to be \$●, and assuming the exercise of all Warrants issued hereunder at the Subscription Price and the payment of the Warrant Exercise Fees by the Fund.

## NET ASSET VALUE, TRADING PRICE AND VOLUME

The Class A Shares and the Preferred Shares are listed on the TSX under the symbols PIC.A and PIC.PR.A, respectively. On March 15, 2011, the closing price on the TSX of the Class A Shares was \$7.70 per Class A Share and of the Preferred Shares was \$15.22 per Preferred Share. On March 10, 2011, the NAV per Class A Share was \$8.46 and the NAV per Preferred Share was \$15.00.

The following table sets forth the NAV per Unit and the market price range and trading volume of the Class A Shares and the Preferred Shares on the TSX for the twelve-month period prior to the date of this short form prospectus. All such information, other than the NAV per Unit, was obtained from Bloomberg. The Fund, MCM and the Warrant Agent do not assume any responsibility for the accuracy of the information obtained from Bloomberg.

Period	NAV per Unit <sup>(1)</sup>		Class A Shares			Preferred Shares		
			Market Price		Volume	Market Price		Volume
	High	Low	High	Low		High	Low	
<b>2010</b>								
<i>March<sup>(2)</sup></i>	\$22.37	\$21.19	\$8.47	\$6.64	583,282	\$15.39	\$15.04	364,600
<i>April</i>	\$22.40	\$21.83	\$9.21	\$8.06	428,083	\$15.53	\$15.03	445,882
<i>May</i>	\$21.90	\$20.78	\$8.75	\$7.30	493,486	\$15.20	\$14.76	704,497
<i>June</i>	\$21.26	\$19.81	\$8.06	\$6.46	392,917	\$15.02	\$14.91	525,337
<i>July</i>	\$20.51	\$20.00	\$7.45	\$6.23	358,901	\$15.09	\$14.81	268,039
<i>August</i>	\$20.28	\$19.70	\$7.42	\$5.95	479,377	\$15.05	\$14.86	826,365
<i>September</i>	\$20.74	\$20.45	\$7.83	\$6.81	381,918	\$15.14	\$15.01	465,282
<i>October</i>	\$20.98	\$20.58	\$8.02	\$7.32	358,164	\$15.18	\$14.90	724,709
<i>November<sup>(3)</sup></i>	\$22.68	\$22.21	\$7.89	\$7.15	357,746	\$15.27	\$14.96	349,930
<i>December</i>	\$22.52	\$22.30	\$7.50	\$6.61	416,232	\$15.19	\$15.09	124,736



Period	NAV per Unit <sup>(1)</sup>		Class A Shares			Preferred Shares		
	High	Low	Market Price		Volume	Market Price		Volume
			High	Low		High	Low	
January	\$22.21	\$21.87	\$7.39	\$6.96	257,332	\$15.38	\$15.08	135,704
February	\$23.47	\$22.81	\$7.71	\$6.99	268,489	\$15.29	\$15.15	84,483
March <sup>(4)</sup>	\$23.46	\$23.46	\$7.88	\$7.53	161,055	\$15.36	\$15.13	84,718

(1) The NAV per Unit is calculated and published on a weekly basis.

(2) From and after March 1, 2010.

(3) The Class A Shares were consolidated on November 1, 2010 on the basis of 0.738208641 new Class A Shares for each prior Class A Share resulting in a higher NAV per Class A Share.

(4) Up to and including March 15, 2011.

## USE OF PROCEEDS

The net proceeds from the exercise of the Warrants offered hereby are estimated to be \$● (assuming that all Warrants are exercised and after payment of the fees and expenses of the Offering and all applicable Warrant Exercise Fees). Such proceeds will be invested by the Fund in accordance with its investment objectives, strategy and restrictions. For further information on the anticipated use of proceeds, see “The Fund — Rationale for the Offering”.

## PLAN OF DISTRIBUTION

The Fund has applied to list the Warrants distributed under this short form prospectus and the Class A Shares and the Preferred Shares issuable upon the exercise thereof on the TSX. Listing will be subject to the Fund’s fulfilling all of the listing requirements of the TSX. The Fund will deliver a copy of the final short form prospectus to Shareholders of record on the Record Date.

Warrant holders who are Shareholders resident outside of Canada are cautioned that the acquisition and disposition of Warrants, Class A Shares and Preferred Shares may have tax consequences in the jurisdiction where they reside and in Canada which are not described herein.

## U.S. Shareholders

The Class A Shares and the Preferred Shares are not registered under the 1933 Act. The Offering is made in Canada and not in the United States. The Offering is not, and under no circumstances is to be construed as, an offering of any Class A Shares or Preferred Shares for sale in the United States or an offering to or for the account or benefit of any U.S. person or a solicitation therein of an offer to buy securities. Accordingly, the Warrants may not be distributed to Shareholders located in the United States, and no subscriptions will be accepted from any person, or his agent, who appears to be, or whom the Fund has reason to believe is, resident in the United States.

Each CDS Participant should, prior to the Exercise Date, attempt to sell for the U.S. Shareholder the Warrants allotable to such Shareholder at the price or prices it determines in its discretion. Neither the Fund nor any CDS Participant will be subject to any liability for the failure to sell any Warrants for such a Shareholder or in connection with the sale of any Warrants at a particular price on a particular day. It is expected that any proceeds received by the CDS Participant with respect to the sale of Warrants, net of brokerage fees and costs incurred and, if applicable, Canadian tax required to be withheld, will be delivered by mailing cheques (in Canadian funds and without payment of any interest) as soon as practicable to the Shareholder whose Warrants were sold, at the Shareholder’s last recorded address. Amounts of less than \$1.00 will not be forwarded. There is a risk that the proceeds received from the sale of Warrants will not exceed the brokerage fees and costs of or incurred by the CDS Participant in connection with the sale of such Warrants and, if applicable, the Canadian tax required to be withheld. In such event, no proceeds will be forwarded.

## **Other Foreign Shareholders and Undeliverable Documents**

Shareholders whose recorded addresses are outside of Canada (but not in the United States) will be permitted to subscribe for Units pursuant to the terms of the Offering or, if they do not wish to exercise any of their Warrants to subscribe for Units, will be permitted to sell or otherwise transfer their Warrants through a CDS Participant provided that they represent to the Fund that the receipt by them of Warrants and the issuance to them of Class A Shares and Preferred Shares upon the exercise of Warrants is not in violation of the laws of their jurisdiction of residence.

By exercising Warrants, holders exercising through CDS Participants will be deemed to be confirming to the Fund that such holders are eligible to receive Warrants and to exercise Warrants to subscribe for Units under the Offering.

All Shareholders whose recorded addresses are outside of Canada, other than those Shareholders who confirm their eligibility to receive and exercise Warrants, are advised that their Warrants will be held by their CDS Participant for the account of such Shareholders. Each CDS Participant should, prior to the Exercise Date, attempt to sell for such Shareholder the Warrants allotable to such Shareholder at the price or prices it determines in its discretion. Neither the Fund nor any CDS Participant will be subject to any liability for the failure to sell any Warrants for such a Shareholder or in connection with the sale of any Warrants at a particular price on a particular day. It is expected that any proceeds received by the CDS Participant with respect to the sale of Warrants, net of brokerage fees and costs incurred and, if applicable, Canadian tax required to be withheld, will be delivered by mailing cheques (in Canadian funds and without payment of any interest) as soon as practicable to the Shareholder whose Warrants were sold, at the Shareholder's last recorded address. Amounts of less than \$1.00 will not be forwarded. There is a risk that the proceeds received from the sale of Warrants will not exceed the brokerage fees and costs of or incurred by the CDS Participant in connection with the sale of such Warrants and, if applicable, the Canadian tax required to be withheld. In such event, no proceeds will be forwarded.

If any offering documents in connection with the Warrants are returned to a CDS Participant prior to the Exercise Date as undeliverable, the Manager expects that the applicable Warrants will be sold and the net proceeds held by the applicable CDS Participant for the account of the Shareholder whose offering documents were returned. In the event such proceeds are not claimed before 5:00 p.m. (Toronto time) on the Exercise Date, such proceeds will be paid to the Fund.

## **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

The Manager and the Investment Manager receive the fees described under "Fees and Expenses" for their services to the Fund and will be reimbursed by the Fund for all expenses incurred in connection with their roles in the operation and administration of the Fund.

## **RISK FACTORS**

Certain risk factors relating to the Fund, the Warrants, the Class A Shares and the Preferred Shares are described below. In addition to the risks described in this short form prospectus, the AIF contains a detailed discussion of risks and other considerations relating to an investment in the Fund of which investors should be aware. Additional risks and uncertainties not currently known to the Manager, or that are currently considered immaterial, may also impair the operations of the Fund. If any such risk actually occurs, the activities, financial condition, liquidity or results of the operations of the Fund and the ability of the Fund to make distributions on the Class A Shares and the Preferred Shares could be materially adversely affected.

### **Dilution to Existing Shareholders**

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

## **No Public Market for Warrants**

The Fund has applied to list the Warrants distributed under this short form prospectus on the TSX. Listing will be subject to the Fund's fulfilling all of the listing requirements of the TSX. There is currently no public market for the Warrants and there can be no assurance that an active public market will develop or be sustained after completion of the Offering.

## **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 holders of its Class A Shares or Preferred Shares.

## **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Osler, Hoskin & Harcourt LLP, counsel to the Fund, the following is a general summary of the principal Canadian federal income tax considerations generally relevant to the receipt of Warrants under the Offering. This summary is applicable only to Warrantheolders who are issued Warrants pursuant to the Offering and who, for the purposes of the Tax Act, are resident in Canada and hold their Warrants, and Class A Shares and Preferred Shares issued pursuant to the exercise of the Warrants, as capital property and deal at arm's length with, and are not affiliated with, the Fund (each a "Holder"). This summary is based on the current provisions of the Tax Act and counsel's understanding of the current published administrative policies and assessing practices of the CRA made publicly available prior to the date hereof, and on a certificate of the Fund as to certain factual matters. This summary also takes into account all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof, but does not otherwise take into account or anticipate any changes in the law, whether by legislative, governmental or judicial action, or in CRA's administrative policies or assessing practices.

This summary is based upon the assumption that the Fund has at all times complied, and will at all times comply, with its investment restrictions, and that the Fund has qualified as a "mutual fund corporation" under the Tax Act continuously since it was established and will continue to so qualify at all material times.

This summary does not apply to a Holder that is a "financial institution" for purposes of section 142.2 of the Tax Act or a "specified financial institution" as defined for purposes of the Tax Act, nor does it apply to a taxpayer, an interest in which is a "tax shelter investment" for the purposes of the Tax Act, or to a Holder that has made an election to compute and report its tax results in a currency other than Canadian currency.

**This summary is of a general nature only and does not take into account or consider the tax laws of any province or territory or of any jurisdiction outside Canada. This summary is not intended to be, nor should it be construed to be, legal or tax advice to any particular Holder, and no representations concerning the tax consequences to any particular Holder are made. Holders should consult their own tax advisors regarding the income tax considerations applicable to them having regard for their particular circumstances.**

### ***Receipt of Warrants***

Based on an administrative position of CRA, no amount will be required to be included in computing the income of a Holder as a consequence of acquiring Warrants under the Offering. The cost of a Warrant received under the Offering will be nil. The cost of a Warrant acquired by a Holder will be averaged with the adjusted cost base to the Holder of any other Warrants held at that time as capital property to determine the adjusted cost base of each such Warrant to the Holder.

### ***Exercise of Warrants***

The exercise of Warrants will not constitute a disposition of property for purposes of the Tax Act and, consequently, no gain or loss will be realized by a Holder upon the exercise of Warrants. Upon the exercise of two Warrants, the Fund intends, for its purposes, to issue each Class A Share for \$● and each Preferred Share for \$●.

Although the Fund believes that such allocation of the aggregate Subscription Price is reasonable, such allocation is not binding on CRA. A Class A Share and a Preferred Share acquired by a Holder upon the exercise of two Warrants will have a cost to the Holder equal to the portion of the Subscription Price per Unit allocated to such Class A Share and Preferred Share and the portion of the adjusted cost base, if any, to the Holder of the Warrants so exercised that have been allocated to such Class A Share and Preferred Share. The cost of a Class A Share and Preferred Share acquired by a Holder upon the exercise of Warrants will be averaged with the adjusted cost base to the Holder of all other Class A Shares and Preferred Shares, respectively, held at that time as capital property to determine the adjusted cost base of each such Class A Share and Preferred Share to the Holder.

### ***Disposition of Warrants***

Upon the disposition of a Warrant by a Holder, other than pursuant to the exercise thereof, the Holder will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, net of reasonable costs of the disposition, exceed (or are less than) the adjusted cost base, if any, of the Warrant to the Holder. One-half of any capital gain (a “taxable capital gain”) will be included in the Holder’s income, and one-half of any capital loss may be deducted against taxable capital gains in accordance with the detailed rules in the Tax Act in that regard.

### ***Expiry of Warrants***

Upon the expiry of an unexercised Warrant, a Holder will realize a capital loss equal to the adjusted cost base of the Warrant to the Holder.

## **ELIGIBILITY FOR INVESTMENT**

Provided that the Fund continues to qualify at all times as a mutual fund corporation within the meaning of the Tax Act or the Class A Shares or the Preferred Shares are listed on a “designated stock exchange” for purposes of the Tax Act (which includes the TSX), Class A Shares and Preferred Shares issued as a result of the exercise of Warrants 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 (each, a “registered plan”). Provided that the Warrants are listed on a designated stock exchange, or provided that at all times the Class A Shares and the Preferred Shares are qualified investments for registered plans and the Fund is not, and deals at arm’s length with each person who is, an annuitant, a beneficiary, an employer or a subscriber under, or a holder of, the relevant registered plan within the meaning of the Tax Act, the Warrants will be a qualified investment under the Tax Act for a registered plan.

However, if the Class A Shares, Preferred Shares or Warrants are a “prohibited investment” for a trust governed by a tax-free savings account, the holder of such trust that holds Class A Shares, Preferred Shares or Warrants will be subject to a penalty tax as set out in the Tax Act. An investment in the Class A Shares, the Preferred Shares or the Warrants will not generally be a “prohibited investment” unless the holder of a trust governed by 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. Generally, a Holder will have a significant interest in the Fund if the Holder, together with persons with whom the Holder does not deal at arm’s length, owns directly or indirectly 10% or more of the issued shares of any class of the shares of the Fund or any corporation related to the Fund within the meaning of the Tax Act.

## **REGISTRAR AND TRANSFER AGENT AND WARRANT AGENT**

Computershare Investor Services Inc. provides the Fund with registrar, transfer and distribution agency services in respect of the Class A Shares and the Preferred Shares 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 offices in Toronto, Ontario.

## **AUDITORS**

The auditors of the Fund are Deloitte & Touche LLP, Chartered Accountants, Licensed Public Accountants, located at Bay Wellington Tower – Brookfield Place, 181 Bay Street, Suite 1400, Toronto, Ontario, M5J 2V1.

## **INTERESTS OF EXPERTS**

The matters referred to under “Canadian Federal Income Tax Considerations” and certain other legal matters relating to the Offering and the Warrants and the Class A Shares and the Preferred Shares issuable upon the exercise of the Warrants to be distributed pursuant to this short form prospectus will be passed upon by Osler, Hoskin & Harcourt LLP on behalf of the Fund. As of the date hereof, the partners and associates of Osler, Hoskin & Harcourt LLP, as a group, beneficially owned, directly or indirectly, less than one percent of the outstanding Class A Shares and less than one percent of the outstanding Preferred Shares of the Fund.

The Fund’s auditors, Deloitte & Touche LLP, have prepared a report to the shareholders of the Fund dated November 16, 2010 which is incorporated by reference herein. Deloitte & Touche LLP has advised the Manager that they are independent in accordance with their rules of professional conduct.

## **CONTRACTUAL RIGHT OF ACTION FOR RESCISSION**

Pursuant to the terms of the Warrant Indenture, the Fund has granted to each Warrantholder who elects to purchase Units pursuant to the Basic Subscription Privilege a contractual right of rescission. Pursuant to such right, a Warrantholder who elects to exercise Warrants pursuant to the Basic Subscription Privilege may rescind such exercise by delivering a notice of rescission (in the form attached to the Warrant Indenture) to the Warrant Agent no later than midnight (Toronto time) on the second business day after a valid subscription is received by the Warrant Agent (being the date on which both the instruction to exercise the Warrants and payment in full of the Subscription Price therefor is received by the Warrant Agent). Each Warrantholder validly electing to rescind an exercise of Warrants will receive a full refund of the Subscription Price paid in connection with such exercise and will not receive any Class A Shares or Preferred Shares. Any Warrants rescinded will be cancelled. The contractual right of rescission granted to each Warrantholder is in addition to any other right or remedy available to the Warrantholder at law.

## **PURCHASERS’ STATUTORY RIGHTS**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal advisor.

## AUDITORS' CONSENT

We have read the short form prospectus (the "prospectus") of Premium Income Corporation (the "Fund") dated ●, 2011, relating to the issue of Warrants to subscribe for Units of the Fund (each Unit consisting of one Class A Share and one Preferred Share of the Fund). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use, through incorporation by reference in the prospectus, of our report dated November 16, 2010 to the shareholders of the Fund on the statement of investments as at October 31, 2010, the statements of financial position as at October 31, 2010 and 2009, and the statements of operations and deficit, of changes in net assets and of cash flows for the years then ended.

Toronto, Ontario  
●, 2011

(Signed) ●  
Chartered Accountants  
Licensed Public Accountants

**CERTIFICATE OF THE FUND AND THE MANAGER**

Dated: March 16, 2011

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Prince Edward Island, Nova Scotia and Newfoundland and Labrador.

**PREMIUM INCOME CORPORATION**

(Signed) JOHN P. MULVIHILL  
Chief Executive Officer

(Signed) JOHN D. GERMAIN  
Chief Financial Officer

On behalf of the Board of Directors

(Signed) MICHAEL M. KOERNER  
Director

(Signed) ROBERT W. KORTHALS  
Director

**MULVIHILL CAPITAL MANAGEMENT INC.**  
(as manager of Premium Income Corporation)

(Signed) JOHN P. MULVIHILL  
Chief Executive Officer

(Signed) JOHN D. GERMAIN  
Chief Financial Officer

On behalf of the Board of Directors

(Signed) JOHN P. MULVIHILL  
Director

(Signed) JOHN D. GERMAIN  
Director

(Signed) DAVID E. ROODE  
Director