ANNUAL REPORT 2010

Premium Income Corporation

Message to Shareholders

We are pleased to present the annual financial results of Premium Income Corporation (the “Fund”).

The following is intended to provide you with the financial highlights of the Fund and we hope you will read the more detailed financial information contained in the annual report.

On September 29, 2010, the shareholders approved a reorganization (“Reorganization”) effective on November 1, 2010 to extend the term of the Fund for an additional seven years (November 1, 2017). In connection with the Reorganization, holders of Class A shares will continue to receive ongoing leveraged exposure to a high-quality 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, as well as attractive quarterly cash distributions. Currently, the Fund is paying quarterly Class A distributions at a rate of $0.60 per year. The Fund intends to continue to pay distributions at this rate until the net asset value (“NAV”) per Unit (a “Unit” being considered to consist of one Class A share and one Preferred share) reaches $22.50. At such time, quarterly Class A distributions paid by the Fund will vary and will be calculated as approximately 8.0 percent per annum of the NAV of a Class A share. Holders of Preferred shares are expected to continue to benefit from fixed cumulative preferential quarterly cash dividends in the amount of $0.215625 per Preferred share ($0.862500 per year) representing a yield of 5.75 percent per annum on the original issue price of $15.00.

To accomplish its objectives the Fund invests principally in common shares issued by the Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank, and, from time to time, will write covered call options against these securities. Accordingly, the distributions paid out by the Fund are funded from the dividend income earned on the portfolio, realized capital gains from the sale of securities and option premiums from the sale of covered call options. During the fiscal year ended 2010, the annual total return of the Fund was 15.07 percent, with a significant portion of the total return generated from realized and unrealized capital gains on the underlying portfolio. Distributions amounting to $1.46 per unit were paid during the year. The net asset value increased from $19.19 per unit as at October 31, 2009 to $20.58 per unit as at October 31, 2010.

The longer-term financial highlights of the Fund for the years ended October 31 are as follows:

	2010	2009	2008	2007	2006
Annual Total Fund Return	15.07%	7.52%	(20.46)%	7.08%	10.91%
Preferred Share Distribution Paid (annual target of $0.86250 per share)	$ 0.862500	$ 0.862500	$ 0.862500	$ 0.865319	$ 0.875210
Class A Share Distribution Paid (annual target of $0.80 per share)	$ 0.60	$ 0.45	$ 0.90	$ 1.20	$ 1.20
Ending Net Asset Value per Unit (initial issue price was $25.00 per unit)	$ 20.58	$ 19.19	$ 19.19	$ 26.17	$ 26.41

We thank all shareholders for their continued support and encourage shareholders to review the more detailed information contained within the annual report.

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

Premium Income Corporation [PIC.A/PIC.PR.A]

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Management Report of Fund Performance

This annual management report of fund performance contains the financial highlights for the year ended October 31, 2010 of Premium Income Corporation (the "Fund"). The annual financial statements of the Fund are attached.

Copies of the Fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure may be obtained by calling 1-800-725-7172 toll free, or by writing to the Fund at Investor Relations, 121 King Street West, Suite 2600, Toronto, Ontario, M5H 3T9, or by visiting our website at www.mulvihill.com.

Investment Objectives and Strategies

The Fund's original investment objectives are to:

(1) provide Preferred shareholders with cumulative preferential quarterly cash dividends of approximately $0.22 per quarter;

(2) provide Class A shareholders with all excess realized income of the Fund at each fiscal year end; and

(3) return, at a minimum, the original issue price to holders of both Preferred shares and Class A shares upon windup on November 1, 2010.

On September 29, 2010, the shareholders approved a reorganization ("Reorganization") effective on November 1, 2010 to extend the term of the Fund for an additional seven years (November 1, 2017). For a detailed discussion of the Reorganization, please see Recent Developments on page 5 of this report.

The Fund achieves its investment objectives by investing its net assets in a portfolio consisting principally of short-term investments and common shares issued by 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"). To generate additional returns above the dividend income generated by the portfolio, the Fund writes covered call options in respect of all or part of the securities in the Portfolio. Due to the nature of the covered option writing strategy employed by the Fund, the average portfolio turnover rate will tend to be relatively high due to the exercise of options. From time to time, the Fund may hold a portion of its assets in cash equivalents, which may be utilized to provide cover in respect of cash covered put positions.

Risk

The underlying portfolio holds common shares issued by the 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 process of writing covered call options on the securities held in the portfolio will tend to lower the volatility of the Net Asset Value of the portfolio. Investors should be aware that the primary risks associated with the Fund relate to the non-diversified nature of the investment universe, and the level of option volatility realized in undertaking the writing of covered call options.

Any capital appreciation in the value of the portfolio will be for the benefit of the holders of Class A shares. However, any decrease in the value of the portfolio or the dividends paid on the common shares of the corporations held in the portfolio will effectively be first for the account of the holders of Class A shares. The Class A shares will have no value on November 1, 2017 if the Net Asset Value per unit on that date is less than or equal to $15.00.

In order to generate income, the Fund writes covered call options in respect of all or part of the securities held in the portfolio. Over the last twelve months, volatility levels of the Canadian banks have generally been range bound with a sharp increase in May and June of 2010 as investor fears of European sovereign default risk mounted. Since then, volatility has declined considerably as equity markets have rallied and liquidity has increased significantly as the cumulative efforts of the European Central Bank and other central banks around the world to stabilize the financial system have taken hold.

Summary of Investment Portfolio

The composition of the portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update will be available on our website at www.mulvihill.com.

Asset Mix

October 31, 2010

	% OF NET ASSET VALUE*
Financial Institutions	76%
Other Assets (Liabilities)	15%
Cash and Short-Term Investments	9%
	100%

*The Net Asset Value excludes the Redeemable Preferred share liability.

Portfolio Holdings

October 31, 2010

	% OF NET ASSET VALUE*
Canadian Imperial Bank of Commerce	18%
Royal Bank of Canada	16%
The Toronto-Dominion Bank	15%
The Bank of Nova Scotia	14%
Bank of Montreal	13%
Cash and Short-Term Investments	9%
	85%

*The Net Asset Value excludes the Redeemable Preferred share liability.

Distribution History

INCEPTION DATE: OCTOBER 1996	CLASS A REGULAR DISTRIBUTION	CLASS A SPECIAL DISTRIBUTION	TOTAL CLASS A DISTRIBUTION	REGULAR PREFERRED DISTRIBUTION
Total for 1997	**$ 0.80**	**$ 1.90**	**$ 2.70**	**$ 0.877800**
Total for 1998	**0.80**	**0.50**	**1.30**	**0.884300**
Total for 1999	**0.80**	**0.40**	**1.20**	**0.888610**
Total for 2000	**0.80**	**0.60**	**1.40**	**0.880033**
Total for 2001	**0.80**	**1.35**	**2.15**	**0.884226**
Total for 2002	**0.80**	**0.60**	**1.40**	**0.884170**
Total for 2003	**0.80**	**0.40**	**1.20**	**0.892795**
Total for 2004	**0.80**	**0.40**	**1.20**	**0.889263**
Total for 2005	**0.80**	**0.40**	**1.20**	**0.877731**
Total for 2006	**0.80**	**0.40**	**1.20**	**0.875210**
Total for 2007	**0.80**	**0.40**	**1.20**	**0.865319**
Total for 2008	**0.80**	**0.10**	**0.90**	**0.862500**
Total for 2009	**0.45**	**0.00**	**0.45**	**0.862500**
Total for 2010	**0.60**	**0.00**	**0.60**	**0.862500**
Total Distributions to Date	**$ 10.65**	**$ 7.45**	**$ 18.10**	**$ 12.286957**

Results of Operations

For the fiscal year ended October 31, 2010, the net asset value of the Fund based on closing prices totalled $292.3 million, or $20.58 per unit (see Note 3 to the Financial Statements) compared to $19.19 per unit on October 31, 2009. The Fund's Preferred shares, listed on the Toronto Stock Exchange as PIC.PR.A, closed on October 31, 2010, at $15.00 per share. The Fund's Class A shares, listed on the Toronto Stock Exchange as PIC.A, closed on October 31, 2010, at $5.84 per share. Each unit consists of one Preferred share and one Class A share.

Distributions totalling $0.8625 per share were made to the Preferred shareholders during the fiscal year and distributions totalling $0.60 per share were made to Class A shareholders.

Volatility was subdued for most of the year as equity markets continued to rally from their March 2009 lows. However, volatility did rise sharply in May and June of 2010 as European sovereign default risk started to escalate with countries such as Greece, Portugal and Ireland requiring financial assistance from the European Central Bank. Since then, volatility has declined considerably as the cumulative efforts of governments and central banks around the world to stabilize the financial system have continued to take hold. Due to the decrease in volatility, the covered call writing program was limited as the lower volatility did not compensate the Fund enough to justify extensive writing. The Fund ended 2010 with approximately 9.8 percent of the portfolio subject to covered calls.

The S&P/TSX Diversified Banks Index increased 18.5 percent during the fiscal period ending October 31, 2010 and slightly underperformed the broader S&P/TSX Composite Index, which was up 19.5 percent. Four of the five banks experienced strong positive returns during the period with the Canadian Imperial Bank of Commerce generating the highest total return of 32.4 percent respectively, while the Royal Bank of Canada lagged the group, generating a total return of 2.9 percent, mainly due its greater exposure to trading revenues which have weakened over the past few quarters.

The annual compound return of the Fund, including reinvestment of distributions, for the year ended October 31, 2010 was 15.07 percent. Our relative underperformance during this period was primarily due to some cash holdings along with the cost of protective puts purchased.

For more detailed information on investment returns, please see the Annual Total Return bar graph and the Annual Compound Returns table on page 6 of this report.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years. This information is derived from the Fund's audited annual financial statements.

The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for weekly Net Asset Value per unit purposes and for financial statements prior to 2007. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and at closing prices for weekly Net Asset Value per unit purposes.

Years ended October 31

	2010	2009	2008	2007	2006
THE FUND'S NET ASSETS PER UNIT					
Net Assets, beginning of year (based on bid prices)(1)	**$ 19.15**	**$ 19.16**	**$ 26.16**	**$ 26.40(4)**	**$ 25.75**
INCREASE (DECREASE) FROM OPERATIONS					
Total revenue	**0.87**	0.70	0.89	0.95	0.86
Total expenses	**(0.32)**	(0.21)	(0.25)	(0.30)	(0.28)
Realized gain (loss) for the period	**0.82**	(3.65)	(1.40)	1.78	1.72
Unrealized gain (loss) for the period	**1.53**	3.97	(4.48)	(0.61)	0.44
Total Increase (Decrease) from Operations(2)	**2.90**	**0.81**	**(5.24)**	**1.82**	**2.74**
DISTRIBUTIONS					
Preferred Share					
From capital gains	**–**	–	–	(0.05)	(0.20)
From net investment income	**(0.86)**	(0.86)	(0.86)	(0.82)	(0.68)
Total Preferred Share Distributions	**(0.86)**	**(0.86)**	**(0.86)**	**(0.87)**	**(0.88)**
Class A Share					
From capital gains	**–**	–	(0.90)	(1.20)	(1.20)
From net investment income	**(0.60)**	(0.45)	–	–	–
Total Class A Share Distributions	**(0.60)**	**(0.45)**	**(0.90)**	**(1.20)**	**(1.20)**
Total Annual Distributions(3)	**(1.46)**	**(1.31)**	**(1.76)**	**(2.07)**	**(2.08)**
Net Assets, as at October 31 (based on bid prices)(1)	**$ 20.56**	**$ 19.15**	**$ 19.16**	**$ 26.16**	**$ 26.41**

(1) Net Assets per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities excluding Preferred shares of the Fund on that date and including the valuation of securities at bid prices divided by the number of units then outstanding. For years prior to 2007, securities were valued at closing prices. The change to the use of bid prices is due to accounting standards set out by the Canadian Institute of Chartered Accountants adopted November 1, 2007 relating to Financial Instruments.
(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized and unrealized gains (losses), less expenses, excluding Preferred share distributions, and is calculated based on the weighted average number of units outstanding during the year. The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of units outstanding during the year.
(3) Distributions to shareholders are based on the number of shares outstanding on the record date for each distribution and were paid in cash.
(4) Net Assets per unit has been adjusted for the change in accounting policy relating to the calculation of Net Asset Value based on bid prices versus closing prices prior to 2007.

	2010	2009	2008	2007	2006
RATIOS/SUPPLEMENTAL DATA					
Net Asset Value, excluding the Redeemable Preferred share liability ($millions)(1)	**$ 292.34**	$ 279.70	$ 352.11	$ 497.18	$ 503.69
Net Asset Value ($millions)(1)	**$ 79.25**	$ 60.95	$ 76.36	$ 211.31	$ 216.32
Number of units outstanding(1)	**14,206,046**	14,575,324	18,345,439	18,995,200	19,073,063
Management expense ratio(2)	**1.44%**	1.07%	1.08%	1.04%	1.08%
Portfolio turnover rate(3)	**93.32%**	74.20%	11.51%	109.89%	148.47%
Trading expense ratio(4)	**0.09%**	0.08%	0.04%	0.07%	0.07%
Net Asset Value per Unit(5)	**$ 20.58**	$ 19.19	$ 19.19	$ 26.17	$ 26.41
Closing market price - Preferred	**$ 15.00**	$ 14.90	$ 12.60	$ 15.25	$ 16.01
Closing market price - Class A	**$ 5.84**	$ 4.57	$ 5.30	$ 10.10	$ 10.24

(1) This information is provided as at October 31. One unit consists of one Class A and one Preferred share.
(2) The management expense ratio ("MER") is the sum of all fees and expenses, including federal and provincial sales taxes and capital tax but excluding transaction fees and income taxes and Preferred share in distributions, charged to the Fund divided by the average net asset value, excluding the Redeemable Preferred share liability. The MER, including Preferred share distributions, is 5.60%, 5.81%, 4.99%, 4.26% and 4.39% for 2010, 2009, 2008, 2007 and 2006 respectively. The MER for 2010 excluding the special resolution expense is 1.10%.
(3) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by the average value of the portfolio securities. The Fund employs an option overlay strategy which can result in higher portfolio turnover by virtue of option exercises, when compared to a conventional equity mutual fund.
(4) Trading expense ratio represents total commissions expressed as a percentage of the daily average net asset value during the period.
(5) Net Asset Value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities excluding Preferred shares of the Fund on that date and including the valuation of securities at closing prices divided by the number of units then outstanding.

Management Fees

Mulvihill Capital Management Inc. (“MCM”), the Investment Manager, is entitled to fees under the Investment Management Agreement calculated monthly as 1/12 of 0.80 percent of the net asset value of the Fund at each month end, excluding the Redeemable Preferred share liability and the unamortized premium on issue of Preferred shares. Services received under the Investment Management Agreement include the making of all investment decisions for the Fund and the writing of covered call options for the Fund in accordance with the investment objectives, strategy and criteria of the Fund. MCM also makes all decisions as to the purchase and sale of securities in the Fund’s portfolio and the execution of all portfolio and other transactions.

Mulvihill Fund Services Inc. (“Mulvihill”), the Manager, is entitled to fees under the Management Agreement calculated monthly as 1/12 of 0.10 percent of the net asset value of the Fund at each month end, excluding the Redeemable Preferred share liability and the unamortized premium on issue of Preferred shares. Services received under the Management Agreement included providing for or arranging for required administrative services to the Fund (see also Recent Developments section for a discussion of the recent amalgamation).

Recent Developments

On September 29, 2010, the shareholders approved a reorganization (“Reorganization”) effective on November 1, 2010 to extend the term of the Fund for an additional seven years (November 1, 2017). In connection with the Reorganization, holders of Class A shares will continue to receive ongoing leveraged exposure to a high-quality 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, as well as quarterly cash distributions. Holders of Preferred shares are expected to continue to benefit from fixed cumulative preferential quarterly cash dividends in the amount of $0.215625 per Preferred share ($0.86250 per year) representing a yield of 5.75 percent per annum on the original issue price of $15.00.

In connection with the special retraction right granted to shareholders pursuant to the extension of the term of the Fund, the Fund announced a consolidation of the Class A shares effective the opening of trading on November 1, 2010. The consolidation was done to ensure that an equal number of Class A shares and Preferred shares were outstanding subsequent to the special retraction. Each shareholder received 0.738208641 new Class A shares for each Class A share held.

Mulvihill Fund Services Inc. amalgamated with Mulvihill Capital Management Inc. on September 1, 2010. As successor, Mulvihill Capital Management Inc. became the Manager of the Fund. Management fees previously paid to MCM and Mulvihill will be paid to Mulvihill Capital Management Inc. from and after the effective date of the amalgamation.

The Canadian banks continue to post strong profitability due mainly to improving loan loss provisions and stronger revenues. As of the third quarter, the median cash return on equity for 2010 was 16 percent in spite of holding excess capital in order to prepare for the new regulatory capital standards under Basel II. The current 3.7 percent dividend yield on the Canadian Banks relative to the 10-year Government of Canada bond yield at 2.4 percent continues to lend yield support and the price/earnings multiple of the banks relative to the broad market is still attractive.

As the economy continues to recover, the outlook for bank earnings growth and profitability is attractive due to improving credit, strong retail revenue growth and better expense ratios going forward. Once regulatory guidance is finalized, the Manager believes that bank management teams are likely to consider redeploying some of their excess capital in the form of increased dividends and small acquisitions.

The Government of Ontario harmonized the provincial sales taxes with the federal goods and services tax effective July 1, 2010. Implementation of the proposed changes increased the amount of taxes paid by the Fund on its expenses incurred after July 1, 2010, including but not limited to management fees, and therefore resulted in an increase in the management expense ratio.

Future Accounting Policy Changes

The Manager has developed a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants (“CICA”) for changeover to International Financial Reporting Standards (“IFRS”).

The changeover plan was prepared to address the requirements and includes disclosures of the qualitative and quantitative impact, if any, of the changeover to IFRS in the 2011 financial statements and the preparation of the 2012 financial statements in accordance with IFRS with comparatives. However, the Canadian Accounting Standards Board approved a one year deferral from IFRSs adoption for investment companies applying Accounting Guideline 18 - Investment Companies (“AcG 18”). As a result, the Fund will adopt IFRS for its fiscal period beginning November 1, 2012 and will issue its initial financial statements in accordance with IFRS, including comparative information, for the interim period ending April 30, 2013.

The key elements of the changeover plan deal with the requirements for financial reporting, net asset value per share calculations, systems and processes, and training. The plan also sets out the timeline for implementation of the changes and the required technical training or other support required for a smooth transition.

As at October 31, 2010, some anticipated changes to financial reporting include:

- Compliance with the full body of IFRS without industry specific exemptions. Unlike Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) where investment fund accounting was based upon guidance in AcG 18;
- Changes to the presentation of shareholder equity to consider puttable instruments;
- Presentation of comparative information; and,
- Additional financial statement note disclosures on the recognition and classification of financial instruments.

Due to anticipated changes in IFRS prior to the transition to IFRS, the Manager cannot conclusively determine the full impact of the transition to IFRS on the Fund's financial results at this time. Based on the Manager's current understanding and analysis of IFRS as compared to the current accounting policies under Canadian GAAP, the Manager does not anticipate that the transition to IFRS will have a material impact on the Fund's net assets per share, nor systems and processes, and it is expected that it will mainly result in additional note disclosure in the financial statements.

Implementation of the changeover plan is progressing as scheduled. The Manager will continue to monitor ongoing changes to IFRS and adjust the changeover plan accordingly.

Past Performance

The chart below sets out the Fund's year-by-year past performance. It is important to note:

(1) the information shown assumes that all distributions made by the Fund during these periods were reinvested in the Fund,

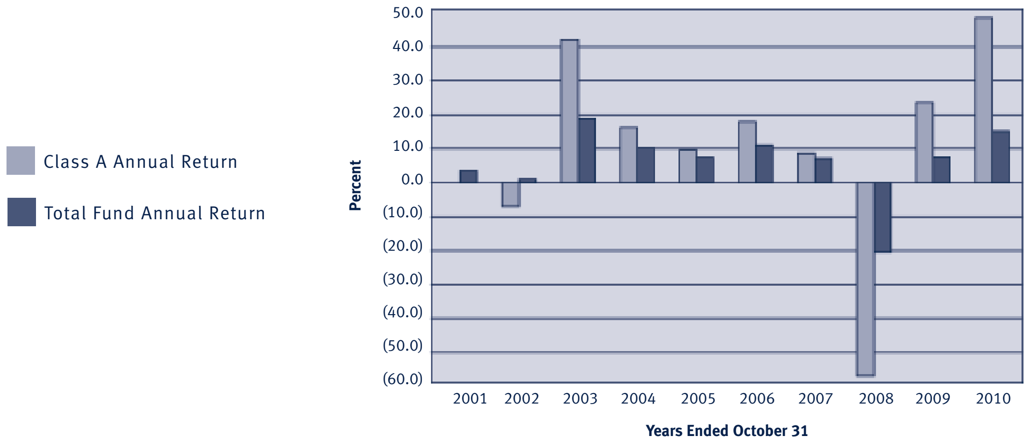
(2) the information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

(3) the past performance of the Fund does not necessarily indicate how it will perform in the future.

Year-By-Year Returns

The bar chart below shows how the Fund's annual total return varied from year to year in each of the past ten years. The chart also shows, in percentage terms, how much an investment made on November 1 in each year would have increased or decreased by the end of that fiscal year.

Annual Total Return



Annual Compound Returns

The following table shows the Fund's historical annual compound total return for the periods ended October 31, 2010, as compared to the performance of the S&P/TSX Diversified Banks Index.

	One Year	Three Years	Five Years	Ten Years
Mulvihill Premium Canadian Bank Fund	**15.07 %**	(0.53)%	3.17 %	5.56 %
Mulvihill Premium Canadian Bank Fund – Preferred	**5.88 %**	5.88 %	5.90 %	5.97 %
Mulvihill Premium Canadian Bank Fund – Class A	**48.45 %**	(7.46)%	0.30 %	5.51 %
S&P/TSX Diversified Banks Index*	**18.52 %**	3.65 %	8.45 %	11.27 %

* The Index is a subset of the financial institutions index.

The equity performance benchmark shown here provides an approximate indication of how the Fund's returns compare to a public market index for similar securities. It is important to note that the Fund is not managed in order to match or exceed this index; rather, its objectives are to pay out quarterly dividends and return the original invested amount at the termination date. As a result, the Fund has, from time to time, maintained cash balances in an effort to provide greater net asset value stability and employs a covered option writing strategy to generate the distributions.

The use of options may have the effect of limiting or reducing the total returns of the Fund, particularly in a rising market since the premiums associated with writing covered call options may be outweighed by the foregone opportunity of remaining fully invested in the securities comprising the portfolio. The Manager believes that in a flat or downward trending market, a portfolio that is subject to covered call option writing will generally provide higher relative returns and lower volatility than one on which no options are written.

Related Party Transactions

Mulvihill Capital Management Inc. ("MCM") manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an amended Investment Management Agreement made between the Fund and MCM dated October 8, 2010.

Mulvihill Fund Services Inc. ("Mulvihill") is the Manager of the Fund pursuant to an amended Management Agreement made between the Fund and Mulvihill dated October 8, 2010, and, as such, is responsible for providing or arranging for required administrative services to the Fund. Mulvihill is a wholly-owned subsidiary of MCM. These parties are paid the fees described under the Management Fees section of this report.

Mulvihill Fund Services Inc. amalgamated with Mulvihill Capital Management Inc. on September 1, 2010. As successor, Mulvihill Capital Management Inc. became the Manager of the Fund. Fees previously paid to MCM and Mulvihill will be paid to Mulvihill Capital Management Inc. from and after the effective date of the amalgamation.

On July 6, 2010, Mulvihill Funds Services Inc., as then Manager to the Fund, presented the terms of a proposed reorganization of the Fund to the Independent Review Committee ("IRC") for a recommendation. The proposal involved, among other things, an extension of the term of the Fund from November 1, 2010 to November 1, 2017; a change in its authorized share capital by adding new classes of shares issuable in series; changing the monthly retraction prices for the Class A shares and the Preferred shares; and changing the dates by which notice of monthly retractions need to be provided and by which the retraction amount will be paid. The IRC reviewed the proposal and recommended that it be put to shareholders for their consideration on the basis that the proposed reorganization would result in a fair and reasonable result for the Fund. Shareholders of the Fund approved the proposal at a meeting on September 29, 2010.

Forward-Looking Statements

This report may contain forward-looking statements about the Fund. Forward-looking statements include statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future performance, strategies or prospects, and possible future Fund action, is also forward-looking. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and economic factors.

Forward-looking statements are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied in any forward-looking statements made by the Fund. Any number of important factors could contribute to any divergence between what is anticipated and what actually occurs, including, but not limited to, general economic, political and market factors, interest and foreign exchange rates, global equity and capital markets, business competition, technology change, changes in government regulations, unexpected judicial or regulatory proceedings, and catastrophic events.

The above-mentioned list of important factors is not exhaustive. You should consider these and other factors carefully before making any investment decisions and you should avoid placing undue reliance on forward-looking statements. While the Fund currently anticipates that subsequent events and developments may cause the Fund's views to change, the Fund does not undertake to update any forwardlooking statements.

Management's Responsibility for Financial Reporting

The accompanying financial statements of Premium Income Corporation (the "Fund") and all the information in this annual report are the responsibility of the management of Mulvihill Capital Management Inc., (the "Manager"), and have been approved by the Board of Directors (the "Board").

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 2 of the annual financial statements.

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

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

John P. Mulvihill
Director
Mulvihill Capital Management Inc.
November 16, 2010

John D. Germain
Director
Mulvihill Capital Management Inc.

To the Shareholders of Premium Income Corporation

We have audited the statement of investments of Premium Income Corporation (the "Fund") 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. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at October 31, 2010 and 2009, and the results of its operations, the changes in its net assets, and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
November 16, 2010

Statements of Financial Position

October 31, 2010 and 2009

	2010	2009
ASSETS		
Investments at fair value (cost - $211,399,043; 2009 - $288,565,927)	**$ 223,326,075**	$ 278,579,966
Short-term investments at fair value (cost - $24,668,841; 2009 - $10,242,944)	**24,668,841**	10,242,944
Cash	**621,501**	713,207
Interest and dividends receivable	**1,042,335**	692,341
Due from brokers - investments	**43,697,903**	–
TOTAL ASSETS	**$ 293,356,655**	**$ 290,228,458**
LIABILITIES		
Special resolution payable	**$ 972,841**	$ –
Accrued management fees	**223,648**	222,286
Accrued liabilities	**131,503**	60,923
Redemptions payable	–	10,866,911
	1,327,992	**11,150,120**
Redeemable preferred shares (Note 4)	**213,090,690**	218,629,860
Unamortized premium on issue of preferred shares (Note 2)	**–**	123,132
	214,418,682	**229,903,112**
EQUITY		
Class A and Class B shares (Note 4)	**144,207,687**	147,955,637
Deficit	**(65,269,714)**	(87,630,291)
	78,937,973	**60,325,346**
TOTAL LIABILITIES AND EQUITY	**$ 293,356,655**	**$ 290,228,458**
Number of Units Outstanding (Note 4)	**14,206,046**	**14,575,324**
Net Assets per Unit		
Preferred share	**$ 15.00**	$ 15.00
Class A share	**5.56**	4.15
	$ 20.56	**$ 19.15**

On Behalf of the Board of Directors

John P. Mulvihill, Director

Robert W. Korthals, Director

Statements of Operations and Deficit

Years ended October 31, 2010 and 2009

	2010	2009
REVENUE		
Interest	$ 108,565	$ 975,152
Dividends	12,301,677	10,620,554
	12,410,242	11,595,706
Net realized gain (loss) on investments	13,317,955	(69,192,090)
Net realized loss on short-term investments	–	(76,086)
Net realized gain (loss) on derivatives	(1,526,860)	8,783,325
Total Net Realized Gain (Loss)	11,791,095	(60,484,851)
TOTAL REVENUE	24,201,337	(48,889,145)
EXPENSES (Note 6)		
Management fees	2,662,660	2,666,022
Administrative and other expenses	152,460	166,992
Transaction fees (Note 9)	278,347	247,339
Custodian fees	53,532	59,263
Audit fees	35,225	36,855
Director fees	21,520	19,307
Independent review committee fees	6,536	6,106
Legal fees	11,620	3,326
Shareholder reporting costs	49,816	52,083
Capital tax	60,000	2,711
Federal and provincial sales taxes	192,006	146,294
TOTAL EXPENSES	3,523,722	3,406,298
Net Realized Income (Loss) before Special Resolution Expense and Preferred Share Transactions	20,677,615	(52,295,443)
Special resolution expense (Note 5)	(1,018,079)	–
Net Realized Income (Loss) before Preferred Share Transactions	19,659,536	(52,295,443)
Preferred share distributions (Note 8)	(12,309,165)	(13,966,138)
Net Realized Income (Loss)	7,350,371	(66,261,581)
Net change in unrealized appreciation/depreciation of investments	21,912,993	65,675,085
Net change in unrealized appreciation/depreciation of short-term investments	–	45,353
Total Net Change in Unrealized Appreciation/Depreciation of Investments	21,912,993	65,720,438
Amortization of premium on issue of preferred shares (Note 2)	123,132	285,513
Gain on retraction of preferred shares	–	162,381
	22,036,125	66,168,332
NET INCOME (LOSS) FOR THE YEAR	$ 29,386,496	$ (93,249)
NET INCOME (LOSS) PER CLASS A SHARE		
(based on the weighted average number of Class A shares outstanding during the year of 14,317,528; 2009 - 16,561,329)	$ 2.05	$ (0.01)
DEFICIT		
Balance, beginning of year	$ (87,630,291)	$ (110,447,117)
Net allocations on retractions of Class A shares (Note 4)	1,536,979	30,144,204
Net income (loss) for the year	29,386,496	(93,249)
Distributions on Class A shares	(8,562,898)	(7,234,129)
BALANCE, END OF YEAR	$ (65,269,714)	$ (87,630,291)

The notes are an integral part of the Financial Statements.

Statements of Changes in Net Assets

Years ended October 31, 2010 and 2009

	2010	2009
NET ASSETS – CLASS A AND B SHARES, BEGINNING OF YEAR	$ 60,325,346	$ 75,772,925
Net Realized Income (Loss) before Preferred Share Transactions	19,659,536	(52,295,443)
Amortization of Premium on Issue of Preferred Shares	123,132	285,513
Gain on Retraction of Preferred Shares	–	162,381
Class A Shares Capital Transactions		
Amounts paid for shares redeemed (Note 4)	(2,210,971)	(8,120,201)
Distributions (Note 8)		
Preferred Shares		
From net investment income	(12,309,165)	(13,966,138)
Class A Shares		
From net investment income	(8,562,898)	(7,234,129)
Total Distributions	(20,872,063)	(21,200,267)
Net Change in Unrealized Appreciation/Depreciation of Investments	21,912,993	65,720,438
Change in Net Assets during the Year	18,612,627	(15,447,579)
NET ASSETS – CLASS A AND B SHARES, END OF YEAR	$ 78,937,973	$ 60,325,346

Statements of Cash Flows

Years ended October 31, 2010 and 2009

	2010	2009
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	$ 10,956,151	$ 124,607,440
Cash Flows Provided by (Used In) Operating Activities		
Net Realized Income (Loss) before Preferred Share Transactions	19,659,536	(52,295,443)
Adjustments to Reconcile Net Cash Provided by (Used In) Operating Activities		
Purchase of investment securities	(255,400,631)	(160,420,313)
Proceeds from disposition of investment securities	332,567,515	185,240,839
(Increase)/decrease in interest and dividends receivable and due from brokers - investments	(44,047,897)	672,050
Increase/(decrease) in special resolution payable, accrued management fees and accrued liabilities	1,044,783	(273,236)
Net change in unrealized appreciation/depreciation of short-term investments	–	45,353
	34,163,770	25,264,693
Cash Flows Provided by (Used In) Financing Activities		
Distributions to Preferred shares	(12,309,165)	(13,966,138)
Distributions to Class A shares	(8,562,898)	(7,234,129)
Preferred share redemptions	(14,033,280)	(57,137,175)
Class A share redemptions	(4,583,772)	(8,283,097)
	(39,489,115)	(86,620,539)
Net Increase/(Decrease) in Cash and Short-Term Investments During the Year	14,334,191	(113,651,289)
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	$ 25,290,342	$ 10,956,151

Cash and Short-Term Investments comprise of:

	2010	2009
Cash	$ 621,501	$ 713,207
Short-Term Investments	24,668,841	10,242,944
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	$ 25,290,342	$ 10,956,151

Statement of Investments

October 31, 2010

	Par Value/ Number of Shares/ Number of Contracts	Average Cost/ Proceeds	Fair Value	% of Portfolio
SHORT-TERM INVESTMENTS				
Bankers' Acceptances				
National Bank of Canada, 1.06% - November 30, 2010	5,000,000	$ 4,991,900	**$ 4,991,900**	**20.2%**
Treasury Bills				
Province of Ontario, 0.91% - November 10, 2010	5,000,000	4,998,500	**4,998,500**	
Government of Canada, 0.86% - December 9, 2010	14,700,000	14,678,441	**14,678,441**	
Total Treasury Bills		**19,676,941**	**19,676,941**	**79.7 %**
		24,668,841	**24,668,841**	**99.9 %**
Accrued Interest			**12,765**	**0.1 %**
TOTAL SHORT-TERM INVESTMENTS		**$ 24,668,841**	**$ 24,681,606**	**100.0 %**
INVESTMENTS				
Canadian Common Shares				
Bank of Montreal	669,000	$ 38,491,378	**$ 40,280,490**	
Canadian Imperial Bank of Commerce	670,000	49,459,954	**52,293,500**	
Royal Bank of Canada	834,650	45,242,755	**45,396,614**	
The Bank of Nova Scotia	740,000	36,176,315	**40,278,200**	
The Toronto-Dominion Bank	618,000	42,057,415	**45,392,100**	
Total Canadian Common Shares		**$ 211,427,817**	**$ 223,640,904**	**100.1 %**
OPTIONS				
Purchased Put Options (100 shares per contract)				
iShares S&P/TSX Capped Financials Index Fund - November 2010 @ $22	6,380	$ 440,220	**$ 7,535**	**0.0 %**
Written Covered Call Options (100 shares per contract)				
Canadian Imperial Bank of Commerce - November 2010 @ $77	(1,500)	(193,500)	**(231,487)**	
The Toronto-Dominion Bank - November 2010 @ $74	(1,400)	(170,800)	**(90,877)**	
Total Written Covered Call Options		**(364,300)**	**(322,364)**	**(0.1)%**
TOTAL OPTIONS		**$ 75,920**	**$ (314,829)**	**(0.1)%**
Adjustment for transaction fees		**(104,694)**		
TOTAL INVESTMENTS		**$ 211,399,043**	**$ 223,326,075**	**100.0 %**

The notes are an integral part of the Financial Statements.

1. Corporate Information

Premium Income Corporation (the "Fund") is a mutual fund corporation incorporated under the laws of the Province of Ontario on August 27, 1996. On September 29, 2010, the shareholders approved a reorganization effective on November 1, 2010 to extend the term of the Fund for an additional seven years. All shares outstanding on November 1, 2017 will be redeemed by the Fund on that date.

The Fund invests in a portfolio consisting principally of common shares of Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank. The Fund may also invest in cash and short-term investments.

To generate additional returns above the dividend income earned on the portfolio, the Fund will from time to time write covered call options in respect of all or part of the common shares in the portfolio. In addition, the Fund may write cash covered put options in respect of securities in which the Fund is permitted to invest. The Fund may also use put options to preserve the value of the portfolio where appropriate. From time to time, the portfolio may include debt securities having a remaining term to maturity of less than one year issued or guaranteed by the government of Canada or a province or short-term commercial paper issued by one or more of the Banks.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which include estimates and assumptions by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Primary estimates include valuation of investments. While management believes that the estimates used in preparing its financial statements are reasonable and prudent, actual results could differ from these estimates.

Financial Instruments – Disclosures

The Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. See additional note disclosures in Note 11.

The significant accounting policies of the Fund are as follows:

Valuation of Investments

Investments are recorded in the financial statements at their fair value at the end of the period, determined as follows:

Securities are valued at fair value, which is determined by the closing bid price on the recognized stock exchange on which the securities are listed or principally traded. If no bid prices are available, the securities are valued at the closing sale price.

Short-term investments are included in the statement of investments at their cost. This value, together with accrued interest, approximates fair value at bid price.

Listed options are valued at fair values as reported on recognized exchanges. Over the counter options are valued using the Black-Scholes valuation model.

Transaction Fees

Transaction fees have been expensed as incurred and included in the transaction fees line in the Statement of Operations and Retained Earnings (Deficit). Transaction fees are costs that are directly attributable to portfolio transactions which include fees and commissions paid to brokers and dealers.

Investment Transactions and Income

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

(i) Expiration of written options whereby realized gains are equivalent to the premium received;

(ii) Exercise of written covered call options whereby realized gains or losses are equivalent to the premium received in addition to the realized gain or loss from disposition of the related investments at the exercise price of the option; and

(iii) Closing of written options whereby realized gains or losses are equivalent to the cost of purchasing options to close the positions, net of any premium received.

Realized gains and losses related to options are included in net realized gain (loss) on derivatives.

Realized gains and losses relating to purchased put options may arise from:

(i) Expiration of purchased put options whereby realized losses are equivalent to the premium paid;

(ii) Exercise of purchased put options whereby realized gains or losses are equivalent to the realized gain or loss from disposition of the related investments at the exercise price of the option less the premium paid; and

(iii) Sale of purchased put options whereby realized gains or losses are equivalent to the sale proceeds, net of any premium paid.

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

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

Redeemable Preferred Shares

Each Redeemable Preferred share is valued for financial statement purposes at the lesser of: (i) $15.00; and (ii) the net assets of the Fund divided by the number of Preferred shares outstanding.

Premium on Preferred Shares

Premium on Preferred shares net of issue costs is amortized over the remaining life of the Fund. The premium on Preferred shares retracted will be recognized on the date they are retracted.

3. Net Asset Value

The Net Asset Value per Unit of the Fund is calculated using the fair value of investments using the close or last trade price ("Net Asset Value"). The Net Assets per Unit for financial reporting purposes and Net Asset Value per Unit for pricing purposes will not be the same due to the use of different valuation techniques. The Net Asset Value per Unit at October 31 is as follows:

	2010	2009
Net Asset Value (for pricing purposes)	**$20.58**	$19.19

4. Share Capital

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

Preferred shares and Class A shares may be surrendered at any time for retraction at specified retraction amounts. Holders of Preferred shares and Class A shares may concurrently retract one Preferred share and one Class A share on an October 31 valuation date at their net asset values. Shares retracted at any other valuation date or not retracted concurrently at an October 31 valuation date will be retracted at a discount to net asset value. Net allocations on retractions of Class A shares represent gains on retractions where the price paid upon retraction is less than the carrying value of the retracted shares. Under the terms of a Recirculation Agreement, the Fund may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Preferred shares and Class A shares tendered for retraction. The Preferred shares rank in priority to the Class A shares and the Class A shares rank in priority to the Class B shares with respect to the payment of dividends and repayment of capital on the dissolution, liquidation or winding up of the Fund.

The holders of Class B shares are not entitled to receive dividends. The Class B shares are retractable at a price of $1.00 per share. Mulvihill Capital Management Inc. ("MCM") owns all of the issued and outstanding Class B shares.

Class B shares are entitled to one vote per share. Preferred shares and Class A shares are entitled to vote on certain shareholder matters.

The Fund's Preferred shares have been classified as liabilities in accordance with the accounting requirements of The Canadian Institute of Chartered Accountants. Accordingly, net income for the year is stated after Preferred share distributions.

During the year, 369,278 (2009 - 3,770,115) each of Preferred shares and Class A shares with a total retraction value of $7,750,141 (2009 - $64,671,926) were redeemed.

Issued and Outstanding

	2010	2009
14,206,046 Preferred shares (2009 - 14,575,324)	**$ 213,090,690**	$ 218,629,860
14,206,046 Class A shares (2009 - 14,575,324)	**$ 144,206,687**	$ 147,954,637
1,000 Class B shares (2009 - 1,000)	**1,000**	1,000
	$ 144,207,687	$ 147,955,637

5. Reorganization

On September 29, 2010, the shareholders approved a reorganization effective on November 1, 2010 to extend the term of the Fund an additional seven years to November 1, 2017. As part of the reorganization, the Fund will also make other changes including changing its authorized share capital by adding new classes of shares issuable in series, changing the monthly retraction prices for the Preferred shares and the Class A shares so that they are calculated by reference to market price in addition to net asset value ("NAV") and changing the dates by which notice of monthly retractions needs to be provided and by which the retraction amount will be paid. The Fund will also allow for the calculation of a diluted NAV in the event the Fund should ever issue warrants or rights to acquire additional Preferred shares or Class A shares.

6. Management Fees and Expenses

The Fund is responsible for all ongoing custodian, manager, legal, accounting and audit fees as well as all other expenses incurred by the custodian and manager in the ordinary course of business relating to the Fund's operations.

Fees are paid to Mulvihill Capital Management Inc. ("MCM") under the terms of an investment management agreement and to Mulvihill Fund Services Inc. ("Mulvihill") under the terms of a management agreement. Mulvihill Fund Services Inc. amalgamated with Mulvihill Capital Management Inc. on September 1, 2010. As successor, Mulvihill Capital Management Inc. became the Manager of the Fund. Fees previously paid to MCM and Mulvihill will be paid to Mulvihill Capital Management Inc. from and after the effective date of the amalgamation. The fees are comprised of monthly fees calculated at 1/12 of 0.80 percent and 1/12 of 0.10 percent, respectively, of the net asset value of the Fund at each month end, excluding the Redeemable Preferred share liability and unamortized premium on issue of Preferred shares.

7. Income Taxes

The Fund is a "mutual fund corporation" as defined in the Income Tax Act (Canada) (the "Act") and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. Also, the Fund is generally subject to a tax of 33 1/3 percent under Part IV of the Act on taxable dividends received in the year. This tax is fully refundable upon payment of sufficient dividends. The Fund is also subject to tax on the amount of its interest income that is not offset by operating expenses and share issue expenses.

The Fund is also a "financial intermediary corporation" as defined in the Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends received nor is it generally liable to tax under Part VI.1 on dividends paid on taxable preferred shares.

Under the dividend policy of the Fund, premiums received in respect of written options that are still outstanding at year end are not to be distributed in the year to the shareholders. The premiums retained by the Fund are subject to a refundable tax. This tax was nil for 2010 (2009 - nil).

Accumulated non-capital losses of approximately $5.9M (2009 - $5.9M) and capital losses of $46.3M (2009 - $51.0M) are available for utilization against net investment income and realized gains on sale of investments, respectively, in future years. The capital losses can be carried back for 3 years and carried forward indefinitely. The non-capital losses expire as follows:

Expiration Date	Amount
2028	$3.7
2029	2.2
Total	**$5.9**

The Fund has offset the future tax liability for refundable taxes payable with the refund expected upon payment of capital gains or ordinary dividends. As a result, the future tax liability for refundable taxes payable is eliminated.

8. Distributions

Preferred shares are entitled to a cumulative preferential quarterly dividend of $0.215625 per share payable on the last day of January, April, July and October in each year. To the extent that a quarterly dividend is a capital gains dividend funded by net realized capital gains or option premiums, holders of Preferred shares will receive an additional capital gains dividend of $0.068 for each $1.00 of Preferred share dividend so funded.

Following the Reorganization, the Fund will eliminate the capital gains dividend gross-up entitlement of $0.068 under the Preferred shares due to changes in Canadian tax laws since the Fund's initial public offering, specifically to the effective rates of tax on capital gains. In addition, the Fund is now permitted to make distributions to holders of Class A and Preferred shares in the form of returns of capital. Return of capital distributions are generally not subject to tax. However, returns of capital reduce the adjusted cost base of the shares in respect of which they are paid.

9. Transaction Fees

Total transaction fees paid for the year ended October 31, 2010 in connection with portfolio transactions were $278,347 (2009 - $247,339). Of this amount $52,774 (2009 - $82,904) was directed for payment of trading related goods and services.

10. Capital Disclosures

CICA Handbook Section 1535, "Capital Disclosures" specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Fund's objectives, policies and processes are described in Note 1, information on the Fund's shareholders' equity is described in Note 4 and Note 8, and the Fund does not have any externally imposed capital requirements.

11. Financial Instruments and Risk Management

The Fund's financial instruments consist of cash, investments, receivables, payables, Redeemable Preferred shares and certain derivative contracts. As a result of the amendments to CICA Handbook Section 3862, "Financial Instruments – Disclosures", the Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

(1) Level 1 - for unadjusted quoted prices in active markets for identical assets or liabilities,

(2) Level 2 - for inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

(3) Level 3 - for inputs that are based on unobservable market data.

The following is a summary of the inputs used as of October 31, 2010 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Term Investments	$ –	$ 24,681,606	$ –	**$ 24,681,606**
Canadian Common Shares	223,640,904	–	–	**$ 223,640,904**
Options	7,535	(322,364)	–	**$ (314,829)**
Total Investments	**$ 223,648,439**	**$ 24,359,242**	**$ –**	**$ 248,007,681**

The following is a summary of the inputs used as of October 31, 2009 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Term Investments	$ –	$ 10,257,285	$ –	**$ 10,257,285**
Canadian Common Shares	278,579,966	–	–	**$ 278,579,966**
Total Investments	**$ 278,579,966**	**$ 10,257,285**	**$ –**	**$ 288,837,251**

As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include other price risk, liquidity risk, interest rate risk and credit risk.

These risks and related risk management practices employed by the Fund are discussed below:

Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or segment. The Portfolio consists primarily of equity securities of the major Canadian banks. Net Asset Value per Unit varies as the value of the securities in the Portfolio varies. The Fund has no control over the factors that affect the value of the securities in the Portfolio, including factors that affect all the companies in the global financial services industry. The Fund's market risk is managed by taking a long-term perspective and utilizing an option writing program.

Approximately 77 percent (2009 - 100 percent) of the Fund's net assets, excluding the Redeemable Preferred share liability, held at October 31, 2010 were publicly traded equities. If equity prices on the exchange increased or decreased by 10 percent as at October 31, 2010, the net assets, excluding the Redeemable Preferred share liability, of the Fund would have increased or decreased by $22.4M (2009 - $27.9M) respectively or 7.7 percent (2009 – 10.0 percent) of the net assets, excluding the Redeemable Preferred share liability, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

The Fund may from time to time write covered call options in respect of all or part of the common shares in the Portfolio. In addition, the Fund may write cash covered put options in respect of securities in which the Fund is permitted to invest. The Fund is subject to the full risk of its investment position in securities that are subject to outstanding call options and those securities underlying put options written by the Fund, should the market price of such securities decline. In addition, the Fund will not participate in any gain on the securities that are subject to outstanding call options above the strike price of such options. The Fund may also purchase put options. The Fund has full downside risk on invested positions which may be partially mitigated by the use of purchased put options. The risk to the Fund with respect to purchased put options is limited to the premiums paid to purchase the put options.

Liquidity Risk

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required. To manage this risk, the Fund invests the majority of its assets in investments that are traded in an active market and can be easily disposed of. In addition, the Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity.

Cash is required to fund redemptions. Following the reorganization of the Fund, shareholders must surrender shares at least 10 business days prior to a valuation date and receive payment on or before 10 business days following such valuation date. Therefore the Fund has a maximum of 20 business days to generate sufficient cash to fund redemptions mitigating liquidity issues.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. The financial instruments which potentially expose the Fund to interest rate risk are the short term fixed income securities. The Fund has minimal sensitivity to change in rates since they are usually held to maturity and short-term in nature.

Credit Risk

In entering into derivative financial instruments, the Fund is subject to the credit risk that its counterparty (whether a clearing corporation, in the case of exchange traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its obligations. The Fund manages these risks through the use of various risk limits and trading strategies.

The credit risk is mitigated by dealing with counterparties that have a credit rating that is not below the level of approved credit ratings as set out in National Instrument 81-102.

The following are credit ratings for the counterparties to derivative instruments that the Fund dealt with during the year, based on Standard & Poor's credit rating as of October 31, 2010:

Dealer	Long-Term Local Currency Rating	Short-Term Local Currency Rating
Canadian Dollar		
Bank of Montreal	A+	A-1
Canadian Imperial Bank of Commerce	A+	A-1
Citigroup Inc.	A	A-1
National Bank of Canada	A	A-1
Royal Bank of Canada	AA-	A-1+
The Toronto-Dominion Bank	AA-	A-1+

The following are credit ratings for the counterparties to derivative instruments that the Fund dealt with during the prior year, based on Standard & Poor's credit rating as of October 31, 2009:

Dealer	Long-Term Local Currency Rating	Short-Term Local Currency Rating
Canadian Dollar		
Bank of Montreal	A+	A-1
Canadian Imperial Bank of Commerce	A+	A-1
Citigroup Inc.	A	A-1
National Bank of Canada	A	A-1
Royal Bank of Canada	AA-	A-1+
The Toronto-Dominion Bank	AA-	A-1+

The following are credit ratings for short-term investments held by the Fund based on Standard & Poor's credit ratings as of October 31, 2010:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Government of Canada Treasury Bills	AAA	60%
Province of Ontario Treasury Bills	AA	20%
Bankers' Acceptances	A-1	20%
Total		**100%**

The following are credit ratings for short-term investments held by the Fund based on Standard & Poor's credit ratings as of October 31, 2009:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Bankers' Acceptances	A-1	89%
Government of Canada Treasury Bills	AAA	11%
Total		**100%**

The carrying amount of these investments represents their maximum credit risk exposure, as they will be settled in the short term.

12. Future Accounting Policy Changes

The Fund was required to adopt International Financial Reporting Standards ("IFRS") for the year beginning on November 1, 2011. However, the Canadian Accounting Standards Board approved a one year deferral from IFRSs adoption for investment companies applying Accounting Guideline 18 - Investment Companies ("AcG 18"). As a result, the Fund will adopt IFRS for the year beginning on November 1, 2012 and will issue its initial statements on a comparative basis for the interim period ending April 30, 2013.

13. Subsequent Event

Pursuant to the extension of the term of the Fund, shareholders had a special retraction right to retract their Preferred shares or Class A shares at the net asset value of the Fund on November 1, 2010. At this date, 4,680,652 of Preferred shares and 1,302,656 of Class A shares with a total retraction value of $77,476,777 were redeemed. In connection with the special retraction right granted to shareholders, the Fund announced a consolidation of the Class A shares effective the opening of trading on November 1, 2010. The consolidation ensured that an equal number of Class A shares and Preferred shares are outstanding subsequent to the special retraction. Each shareholder received 0.738208641 new Class A shares for each Class A share held.

Statement of Corporate Governance Practices

The Board of Directors of the Fund is responsible for the overall stewardship of the Fund's business and affairs. The Fund has investment objectives and investment strategies that are set out in the prospectus of the Fund. The Fund's manager, Mulvihill Capital Management Inc. (the "Manager"), administers many functions associated with the operations of the Fund pursuant to a management agreement entered into at the time the Fund issued its shares to the public. Under this agreement the Manager is responsible for certain day to day operations of the Fund including the payment of distributions on its shares and attending to the retraction or redemption of its shares in accordance with their terms.

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

To assist the Board in its monitoring of the Fund's financial reporting and disclosure, the Board has established, and hereby continues the existence of, a committee of the Board known as the Audit Committee. The Audit Committee consists of three members, all of whom are independent of the Fund. The responsibilities of the Audit Committee include, but are not limited to, review of the annual financial statements and the annual audit performed by the external auditor and oversight of the Fund's compliance with tax and securities laws and regulations. The Audit Committee has direct communication channels with the external auditors to discuss and review specific issues as appropriate.

The Board is responsible for developing the Fund's approach to governance issues and, together with the Investment Manager, is evolving a best practices governance procedure.

The Fund maintains an Investor Relations line and web site to respond to inquiries from shareholders.

Independent Review Committee

On September 19, 2006, the Canadian Securities Administrators approved the final version of National Instrument 81-107 - Independent Review Committee for Investment Funds ("NI 81-107"). NI 81-107 requires all publicly offered investment funds to establish an independent review committee ("IRC") to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions.

In accordance with NI 81-107, the IRC became operational on November 1, 2007. Members of the IRC are Robert W. Korthals, Michael M. Koerner and Robert G. Bertram.

On July 6, 2010, Mulvihill Funds Services Inc., as then Manager to the Fund, presented the terms of a proposed reorganization of the Fund to the IRC for a recommendation. The proposal involved, among other things, an extension of the term of the Fund from November 1, 2010 to November 1, 2017; a change in its authorized share capital by adding new classes of shares issuable in series; changing the monthly retraction prices for the Class A shares and the Preferred shares; and changing the dates by which notice of monthly retractions need to be provided and by which the retraction amount will be paid. The IRC reviewed the proposal and recommended that it be put to shareholders for their consideration on the basis that the proposed reorganization would result in a fair and reasonable result for the Fund. Shareholders of the Fund approved the proposal at a meeting on September 29, 2010.

Mulvihill Capital Management Inc.

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

		For the period November 1, 2009 to October 31, 2010	
MULVIHILL INVESTMENT FUNDS	**SYMBOL**	**HIGH**	**LOW**
UNIT TRUSTS			
Core Canadian Dividend Trust	CDD.UN	$ 7.39	$ 5.75
Gold Participation and Income Fund	GPF.UN	$ 13.30	$ 10.12
Premier Canadian Income Fund	PCU.UN	$ 5.40	$ 3.51
Top 10 Canadian Financial Trust	TCT.UN	$ 10.87	$ 9.25
SPLIT SHARES			
MCM Split Share Corp.	MUH.A/MUH.PR.A	$ 0.45/$14.11	$ 0.06/$12.99
Premium Income Corporation	PIC.A/PIC.PR.A	$ 6.89/$15.53	$ 4.00/$14.66
S Split Corp.	SBN/SBN.PR.A	$ 9.30/$10.97	$ 7.18/$ 9.56
Top 10 Split Trust	TXT.UN/TXT.PR.A	$ 4.50/$14.00	$ 2.24/$12.41
World Financial Split Corp.	WFS/WFS.PR.A	$ 3.76/$10.40	$ 1.11/$ 8.98
PRINCIPAL PROTECTED FUNDS			
Government Strip Bond Trust	GSB.UN	$ 25.55	$ 24.03
Pro-AMS U.S. Trust	PAM.UN	$ 24.79	$ 24.02

Board of Directors

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

John D. Germain
Senior Vice-President & Chief Financial Officer
Mulvihill Capital Management Inc.

Michael M. Koerner[1,2]
Corporate Director

Robert W. Korthals[1,2]
Corporate Director

Robert G. Bertram[1,2]
Corporate Director

[1] Audit Committee Member
[2] Independent Review Committee Member

Information

Auditors:
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Toronto, Ontario M5J 2V1

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

Shares Listed:
Toronto Stock Exchange
trading under
PIC.A/PIC.PR.A

Custodian:
RBC Dexia Investor Services
RBC Centre
155 Wellington Street West, 2nd Floor
Toronto, Ontario M5V 3L3

Visit our website at www.mulvihill.com for additional information on all Mulvihill Investment Funds.

Investment Funds Managed by Mulvihill Capital Management Inc.

UNIT TRUSTS

Canadian Utilities & Telecom Income Fund
Core Canadian Dividend Trust
Gold Participation and Income Fund
Premier Canadian Income Fund
Top 10 Canadian Financial Trust

SPLIT SHARES

MCM Split Share Corp.
Premium Income Corporation
S Split Corp.
Top 10 Split Trust
World Financial Split Corp.

PRINCIPAL PROTECTED FUNDS

Government Strip Bond Trust
Pro-AMS U.S. Trust

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Contact your broker directly for address changes.

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