Premium Income Corporation

Annual Report 2015

strathbridge
ASSET MANAGEMENT

Letter to Shareholders

We are pleased to present the 2015 annual report containing the management report of fund performance and the audited financial statements of Premium Income Corporation (the "Fund").

The S&P/TSX Composite Index had a total return of negative 4.6 percent for the fiscal year ended October 31, 2015, mainly due to slowing economic growth in Canada, declining energy and commodity prices along with the "Valeant Effect" as Valeant Pharmaceuticals International, Inc., which for a brief period in July had the largest market capitalization in Canada, declined over 60 percent from its peak to the end of October. The total return of the S&P/TSX Diversified Banks Index for the same period was negative 2.8 percent with the Canadian Imperial Bank of Commerce leading the group up 1.9 percent, while The Bank of Nova Scotia lagged the group declining 6.9 percent.

The total return of the Fund, including reinvestment of distributions, for the year ended October 31, 2015 was negative 4.7 percent. The Fund paid cash distributions of $0.86 per Preferred share and $0.81 per Class A share during the period. The net asset value of the Fund decreased 11.9 percent from $23.60 per Unit as at October 31, 2014 to $20.79 per Unit as at October 31, 2015. The net realized gain on options attributable to Strathbridge Selective Overwriting strategy (see "The Fund") was $0.31 per Unit for the year as compared to $0.02 per Unit in the prior year. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

On January 2, 2015, the Manager announced that shareholders had approved a proposal to change the investment restrictions and investment strategy of the Fund. Please refer to the Recent Developments section for details of the proposal.

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

John P. Mulvihill
Chairman & CEO
Strathbridge Asset Management Inc.

The Fund

The Fund is a split share corporation designed to provide Preferred shareholders with cumulative preferential quarterly cash distributions of $0.215625 per share, to provide Class A shareholders with quarterly cash distributions of $0.20319 per share and to return the original issue price to holders of both Preferred shares and Class A shares upon windup of the Fund. A Unit of the Fund consists of one Preferred share and one Class A share. Once the net asset value ("NAV") per Unit exceeds $25.00, the Class A share distribution will be based on 8.0 percent per annum of the NAV of the Class A share. The shares are listed on the Toronto Stock Exchange under the ticker symbols PIC.PR.A for the Preferred shares and PIC.A for the Class A shares.

To accomplish its objectives, the Fund invests at least 75 percent of its net asset value in common shares of 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") and may invest up to 25 percent of its net asset value in common shares of National Bank of Canada. In addition, the Fund may purchase securities other than common shares of the Banks and National Bank of Canada or public investment funds (including exchange-traded funds and other Strathbridge Funds) that provide exposure to such common shares.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting ("SSO"), to enhance the income generated by the portfolio and to reduce volatility. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the Fund while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

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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, 2015 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 and quarterly portfolio disclosure may be obtained by calling 1-800-725-7172 toll free, by writing to the Fund at Investor Relations, 121 King Street West, Suite 2600, Standard Life Centre, P.O. Box 113, Toronto, Ontario, M5H 3T9, by email at info@strathbridge.com or by visiting our website at www.strathbridge.com. You can also request semi-annual or annual reports at no cost by using one of the above methods.

Investment Objectives and Strategies

The Fund’s investment objectives are to:

(1) provide Preferred shareholders with cumulative preferential quarterly cash distributions of $0.215625 per share,

(2) provide Class A shareholders with quarterly cash distributions of $0.20319 per share, and

(3) return the original issue price to holders of both Preferred shares and Class A shares upon windup of the Fund.

Once the net asset value (“NAV”) per Unit exceeds $25.00, the Class A share distribution will be based on 8.0 percent per annum of the NAV of the Class A share.

To accomplish its objectives, the Fund invests at least 75 percent of its net asset value in common shares of 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”) and may invest up to 25 percent of its net asset value in common shares of National Bank of Canada. In addition, the Fund may purchase securities other than common shares of the Banks and National Bank of Canada or public investment funds (including exchange-traded funds and other Strathbridge Funds) that provide exposure to such common shares.

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The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the Fund while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

Risk

Risks associated with an investment in the securities of the Fund are discussed in the Fund’s 2015 annual information form, which is available on the Fund’s website at www.strathbridge.com or on SEDAR at www.sedar.com. There were no changes to the Fund over the year that materially affected the risks associated with an investment in the securities of the Fund.

Results of Operations

Distributions

For the year ended October 31, 2015, cash distributions of $0.86 per Preferred share and $0.81 per Class A share were paid to respective shareholders, unchanged from last year. Since the inception of the Fund in October 1996, the Fund has paid total cash distributions of $16.60 per Preferred share and $22.16 per Class A share.

Revenue and Expenses

The Fund's total revenue was $0.87 per Unit for the year ended October 31, 2015, down $0.05 per Unit from a year ago. Total expenses of $0.28 per Unit were unchanged from last year. Excluding the non-recurring costs associated with the special resolution (to change the investment restrictions and investment strategy of the Fund), total expenses were down $0.01 per Unit compared to last year. The Fund had a net realized and unrealized loss of $1.70 per Unit in 2015 as compared to a net realized and unrealized gain of $2.69 per Unit in the prior year.

Net Asset Value

The net asset value of the Fund decreased 11.9 percent from $23.60 per Unit at October 31, 2014 to $20.79 per Unit at October 31, 2015. The aggregate net asset value of the Fund decreased $8.7 million, from $230.1 million at October 31, 2014 to $221.4 million at October 31, 2015, mainly reflecting an operating loss of $11.8 million and cash distributions of $17.8 million to Preferred and Class A shareholders during the period, partially offset by the net proceeds of $21.0 million from the closing of the treasury offering in November 2014.

Recent Developments

On November 10, 2014, the Fund announced that it had completed a treasury offering of 900,000 Class A shares and 900,000 Preferred shares for aggregate gross proceeds of $22.1 million. The Class A shares were priced at $8.92 per share and the Preferred shares were priced at $15.60 per share. The pricing of the issue was determined so as to be non-dilutive to the most recently calculated net asset value per Unit on the date of the pricing of the issue.

On November 12, 2014, the Board of Directors approved a proposal to: (i) change the Fund's investment restrictions so that the Fund must invest at least 75 percent of its net asset value in common shares of 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") included in the portfolio; (ii) change Fund's investment strategy so that the Fund may invest up to 25 percent of its net asset value in common shares of National Bank of Canada; (iii) change the Fund's investment restrictions so that the Fund may, except as otherwise provided in the Fund's investment restrictions, purchase securities other than common shares of the Banks and National Bank of Canada or public investment funds including exchange-traded funds and other Strathbridge Funds (provided that no more than 15 percent of the net asset value of the Fund may be invested in securities of other Strathbridge Funds) that provide exposure to such securities; and (iv) notwithstanding any other investment restriction, to enable the Manager to invest the Fund's portfolio entirely in cash or cash equivalents, denominated in Canadian dollars, in its discretion. A joint management information circular was mailed to shareholders of record on November 21, 2014 and a special meeting of shareholders of the Fund was held on December 23, 2014 to consider and vote upon the proposal. On January 2, 2015, the Manager announced that the proposal was approved by the shareholders to change the investment restrictions and investment strategy of the Fund.

Transition to International Financial Reporting Standards Accounting Policies

The Fund has adopted International Financial Reporting Standards ("IFRS") accounting policies for the year beginning November 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Chartered Professional Accountants of Canada Handbook Section 3855, Financial Instruments - Recognition and Measurement, which is determined by the closing bid price for long positions and by the closing ask price for short positions from the recognized stock exchange on which the securities are listed or principally traded. Under IFRS 13: Fair Value Measurement, the fair value of investments is to be based on a price within the bid-ask spread. It also allows the use of certain pricing conventions such as last traded prices as a practical expedient for fair value measurements within a bid-ask spread. Note 5 to the financial statements for the year ended October 31, 2015 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended October 31, 2014 prepared under Canadian GAAP.

Related Party Transactions

Strathbridge Asset Management Inc. ("Strathbridge"), as the Investment Manager of the Fund, manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and Strathbridge dated October 17, 1996 and amended as of October 8, 2010.

Strathbridge is the Manager of the Fund pursuant to a Management Agreement made between the Fund and Strathbridge dated October 17, 1996 and amended as of October 8, 2010. As such, Strathbridge is responsible for providing or arranging for required administrative services to the Fund.

Strathbridge is paid the fees described under the Management Fees section of this report.

During the year, no recommendations or approvals were required to be sought from the Independent Review Committee ("IRC") concerning related party transactions.

Independent Review Committee

National Instrument 81-107 - Independent Review Committee for Investment Funds ("NI 81-107") requires all publicly offered investment funds to establish an 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. The Chief Compliance Officer, designated by the Manager, is in charge of facilitating the fulfillment of these obligations.

The IRC will prepare, for each financial year, a report to securityholders that describes the IRC and its activities during such financial year and includes, if known, a description of each instance when the Manager acted in a conflict of interest matter for which the IRC did not give a positive recommendation or for which a condition, imposed by the IRC, was not met in its recommendation or approval. Members of the IRC are Robert W. Korthals, Michael M. Koerner and Robert G. Bertram.

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.

As a result of the adoption of IFRS, for October 31, 2015 and 2014, the net assets per Unit presented in the financial statements and the net asset value per Unit calculated weekly are both valued at closing prices. For all other prior years ended October 31, the net assets per Unit presented in the financial statements differs from the net asset value per Unit calculated weekly, primarily as a result of investments being valued at bid prices for financial statements purposes and at closing prices for weekly net asset value purposes.

Years ended October 31	**2015**	2014	2013	2012	2011
THE FUND'S NET ASSETS PER UNIT					
Net Assets, beginning of year[1]	**$ 23.60**	$ 21.95	$ 20.53	$ 20.79	$ 22.53[4]
INCREASE (DECREASE) FROM OPERATIONS					
Total revenue	**0.87**	0.92	0.87	0.91	0.83
Total expenses	**(0.28)**	(0.28)	(0.27)	(0.25)	(0.28)
Realized gain (loss) for the period	**0.44**	2.40	0.33	(0.47)	1.43
Unrealized gain (loss) for the period	**(2.14)**	0.29	2.18	1.22	(2.04)
Total Increase (Decrease) from Operations[2]	**(1.11)**	3.33	3.11	1.41	(0.06)
DISTRIBUTIONS					
Preferred Share					
From net investment income	**(0.86)**	(0.86)	(0.86)	(0.86)	(0.84)
Non-taxable distributions	**–**	–	–	–	(0.02)
Total Preferred Share Distributions	**(0.86)**	(0.86)	(0.86)	(0.86)	(0.86)
Class A Share					
Non-taxable distributions	**(0.81)**	(0.81)	(0.81)	(0.81)	(0.81)
Total Class A Share Distributions	**(0.81)**	(0.81)	(0.81)	(0.81)	(0.81)
Total Annual Distributions[3]	**(1.67)**	(1.67)	(1.67)	(1.67)	(1.67)
Net Assets, as at October 31[1]	**$ 20.79**	$ 23.60	$ 21.94	$ 20.53	$ 20.79

(1) All per Unit figures presented in 2015 and 2014 are referenced to net assets determined in accordance with IFRS and are derived from the Fund's audited financial statements for the year ended October 31, 2015. Net assets per Unit for all other prior years were derived from the Fund's audited annual financial statements that were prepared in accordance with Canadian GAAP. Net assets per Unit is the difference between the aggregate value of the assets (including the valuation of securities at closing prices for the years beginning on or after November 1, 2013 and for all other prior years at bid prices) and the aggregate value of the liabilities, divided by the number of Units then outstanding.

(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized and unrealized gain (loss), 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. All distributions were paid in cash.

(4) Net Assets per Unit was adjusted for the consolidation of the Class A shares effective the opening of trading on November 1, 2010. Each shareholder received 0.738208641 new Class A shares for each Class A share held. The total value of a shareholder's investment did not change; however, the number of Class A shares reflected in the shareholder's account declined and the Net Assets per Class A share increased proportionately.

Financial Highlights

Years ended October 31	2015	2014	2013	2012	2011
RATIOS/SUPPLEMENTAL DATA					
Net Asset Value, excluding the Redeemable Preferred Share liability ($millions)[1]	**$ 221.40**	$ 230.08	$ 213.95	$ 195.39	$ 198.09
Net Asset Value ($millions)[1]	**$ 61.67**	$ 83.84	$ 67.71	$ 52.63	$ 55.33
Number of Units outstanding[1]	**10,648,942**	9,749,268	9,749,268	9,517,553	9,517,553
Management expense ratio[2]	**1.22%**	1.16%	1.30%	1.17%	1.15%
Portfolio turnover rate[3]	**86.47%**	83.84%	76.34%	53.70%	81.29%
Trading expense ratio[4]	**0.05%**	0.04%	0.05%	0.04%	0.06%
Net Asset Value per Unit[5]	**$ 20.79**	$ 23.60	$ 21.95	$ 20.53	$ 20.81[6]
Closing market price - Preferred	**$ 15.14**	$ 15.60	$ 15.20	$ 15.49	$ 14.58
Closing market price - Class A	**$ 6.13**	$ 8.31	$ 6.57	$ 5.85	$ 6.03

(1) This information is provided as at October 31. One Unit consists of one Preferred share and one Class A share.

(2) The management expense ratio (“MER”) is the sum of all fees and expenses for the stated period, including harmonized sales tax but excluding transaction fees and Preferred share distributions, divided by the average net asset value excluding the Redeemable Preferred Share liability. The MER for 2015 includes the special resolution expense. The MER for 2015 excluding the special resolution expense is 1.18%. The MER for 2013 includes rights offering costs. The MER for 2013 excluding rights offering costs is 1.19%. The MER for 2011 includes warrant offering costs and special resolution recovery. The MER for 2011 excluding warrant offering costs and special resolution recovery is 1.13%. The MER, including Preferred share distributions, is 5.19%, 4.92%, 5.50% 5.34% and 5.02% for 2015, 2014, 2013, 2012 and 2011 respectively.

(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 year.

(5) Net Asset Value per Unit is the difference between the aggregate value of the assets including the valuation of securities at closing prices and the aggregate value of the liabilities excluding the Redeemable Preferred Share liability, divided by the number of Units then outstanding.

(6) Net Asset Value per Unit was adjusted for the consolidation of the Class A shares effective the opening of trading on November 1, 2010. Each shareholder received 0.738208641 new Class A shares for each Class A share held. The total value of a shareholder’s investment did not change; however, the number of Class A shares reflected in the shareholder’s account declined and the Net Asset Value per Class A share increased proportionately.

Management Fees

Strathbridge, as the Investment Manager of the Fund, 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. Services received under the Investment Management Agreement include the making of all investment decisions and writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. Strathbridge also makes all decisions as to the purchase and sale of securities in the Fund's portfolio and as to the execution of all portfolio and other transactions.

Strathbridge, as the Manager of the Fund, 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. Services received under the Management Agreement include providing or arranging for required administrative services to the Fund.

Past Performance

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

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

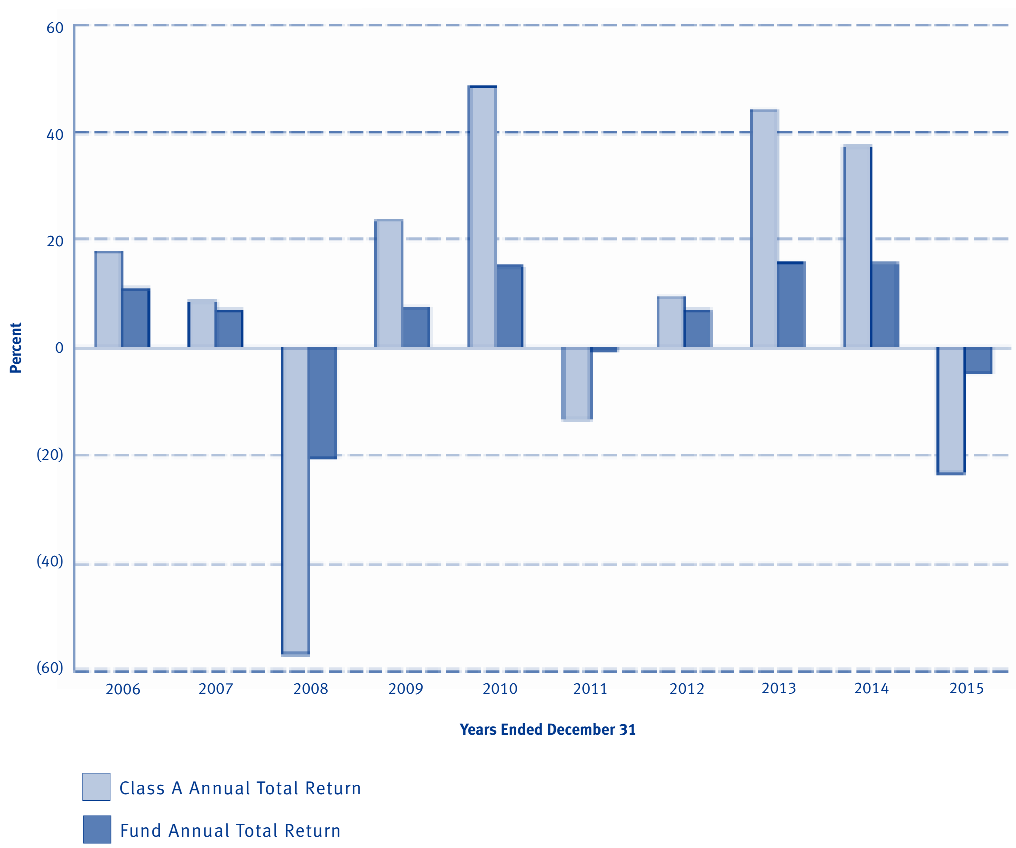
(2) information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

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

Year-By-Year Returns

The following bar chart illustrates how the Fund's annual total return varied from year to year for 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 the fiscal year.

Annual Total Return



Annual Compound Returns

The following table shows the Fund's historical annual compound return (net of expenses) for the periods ended October 31, 2015, as compared to the performance of the S&P/TSX Diversified Banks Index.

	One Year	Three Years	Five Years	Ten Years
Premium Income Corporation	**(4.72)%**	8.44 %	6.29 %	4.72 %
Premium Income Corporation - Preferred	**5.88 %**	5.88 %	5.88 %	5.89 %
Premium Income Corporation - Class A	**(23.28)%**	14.95 %	7.57 %	3.87 %
S&P/TSX Diversified Banks Index(1)	**(2.84)%**	12.46 %	9.88 %	9.16 %

(1) The S&P/TSX Diversified Banks Index is a subset of the S&P/TSX Composite 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 enhance the income generated by the portfolio and reduce volatility.

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. However, in a rising market, the use of options may have the effect of limiting or reducing the total returns of the Fund, particularly 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.

Portfolio Manager Report

The S&P/TSX Composite Index had a total return of negative 4.6 percent for the fiscal year ended October 31, 2015, mainly due to slowing economic growth in Canada, declining energy and commodity prices along with the "Valeant Effect" as Valeant Pharmaceuticals International, Inc., which for a brief period in July had the largest market capitalization in Canada, declined over 60 percent from its peak to the end of October. The total return of the S&P/TSX Diversified Banks Index for the same period was negative 2.8 percent with the Canadian Imperial Bank of Commerce leading the group up 1.9 percent, while The Bank of Nova Scotia lagged the group declining 6.9 percent.

The Canadian banks continued to generate resilient earnings from steady domestic banking revenues, a greater contribution from U.S. and International banking along with cyclically low credit costs. Capital ratios ascended during the year with an average Basel III Common Equity Tier 1 capital ratio of 10.2 percent for the group, as compared to 9.8 percent last year and well above the 8 percent minimum requirement commencing January 1, 2016. The strong capital ratios allowed all five banks in the portfolio to increase their dividends during the year by an average of 7.5 percent. The Canadian banks continued to demonstrate strong balance sheets and capital adequacy as they were ranked number one for the eighth consecutive year by the Geneva based World Economic Forum in the "Soundness of Banks" category.

The NAV of the Fund at October 31, 2015 was $20.79 per Unit compared to $23.60 per unit at October 31, 2014. Preferred shareholders received cash distributions of $0.86250 per share during the year while Class A shareholders received cash distributions of $0.81276 per share. For the year ended October 31, 2015, the Fund's annual total return per Unit, including reinvestment of distributions, was negative 4.7 percent. The Fund's Preferred shares, listed on the Toronto Stock Exchange ("TSX") as PIC.PR.A, and the Fund's Class A shares, listed on the TSX as PIC.A, closed on October 31, 2015 at $15.14 per share and $6.13 per share, respectively. When combined, this represents a premium of 2.3 percent to the NAV of the Fund.

The Fund maintained its invested position throughout most of the year and ended October 31, 2015 with a cash position of 6.5 percent as compared to 0.8 percent last year. Volatility on average was higher for most of the year coinciding with the weak performance for the group. The S&P/TSX Banks Index had 3 periods during the year where the index declined by more than 9 percent, thereby increasing the implied volatility for the group. The Fund did selectively write covered call options from time to time due to the higher volatility and, for the year, had a net realized gain of $0.31 per Unit on options attributable to the SSO strategy. The Fund ended October 31, 2015 with 4.1 percent of the portfolio subject to covered calls.

Our long-term view on the Canadian banks has not changed. The banks continue to have multiple levers to pull due to their diversified business models and at the same time seem quite capable of maintaining attractive dividend yields. These factors are offset somewhat by topline growth concerns in a slowing domestic economy, exposure to weak energy prices and persistently low interest rates which have dampened their net interest margins. However, due to their strong capital ratios, Canadian banks are likely to remain on course to return capital to shareholders in the form of dividend growth and share buybacks.

Summary of Investment Portfolio

The composition of the portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly portfolio summary, which includes the percentage of net asset value for each holding, and a monthly portfolio list are available on our website at www.strathbridge.com.

Asset Mix

October 31, 2015

	% OF NET ASSET VALUE*
Financial Institutions	93.3 %
Cash and Short-Term Investments	6.5 %
Exchange-Traded Funds	1.0 %
Other Assets (Liabilities)	(0.8)%
	100.0 %

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

Portfolio Holdings

October 31, 2015

	% OF NET ASSET VALUE*
Canadian Imperial Bank of Commerce	25.1 %
The Toronto-Dominion Bank	24.9 %
Royal Bank of Canada	16.3 %
Bank of Montreal	14.3 %
The Bank of Nova Scotia	12.7 %
Cash and Short-Term Investments	6.5 %
Exchange-Traded Funds	1.0 %

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

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 forward-looking 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 Strathbridge Asset Management Inc. (the "Manager"), and have been approved by the Fund's Board of Directors (the "Board").

The financial statements have been prepared by management in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this annual report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 of the 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 independent auditor 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 independent auditor's report. Deloitte LLP, the Fund's independent auditor, has full and unrestricted access to the Audit Committee and the Board.

John P. Mulvihill
Director
Strathbridge Asset Management Inc.
December 3, 2015

John D. Germain
Director
Strathbridge Asset Management Inc.

To the Shareholders of Premium Income Corporation

We have audited the accompanying financial statements of Premium Income Corporation, which comprise the statements of financial position as at October 31, 2015, October 31, 2014 and November 1, 2013, and the statements of comprehensive income, statements of changes in net assets attributable to holders of Class A shares and statements of cash flows for the years ended October 31, 2015 and October 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Premium Income Corporation as at October 31, 2015, October 31, 2014 and November 1, 2013, and its financial performance, its changes in net assets attributable to holders of Class A shares and its cash flows for the years ended October 31, 2015 and October 31, 2014 in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
December 3, 2015
Toronto, Ontario

Statements of Financial Position

As at October 31, 2015, October 31, 2014 and November 1, 2013

	Note	**Oct. 31, 2015**	Oct. 31, 2014	Nov. 1, 2013
ASSETS				
Financial assets at fair value through profit or loss	3,5	**$ 208,751,628**	$ 227,496,498	$ 212,297,483
Dividends receivable		**729,584**	960,768	832,956
Interest receivable		**4,557**	2,706	480
Short-term investments	3	**7,491,300**	997,200	999,100
Cash		**6,858,690**	872,525	1,465,368
TOTAL ASSETS		**223,835,759**	230,329,697	215,595,387
LIABILITIES				
Due to brokers - investments		**2,041,296**	–	528,414
Accrued management fees	10	**169,386**	176,019	163,679
Derivative liabilities		**117,047**	–	849,196
Accrued liabilities		**95,269**	72,005	102,369
Redemptions payable		**6,778**	–	3,226
Redeemable Preferred shares		**159,734,130**	146,239,020	146,239,020
Class B shares		**1,000**	1,000	1,000
TOTAL LIABILITIES		**162,164,906**	146,488,044	147,886,904
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES	5	**$ 61,670,853**	$ 83,841,653	$ 67,708,483
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE		**$ 5.7913**	$ 8.5998	$ 6.9450

On behalf of the Manager,
Strathbridge Asset Management Inc.

John P. Mulvihill, Director

Robert W. Korthals, Director

Statements of Comprehensive Income

Years ended October 31

	Note	2015	2014
INCOME			
Dividend income		**$ 9,202,586**	$ 8,931,681
Interest income		**51,373**	10,388
Net realized gain on investments at fair value through profit or loss	8	**1,410,514**	23,170,029
Net realized gain on options at fair value through profit or loss	8	**3,275,267**	228,202
Net change in unrealized gain/loss on investments at fair value through profit or loss	5,8	**(22,781,754)**	2,821,539
TOTAL INCOME		**(8,842,014)**	35,161,839
EXPENSES			
Management fees	10	**2,082,805**	2,022,547
Administrative and other expenses		**274,290**	217,092
Transaction fees	11	**125,035**	97,304
Custodian fees		**45,668**	42,090
Audit fees		**36,040**	36,040
Director fees	10	**21,000**	20,400
Independent review committee fees	10	**6,918**	7,070
Legal fees		**6,606**	1,087
Shareholder reporting costs		**37,441**	29,720
Harmonized sales tax		**227,573**	222,760
Subtotal Expenses		**2,863,376**	2,696,110
Special resolution expense	1	**91,303**	–
TOTAL EXPENSES		**2,954,679**	2,696,110
OPERATING PROFIT/(LOSS)		**(11,796,693)**	32,465,729
Preferred share distributions		**(9,184,994)**	(8,408,744)
INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES	5,12	**$ (20,981,687)**	$ 24,056,985
INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE	12	**$ (1.9744)**	$ 2.4676

The notes are an integral part of the Financial Statements.

Statements of Changes in Net Assets Attributable to Holders of Class A Shares

Years ended October 31

	Note	2015	2014
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, BEGINNING OF YEAR	5	**$ 83,841,653**	$ 67,708,483
Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares		**(20,981,687)**	24,056,985
Class A Share Capital Transactions			
Proceeds from issuance of Class A shares, net of issue costs		**7,468,074**	–
Value for Class A shares redeemed		**(1,888)**	–
		7,466,186	–
Class A Share Distributions			
Non-taxable distributions		**(8,655,299)**	(7,923,815)
Changes in Net Assets Attributable to Holders of Class A Shares during the Year		**(22,170,800)**	16,133,170
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, END OF YEAR	5	**$ 61,670,853**	$ 83,841,653

Statements of Cash Flows

Years ended October 31

	Note	2015	2014
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**$ 1,869,725**	$ 2,464,468
Cash Flows Provided by (Used In) Operating Activities			
Operating Profit/(Loss)		**(11,796,693)**	32,465,729
Adjustments to Reconcile Net Cash Provided by (Used in) Operating Activities			
Purchase of investment securities		**(191,744,694)**	(185,154,996)
Proceeds from disposition of investment securities		**192,510,638**	195,326,555
Net realized (gain)/loss on investments at fair value through profit or loss		**(1,410,514)**	(23,170,029)
Net realized (gain)/loss on options at fair value through profit or loss		**(3,275,267)**	(228,202)
Net change in unrealized gain/loss on investments at fair value through profit or loss	5	**22,781,754**	(2,821,539)
(Increase)/decrease in interest receivable and dividends receivable		**229,333**	(130,038)
Increase/(decrease) in due to brokers - investments, accrued management fees and accrued liabilities		**2,057,927**	(546,438)
		21,149,177	(16,724,687)
Cash Flows Provided by (Used In) Financing Activities			
Preferred share distributions		**(9,184,994)**	(8,408,744)
Class A share distributions		**(8,655,299)**	(7,923,815)
Proceeds from issuance of Units, net of issue costs		**20,968,074**	–
Preferred share redemptions		**–**	(2,205)
Class A share redemptions		**–**	(1,021)
		3,127,781	(16,335,785)
Net Increase/(Decrease) in Cash and Cash Equivalents during the Year		**12,480,265**	(594,743)
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 14,349,990**	$ 1,869,725
Dividends received		**$ 9,433,770**	$ 8,803,869
Interest received		**$ 49,522**	$ 8,162

Schedule of Investments

As at October 31, 2015

	Par Value/ Number of Shares/ (Contracts)	Average Cost/ (Proceeds)	Fair Value	% of Net Assets Attributable to Holders of Class A Shares
SHORT-TERM INVESTMENTS				
Bankers' Acceptances				
Royal Bank of Canada, 0.67% - December 1, 2015	7,500,000	$ 7,491,300	$ 7,491,300	
Accrued Interest			4,557	
TOTAL SHORT-TERM INVESTMENTS		$ 7,491,300	$ 7,495,857	3.4 %
INVESTMENTS				
Canadian Common Shares				
Bank of Montreal	417,200	$ 31,265,194	$ 31,723,888	
Canadian Imperial Bank of Commerce	554,000	51,883,193	55,555,120	
Royal Bank of Canada	482,000	35,855,644	36,039,140	
The Bank of Nova Scotia	456,000	28,441,838	28,039,440	
The Toronto-Dominion Bank	1,028,000	53,975,204	55,183,040	
Total Canadian Common Shares		$ 201,421,073	$ 206,540,628	93.3 %
Exchange-Traded Funds				
BMO S&P/TSX Equal Weight Banks Index	100,000	$ 2,197,644	$ 2,211,000	1.0 %
Options				
Written Cash Covered Put Options (100 shares per contract)				
Bank of Montreal - November 2015 @ $75	(580)	$ (105,207)	$ (41,087)	
The Bank of Nova Scotia - November 2015 @ $62	(720)	(56,880)	(75,960)	
Total Written Cash Covered Put Options		$ (162,087)	$ (117,047)	(0.1)%
Adjustment for transaction fees		(66,252)		
TOTAL INVESTMENTS		$ 203,390,378	$ 208,634,581	94.2 %
OTHER NET ASSETS			5,275,445	2.4 %
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, excluding the Redeemable Preferred Share liability			$ 221,405,883	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 subject to an automatic extension of the term for an additional seven years. The address of the Fund’s registered office is 121 King Street West, Suite 2600, Toronto, Ontario.

Strathbridge Asset Management Inc. (“Strathbridge”) is the Manager as well as the Investment Manager of the Fund. RBC Investor Services Trust is the Custodian of the Fund.

The Fund is a split share corporation designed to provide Preferred shareholders with cumulative preferential quarterly cash distributions of $0.215625 per share, to provide Class A shareholders with quarterly cash distributions of $0.20319 per share and to return the original issue price to holders of both Preferred shares and Class A shares upon windup of the Fund. A Unit of the Fund consists of one Preferred share and one Class A share. Once the net asset value (“NAV”) per Unit exceeds $25.00, the Class A share distribution will be based on 8.0 percent per annum of the NAV of the Class A share. The shares are listed on the Toronto Stock Exchange (“TSX”) under the ticker symbols PIC.PR.A for the Preferred shares and PIC.A for the Class A shares.

On January 2, 2015, the Manager announced shareholder approval to change the investment restrictions and the investment strategy of the Fund. As a result, the Fund must now invest at least 75 percent of its NAV in common shares of 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”) and may invest up to 25 percent of its net asset value in common shares of National Bank of Canada. In addition, the Fund may purchase securities other than common shares of the Banks and National Bank of Canada or public investment funds (including exchange-traded funds and other Strathbridge Funds) that provide exposure to such common shares. Pro-rata costs of $91,303 were incurred in relation to this special resolution.

The Fund employs a proprietary investment strategy, Strathbridge Selective Overwriting (“SSO”), to enhance the income generated by the portfolio and to reduce volatility. In addition, the Fund may write cash covered put options in respect of securities in which it is permitted to invest.

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the particular portfolio while reducing the level of volatility of the portfolio, thereby increasing the risk-adjusted return.

These financial statements were approved by the Board of Directors on December 3, 2015.

2. Basis of Presentation and Adoption of International Financial Reporting Standards

The annual financial statements for the Fund have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board.

The Fund has adopted IFRS accounting policies for the year beginning November 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at November 1, 2013 and throughout all periods presented, as if these accounting policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Fund’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund’s financial statements for the year ended October 31, 2014 prepared under Canadian GAAP.

3. Summary of Significant Accounting Policies

Functional and Presentation Currency

Items included in the financial statements of the Fund are measured in the currency of the primary economic environment in which the Fund operates (the “functional currency”). Based on the guidance provided in International Accounting Standard (“IAS”) 21, The Effects of Changes in Foreign Exchange Rates, the Manager has determined that the functional currency is Canadian dollars. The financial statements of the Fund are presented in Canadian dollars which is the Fund’s presentation currency.

Financial Instruments

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets. Under IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”), the Fund’s equity investments are designated at fair value through profit or loss (“FVTPL”) at inception and derivative investments are classified as held for trading and measured at FVTPL.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the reporting date. On adoption of IFRS, the Fund uses the last traded market price as its valuation input for financial assets and liabilities if the last traded price falls within the bid-ask spread. In other circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value for financial reporting purposes.

The fair value of financial assets and liabilities that are not traded in an active market is determined by valuation techniques as described in Note 4.

Investment Transactions and Income

Investment transactions are accounted for on a trade date basis. Net realized gain/(loss) on investments at fair value through profit or loss and net change in unrealized gain/loss on investments at fair value through profit or loss are determined on an average cost basis. Realized gains and losses related to options are included in net realized gain/(loss) on options at fair value through profit or loss. 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 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 the net change in unrealized gain/loss on investments at fair value through profit or loss. The 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 measured using the effective interest method and recorded on a daily basis.

Short-Term Investments

Short-term investments are held for investment purposes and consist primarily of money market instruments with original maturities of 90 days or less.

Class A and Class B Shares

IAS 32, Financial Instruments: Presentation (“IAS 32”) requires that the Class A and Class B shares (which are puttable instruments) be classified as financial liabilities unless all the criteria outlined in IAS 32 paragraph 16A are met. The Fund’s Class A and Class B shares do not meet all the criteria outlined in IAS 32 paragraph 16A which requires the Class A and Class B shares to be classified as equity by exception, and therefore, have been reclassified as financial liabilities on transition to IFRS.

Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares per Class A Share

The increase/(decrease) in net assets attributable to holders of Class A shares per Class A share is calculated by dividing the increase/(decrease) in net assets attributable to holders of Class A shares by the weighted average number of Class A shares outstanding during the year. Please refer to Note 12 for the calculation.

Taxation

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 and foreign dividend 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.

4. Critical Accounting Estimates and Judgments

The preparation of financial statements requires the Manager to use judgment in applying accounting policies and to make estimates and assumptions about the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements.

The Manager considers the currency of the primary economic environment in which the Fund operates to be Canadian dollars as this is the currency which in the Manager’s opinion most faithfully represents the economic effects of underlying transactions, events and conditions. The financial statements of the Fund are presented in Canadian dollars which is the Fund’s presentation currency.

In classifying and measuring the financial instruments held by the Fund, the Manager has applied the fair value option for financial assets and liabilities under IAS 39. As a result, the Fund’s equity investments have been designated at FVTPL at inception and the derivative investments have been classified as held for trading by nature and valued at FVTPL.

The Fund may, from time to time, hold financial instruments that are not quoted in active markets. Fair values of such instruments are determined by using valuation models and techniques generally recognized as standard within the investment industry. These valuation methods use observable data as practicable as possible. Observable market data are readily available and supplied by independent sources actively involved in the relevant market. However, areas such as credit risk (both own and counterparty) and its correlations require the Manager to make estimates. Significant changes in assumptions about these factors could adversely affect the reported fair values of financial instruments. Please refer to Note 7 for a further analysis of risks associated with financial instruments.

5. Transition to IFRS

The effect of the Fund's transition to IFRS is summarized as follows:

Transition Elections

Based on the investment strategies of the Fund, equity investments in the portfolio have been designated at FVTPL through the adoption of voluntary exemption upon transition. Equity investments designated at FVTPL at inception were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18 - Investment Companies.

Reconciliation of Net Assets and Comprehensive Income as previously reported under Canadian GAAP to IFRS

Net Assets	Oct. 31, 2014	Nov. 1, 2013
Net Assets as reported under Canadian GAAP	$ 83,811,684	$ 67,673,436
Revaluation of investments at FVTPL	29,969	35,047
Net Assets Attributable to Holders of Class A Shares	$ 83,841,653	$ 67,708,483

Comprehensive Income	Oct. 31, 2014
Comprehensive Income as reported under Canadian GAAP	$ 24,062,063
Revaluation of investments at FVTPL	(5,078)
Increase in Net Assets Attributable to Holders of Class A Shares	$ 24,056,985

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Chartered Professional Accountants of Canada Handbook Section 3855, Financial Instruments - Recognition and Measurement, which is determined by the closing bid price for long positions and by the closing ask price for short positions from the recognized stock exchange on which the securities are listed or principally traded. If no bid or ask prices are available, the securities are valued at the closing sale price or the Manager may estimate fair value using appropriate and accepted industry valuation techniques including valuation models. Under IFRS 13: Fair Value Measurement, the fair value of investments is to be based on a price within the bid-ask spread. It also allows the use of certain pricing conventions such as last traded prices as a practical expedient for fair value measurements within a bid-ask spread. As a result of the use of last traded prices upon IFRS transition, adjustments were recognized to increase the carrying amount of the Fund's investments by $35,047 as at November 1, 2013 and $29,969 as at October 31, 2014. Another impact of fair value adjustments was to decrease the Fund's increase in net assets attributable to holders of Class A shares by $5,078 for the year ended October 31, 2014.

Classification of Class A and Class B Shares

Under Canadian GAAP, the Fund classified the Class A and Class B shares as equity. Under IFRS, IAS 32 requires that the Class A and Class B shares (which are puttable instruments) be classified as financial liabilities unless all the criteria outlined in IAS 32 paragraph 16A are met. The Fund's Class A and Class B shares do not meet all the criteria outlined in IAS 32 paragraph 16A which requires the Class A and Class B shares to be classified as equity by exception, and therefore, have been reclassified as financial liabilities on transition to IFRS.

Since all shares of the Fund are classified as liabilities, the Fund is not required to disclose components of equity which was previously done under Canadian GAAP.

6. Capital Disclosures

IAS 1, Presentation of Financial Statements, requires 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 noncompliance. The Fund's objectives, policies and processes are described in Note 1, information on the Fund's shares is described in Note 9 and the Management Agreement does not have any externally imposed capital requirements.

7. Risks Associated with Financial Instruments

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 credit risk, liquidity risk, market risk (including interest rate risk and price risk), concentration risk and capital risk management. Tables are based on restatements of values of financial instruments at fair value through profit and loss and unrealized gain/(loss) on investments as at October 31, 2014 and November 1, 2013 to comply with IFRS. Note 5 discloses the transition adjustments.

Credit Risk

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 analysis below summarizes the credit quality of the Fund's short-term investments as at October 31, 2015, October 31, 2014 and November 1, 2013.

	Percentage of Short-Term Investments		
Credit Rating	Oct. 31, 2015	Oct. 31, 2014	Nov. 1, 2013
A-1+	100.0%	–	–
A-	–	100.0%	100.0%

The Fund is also exposed to counterparty credit risk on derivative financial instruments. The counterparty credit risk for derivative financial instruments is managed 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. During the periods ended October 31, 2015, October 31, 2014 and November 1, 2013, the counterparties to the Fund's derivative financial instruments had a credit rating of A-1 or higher by Standard & Poor's Ratings Services.

The Fund's derivatives are subject to offsetting, enforceable netting arrangements and similar agreements. The Fund and its counterparty have elected to settle all transactions on a gross basis; however, each party has the option to settle all open contracts on a net basis in the event of default of the other party. All outstanding derivatives have been presented on a gross basis on the Statement of Financial Position as derivative assets or derivative liabilities, as they do not meet the criteria for offsetting in IAS 32 paragraph 42.

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 which can be easily disposed. In addition, the Fund aims to retain sufficient cash and short-term investments to maintain liquidity and to meet its obligations when due.

Cash is required to fund redemptions. Shareholders must surrender units at least 10 business days prior to the last day of the month and receive payment on or before 10 calendar days following the month end valuation date. Therefore the Fund has a maximum of 20 business days to generate sufficient cash to fund redemptions mitigating liquidity issues.

The amounts in the table are the contractual undiscounted cash flows:

As at October 31, 2015 Financial Liabilities	On Demand	< 3 months	Total
Redemptions payable	$ –	$ 6,778	$ 6,778
Accrued liabilities	–	95,269	95,269
Deriviative liabilities	–	117,047	117,047
Accrued management fees	–	169,386	169,386
Due to brokers - investments	–	2,041,296	2,041,296
Redeemable Preferred shares	159,734,130	–	159,734,130
Class B shares	1,000	–	1,000
	$ 159,735,130	$ 2,429,776	$ 162,164,906

As at October 31, 2014 Financial Liabilities	On Demand	< 3 months	Total
Accrued liabilities	$ –	$ 72,005	$ 72,005
Accrued management fees	–	176,019	176,019
Redeemable Preferred shares	146,239,020	–	146,239,020
Class B shares	1,000	–	1,000
	$ 146,240,020	$ 248,024	$ 146,488,044

As at November 1, 2013 Financial Liabilities	On Demand	< 3 months	Total
Redemptions payable	$ –	$ 3,226	$ 3,226
Accrued liabilities	–	102,369	102,369
Accrued management fees	–	163,679	163,679
Due to brokers - investments	–	528,414	528,414
Derivative liabilities	–	849,196	849,196
Redeemable Preferred shares	146,239,020	–	146,239,020
Class B shares	1,000	–	1,000
	$ 146,240,020	$ 1,646,884	$ 147,886,904

Redeemable Preferred shares are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity disclosed above will be representative of the actual cash flows, as holders of these instruments typically retain them for a longer period or to the Termination Date of November 1, 2017.

Market Risk

The Fund's investments are subject to market risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices. The following include sensitivity analyses that show how the net assets attributable to holders of Class A shares would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the differences could be material.

(a) 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 changes in rates since securities are usually held to maturity and are short-term in nature.

(b) Price Risk

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 Fund's most significant exposure to price risk arises from its investments in equity securities. Net assets per Unit varies as the value of the securities in the Fund varies. The Fund has no control over the factors that affect the value of the securities in the Fund, including factors that affect all the companies in the financial services industry.

The Fund's price risk is managed by taking a long-term perspective and utilizing an option writing program, as well as by the use of purchased put options. Approximately 94 percent (October 31, 2014 - 99 percent and November 1, 2013 - 99 percent) of the Fund's net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, held at October 31, 2015 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at October 31, 2015, the net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, would have increased or decreased by $10.4 million (October 31, 2014 - $11.4 million and November 1, 2013 - $10.6 million) respectively or 4.7 percent (October 31, 2014 - 4.9 percent and November 1, 2013 - 5.0 percent) of the net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, with all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

Concentration Risk

Concentration risk arises as a result of the concentration of exposures with the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

	Oct. 31, 2015	Oct. 31, 2014	Nov. 1, 2013
Financials	100.0%	100.0%	100.0%

Capital Risk Management

Class A or Preferred shares may be surrendered at any time for retraction on the last day of a month ("Valuation Date"). Class A shares retracted on a monthly Valuation Date will be entitled to receive a retraction price per share equal to 96 percent of the lesser of: (i) the NAV per Unit on the applicable Valuation Date less the cost to the Fund of purchasing a Preferred share in the market for cancellation; and (ii) the market price per Unit less the cost to the Fund of purchasing a Preferred share in the market for cancellation. Preferred shares retracted on a monthly Valuation Date will be entitled to receive a retraction price per share equal to 96 percent of the lesser of: (i) the NAV per Unit on the applicable Valuation Date less the cost to the Fund of purchasing a Class A share in the market for cancellation; and (ii) the lesser of (a) the market price per Unit less the cost to the Fund of purchasing a Class A share in the market for cancellation and (b) $15.00.

In addition, holders of Preferred shares and Class A shares may concurrently retract one Preferred share and one Class A share on an October Valuation Date of each year at a retraction price equal to the NAV per Unit on that date.

Fair Value Measurement

The Fund classifies fair value of measurement within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs, other than quoted prices 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

Level 3: Inputs that are based on unobservable market data.

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognized in the period they occur. The following table illustrates the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at October 31, 2015, October 31, 2014 and November 1, 2013.

As at October 31, 2015	Level 1	Level 2	Level 3	Total
Short-Term Investments	$ –	$ 7,495,857	$ –	$ 7,495,857
Canadian Common Shares	206,540,628	–	–	206,540,628
Exchange-Traded Funds	2,211,000	–	–	2,211,000
Options	(75,960)	(41,087)	–	(117,047)
	$ 208,675,668	$ 7,454,770	$ –	$ 216,130,438

As at October 31, 2014	Level 1	Level 2	Level 3	Total
Short-Term Investments	$ –	$ 999,906	$ –	$ 999,906
Canadian Common Shares	227,496,498	–	–	227,496,498
	$ 227,496,498	$ 999,906	$ –	$ 228,496,404

As at November 1, 2013	Level 1	Level 2	Level 3	Total
Short-Term Investments	$ –	$ 999,580	$ –	$ 999,580
Canadian Common Shares	212,297,483	–	–	212,297,483
Options	–	(849,196)	–	(849,196)
	$ 212,297,483	$ 150,384	$ –	$ 212,447,867

The carrying values of cash, dividends receivable, interest receivable, due to brokers - investments, accrued liabilities, accrued management fees, due from brokers - investments, redemptions payable, Redeemable Preferred shares and the Fund's obligation for net assets attributable to holders of Class A Shares approximate their fair values due to their short-term nature.

(a) Equities

The Fund's equity positions are classified as Level 1 as equity securities are actively traded and a reliable quoted price is observable.

(b) Short-Term Investments

Short-term investments are valued at cost plus accrued interest which approximates fair value. The inputs are generally observable and therefore short-term investments are classified as Level 2.

(c) Derivative Assets and Liabilities

Derivative assets and liabilities consist of listed and/or over-the-counter option contracts.

Listed options are classified as Level 1 as the security is traded in a recognized exchange and a reliable price is readily observable.

Fair value of over-the-counter options is determined using the Black-Scholes Model with observable market data as inputs. Over-the-counter option contracts, for which the credit risks are determined not to be significant to fair value, have been classified as Level 2.

There were no transfers between Level 1 and Level 2 during 2015 and 2014.

8. Financial Instruments by Category

The following tables present the carrying amounts of the Fund's financial instruments by category as at October 31, 2015, October 31, 2014 and November 1, 2013.

Tables are based on restatements of values of financial instruments at fair value through profit and loss and unrealized gain/(loss) on investments as at October 31, 2014 and November 1, 2013 to comply with IFRS. Note 5 discloses the transition adjustments.

As at October 31, 2015	Financial Instruments at FVTPL Designated at Inception	Financial Instruments at FVTPL Held for Trading	Financial Instruments at Amortized Cost	Total
Assets				
Non-derivative financial assets	$208,751,628	$ –	$ –	$208,751,628
Short-term investments	–	–	7,495,857	7,495,857
Dividends receivable	–	–	729,584	729,584
Cash	–	–	6,858,690	6,858,690
	$208,751,628	$ –	$ 15,084,131	$223,835,759
Liabilities				
Redemptions payable	$ –	$ –	$ 6,778	$ 6,778
Derivative liabilities	–	117,047	–	117,047
Accrued liabilities	–	–	95,269	95,269
Accrued management fees	–	–	169,386	169,386
Due to brokers - investments	–	–	2,041,296	2,041,296
Redeemable Preferred shares	–	–	159,734,130	159,734,130
Class B shares	–	–	1,000	1,000
	$ –	$ 117,047	$162,047,859	$162,164,906

As at October 31, 2014	Financial Instruments at FVTPL Designated at Inception	Financial Instruments at FVTPL Held for Trading	Financial Instruments at Amortized Cost	Total
Assets				
Non-derivative financial assets	$227,496,498	$ –	$ –	$227,496,498
Short-term investments	–	–	999,906	999,906
Dividends receivable	–	–	960,768	960,768
Cash	–	–	872,525	872,525
	$227,496,498	$ –	$ 2,833,199	$230,329,697
Liabilities				
Accrued liabilities	$ –	$ –	$ 72,005	$ 72,005
Accrued management fees	–	–	176,019	176,019
Redeemable Preferred shares	–	–	146,239,020	146,239,020
Class B shares	–	–	1,000	1,000
	$ –	$ –	$146,488,044	$146,488,044

	As at November 1, 2013 Financial Instruments at FVTPL Designated at Inception	Held for Trading	Financial Instruments at Amortized Cost	Total
Assets				
Non-derivative financial assets	$212,297,483	$ –	$ –	$212,297,483
Short-term investments	–	–	999,580	999,580
Dividends receivable	–	–	832,956	832,956
Cash	–	–	1,465,368	1,465,368
	$212,297,483	$ –	$ 3,297,904	$215,595,387
Liabilities				
Redemptions payable	$ –	$ –	$ 3,226	$ 3,226
Accrued liabilities	–	–	102,369	102,369
Accrued management fees	–	–	163,679	163,679
Due to brokers - investments	–	–	528,414	528,414
Derivative liabilities	–	849,196	–	849,196
Redeemable Preferred shares	–	–	146,239,020	146,239,020
Class B shares	–	–	1,000	1,000
	$ –	$ 849,196	$147,037,708	$147,886,904

The following table presents the net gain/(loss) on financial instruments at FVTPL by category for the years ended October 31, 2015 and 2014.

	Oct. 31, 2015	Oct. 31, 2014
Net Realized Gain on Financial Instruments at FVTPL		
Designated at Inception	$ 1,410,514	$ 23,170,029
Held for Trading	3,275,267	228,202
	4,685,781	23,398,231
Net Change in Unrealized Gain/Loss on Financial Instruments at FVTPL		
Designated at Inception	(22,826,794)	2,161,112
Held for Trading	45,040	660,427
	(22,781,754)	2,821,539
Net Gain/(Loss) on Financial Instruments at FVTPL	$(18,095,973)	$ 26,219,770

9. Shares

The Fund is authorized to issue an unlimited number of Preferred shares and Class A shares, 1,000 Class B shares, an unlimited number of Class C shares, an unlimited number of Class D shares and an unlimited number of Class E shares, each issuable in series and an unlimited number of Class C Preferred shares, an unlimited number of Class D Preferred shares and an unlimited number of Class E Preferred shares, each issuable in series.

Preferred shares pay fixed cumulative preferential quarterly cash distributions in the amount of $0.215625 per Preferred share representing a yield on the original issue price of the Preferred shares of 5.75 percent per annum. The Fund is currently paying quarterly distributions of $0.20319 per share on the Class A shares. The Fund intends to continue to pay distributions at this rate on the Class A shares until the NAV per Unit (consisting of one Preferred share and one Class A share) reaches $25.00 at which point the Class A distribution will be based on 8.0 percent of the NAV of the Class A share.

In November 2014, the Fund completed a treasury offering of 900,000 Class A shares and 900,000 Preferred shares for aggregate gross proceeds of $22.1 million. The Class A shares were priced at $8.92 per share and the Preferred shares were priced at $15.60 per share. The pricing of the issue was determined so as to be non-dilutive to the most recently calculated net asset value per Unit on the date of the pricing of the issue. Total issue costs of $277,326 were incurred and charged to Class A shareholders' equity.

During the years ended October 31, 2015 and 2014, share transactions are as follows:

	Oct. 31, 2015	Oct. 31, 2014
Redeemable Preferred Shares		
Shares outstanding, beginning of year	9,749,268	9,749,268
Shares issued	900,000	–
Shares redeemed	(326)	–
Shares outstanding, end of year	10,648,942	9,749,268
Class A Shares		
Shares outstanding, beginning of year	9,749,268	9,749,268
Shares issued	900,000	–
Shares redeemed	(326)	–
Shares outstanding, end of year	10,648,942	9,749,268
Class B Shares		
Shares outstanding, beginning and end of year	1,000	1,000

On October 17, 2014, the Fund filed a Notice of Intention to make a normal course issuer bid to purchase up to 974,926 Class A shares and 974,926 Preferred shares representing approximately 10 percent of the public float as of September 30, 2014. The normal course issuer bid remained in effect until October 21, 2015 and at such time nil Units had been purchased by the Fund.

10. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

(a) Management Fees

Strathbridge, as Manager under the terms of the Management Agreement and as Investment Manager under terms of the Investment Management Agreement, receives fees payable at annual rates of 0.10 percent and 0.80 percent respectively of the Fund's net asset value, calculated and payable monthly, plus applicable taxes. 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. Total management fees for the year ended October 31, 2015 were $2,082,805 (2014 - $2,022,547).

(b) Board of Directors' Remuneration

Total remuneration paid to the external members of the Board of Directors for the year ended October 31, 2015 were $21,000 (2014 - $20,400).

(c) Independent Review Committee Fees

Total remuneration paid to the external members of the Independent Review Committee for the year ended October 31, 2015 were $6,918 (2014 - $7,070).

11. Brokerage Commissions and Soft Dollars

The Manager may select brokerages who charge a commission in soft dollars if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. The ascertainable soft dollar value received as a percentage of total transaction fees paid during the years ended October 31, 2015 and 2014 is disclosed below:

	Oct. 31, 2015	Oct. 31, 2014
Soft Dollars	$ 61,533	$ 36,251
Percentage of Total Transaction Fees	49.2%	37.3%

12. Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares per Class A Share

The Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares per Class A Share for the years ended October 31, 2015 and 2014 is calculated as follows:

	Oct. 31, 2015	Oct. 31, 2014
Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares	$(20,981,687)	$ 24,056,985
Weighted Average Number of Class A Shares Outstanding during the Year	10,627,075	9,749,268
Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares per Class A Share	$ (1.9744)	$ 2.4676

13. Income Taxes

No amount is payable on account of income taxes in 2015 or 2014.

Accumulated non-capital losses of approximately $8.3 million (2014 - $8.1 million) and capital losses of $20.4 million (2014 - $20.4 million) 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 (in $millions)**
2028	$2.6
2029	2.2
2032	2.3
2033	0.7
2035	0.5
Total	$8.3

Issue costs of approximately $0.9 million remain undeducted for tax purposes at year-end.

14. Future Accounting Policy Changes

IFRS 9: Financial Instruments ("IFRS 9"), which is intended to replace IAS 39, sets forth new requirements for financial instrument classification and measurement, impairment and hedge accounting. The mandatory effective date of IFRS 9 has been tentatively set for January 1, 2018. Although entities may still choose to apply IFRS 9 immediately, the Fund has chosen not to early adopt IFRS 9. Based on the Manager's current understanding and analysis of IFRS 9, the transition to IFRS 9 will change the manner in which investments are disclosed with no impact to value.

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, Strathbridge Asset Management Inc. (the "Manager" or the "Investment Manager"), administers, either directly or indirectly through third party service organizations, every function 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 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 an Audit Committee. The Audit Committee consists of three members, all of whom are independent of the Manager. 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 independent auditor, and oversight of the Fund's compliance with tax and securities laws and regulations. The Audit Committee has direct communication channels with the independent auditor 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, has established a best practices governance procedure.

The Fund maintains an Investor Relations line (toll free: 1-800-725-7172 or email: info@strathbridge.com) and website (www.strathbridge.com) to respond to inquiries from shareholders.

Board of Directors

John P. Mulvihill
Chairman & CEO
Strathbridge Asset Management Inc.

John D. Germain
Senior Vice-President & Chief Financial Officer
Strathbridge Asset 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*

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Toronto, Ontario
M5J 2Y1

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trading under
PIC.PR.A/PIC.A

Custodian:
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RBC Centre
155 Wellington Street West, 2nd Floor
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M5V 3L3

Visit our website at www.strathbridge.com for additional information on all Strathbridge Investment Funds.

Investment Funds Managed by Strathbridge Asset Management Inc.

UNIT TRUSTS
Canadian Utilities & Telecom Income Fund (UTE.UN)
Core Canadian Dividend Trust (CDD.UN)
Gold Participation and Income Fund (GPF.UN)
Low Volatility U.S. Equity Income Fund (LVU.UN)
NDX Growth & Income Fund (NGI.UN)
Top 10 Canadian Financial Trust (TCT.UN)
U.S. Financials Income Fund (USF.UN)

SPLIT SHARES
Premium Income Corporation (PIC.PR.A/PIC.A)
S Split Corp. (SBN.PR.A/SBN)
Top 10 Split Trust (TXT.PR.A/TXT.UN)
World Financial Split Corp. (WFS.PR.A/WFS)

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