

THE MULVIHILL PREMIUM FUNDS

Annual Report 2000

Premium Income Corporation



Premium Income Corporation

Message to Shareholders

December, 2000

The Corporation is pleased to present its financial statements for the fiscal year ended October 31, 2000.

A strong year of growth in the financial services sector enabled the Corporation to maintain its multi-year record of paying double-digit returns, while also achieving a substantial gain in net asset value.

Distribution targets were exceeded for Class A shareholders.

During the year, Preferred shareholders received approximately \$0.88 per share in distributions, and Class A shareholders received \$1.40, comprised of \$0.80 in regular distributions and \$0.60 in special distributions. In addition, Class A shareholders also benefited from an increase in the underlying net asset value of the Corporation, which rose over the year from \$8.77 on October 31, 1999 to \$12.35 on October 31, 2000.

The Corporation's dividend policy calls for minimum distributions to Class A shareholders of \$0.20 per quarter, or \$0.80 per annum, which is equivalent to a yield of 8 percent. For Preferred shareholders, the target is \$0.8625 per annum, equivalent to a yield of 5.75 percent.

Concerns about possible interest rate increases weakened stocks in the financial services sector temporarily, but these fears are now receding, as signs of a cooling economy begin to emerge. As the pace of growth recedes to more sustainable levels, there is less likelihood of interest rates rising and some opportunity for interest rate declines. At the same time, turbulence in the high-tech sector is shifting investors away from growth-oriented stocks towards those with strong economic fundamentals. Both these trends bode well for the financial services sector, which has achieved excellent earnings in recent quarters.

While credit quality and the occasional volatility of capital markets are always concerns, strong earnings momentum and efficient cost controls should maintain a positive environment for the financial services sector in the coming year.

John P. Mulvihill
President
Mulvihill Capital Management Inc.

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

PREMIUM INCOME CORPORATION [PIC.A/PIC.PR.A]

Annual Report 2000

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Premium Income Corporation

Investment Highlights

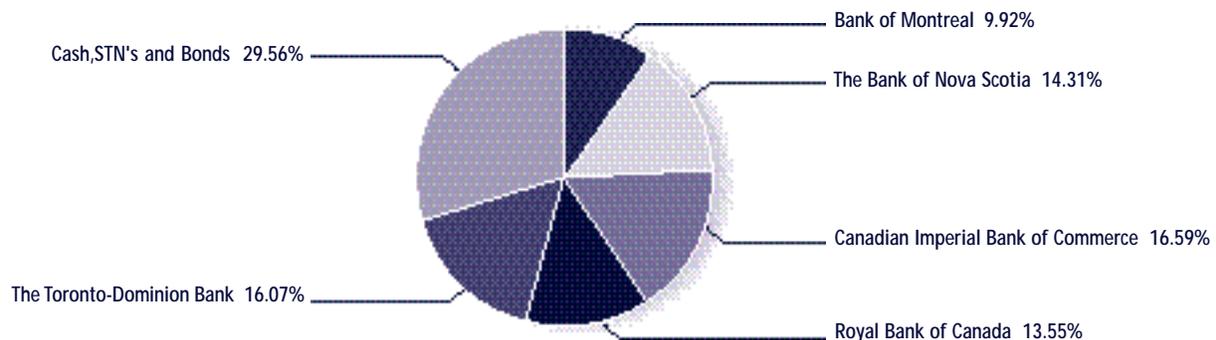
Investment Objectives

The Corporation's investment objectives are to provide Preferred shareholders with quarterly cash dividends to yield 5.75% per annum based on the share's par value and to provide Class A shareholders with all excess realized income of the Corporation at each fiscal year end. The Corporation has set an initial dividend policy on the Class A shares of \$0.20 per quarter or 8% per annum based on the shares' issue price. The Corporation intends to return, at a minimum, the original issue prices of the shares to shareholders upon windup on November 1, 2003.

Investment Strategy

The Corporation intends to achieve its investment objectives by investing its net assets in a portfolio consisting primarily of 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. To generate additional returns above the dividend income generated by the portfolio, the Corporation will write covered call options in respect of all or part of the securities in the Portfolio. In addition, the Corporation may write cash covered put options in respect of securities in which the Corporation is permitted to invest. From time to time, the Corporation may hold a portion of its assets in cash equivalents, which may be utilized to provide cover in respect of the writing of cash covered put positions.

Asset Mix



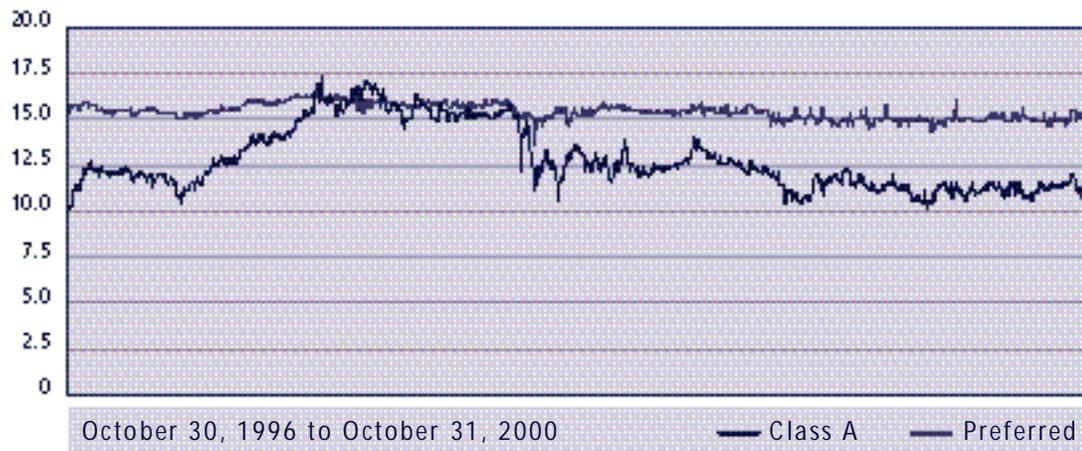
Distribution History

Inception Date: October 1996	Class A Regular Distribution	Class A Special Distribution	Class A Total	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
January 2000	0.20	0.10	0.30	0.220823
April 2000	0.20	0.10	0.30	0.225660
July 2000	0.20	0.10	0.30	0.217859
October 2000	0.20	0.30	0.50	0.215691
Total for 2000	0.80	0.60	\$ 1.40	\$ 0.880033
Total Distribution to Date	\$ 3.20	\$ 3.40	\$ 6.60	\$ 3.530743

Eligible Holdings:

Bank of Montreal
The Bank of Nova Scotia
Canadian Imperial Bank of Commerce
Royal Bank of Canada
The Toronto-Dominion Bank

Trading History



Commentary

Bolstered by strong earnings growth in the second half, stocks in the financial services sector as a group outperformed the broader market indices for the year. All bank shares posted gains, but some made more substantial advances than others, with Canadian Imperial Bank of Commerce and Royal Bank of Canada leading the way. Greater stability in the interest rate environment during the latter half of the year was an important factor in the group's successful performance. Despite strong fundamentals, investors' enthusiasm for the sector is still somewhat dampened by concerns about credit quality, and periodic volatility in capital markets.

As a hedge against these uncertainties, the Corporation is adopting a conservative stance by maintaining a prudent level of cash reserves. We will also be closely monitoring the progress of new federal legislation in the form of Bill C-38, which will open the door to possible mergers between banks. Merger activity could have significant impacts on the valuation of some bank stocks.

As the economy slows down somewhat, stocks of financial service companies with good asset quality and high levels of general reserves will be most attractive to investors. The Corporation is well positioned to take advantage of positive developments in the sector as they emerge during 2001.

Premium Income Corporation

Auditors' Report

To the Shareholders of Premium Income Corporation

We have audited the statements of financial position of Premium Income Corporation as at October 31, 2000 and 1999, the statement of investments as at October 31, 2000 and the statements of operations and retained earnings, changes in net assets and changes in investments for the years ended October 31, 2000 and 1999. These financial statements are the responsibility of the Company'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 Company as at October 31, 2000 and 1999, its investments at October 31, 2000, and the results of its operations and the changes in its net assets and investments for the years ended October 31, 2000 and 1999 in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants

Toronto, Ontario
November 30, 2000

Premium Income Corporation

Financial Statements

Statements of Financial Position

October 31, 2000 and 1999

	2000	1999
Assets		
Investments at market value (average cost - \$88,718,582; 1999 - \$96,582,578)	\$ 98,232,345	\$ 92,933,821
Cash and cash equivalents	9,922,976	526,334
Interest, dividends and other receivables	1,352,447	1,737,685
	\$109,507,768	\$ 95,197,840
Liabilities		
Accounts payable and accrued liabilities	\$ 108,224	\$ 102,217
Redeemable preferred shares (Note 3)	59,689,500	60,000,000
Net redemptions payable	566,143	-
	60,363,867	60,102,217
Equity		
Class A and Class B shares (Note 3)	35,415,357	35,671,000
Retained earnings	4,214,781	3,073,380
Unrealized appreciation (depreciation) in the market value of investments	9,513,763	(3,648,757)
	49,143,901	35,095,623
Total liabilities and equity	\$109,507,768	\$ 95,197,840
Net asset value per Class A share (Note 4)	\$ 12.35	\$ 8.77

On behalf of the Board,


 Director: John P. Mulvihill


 Director: Robert W. Korthals

Premium Income Corporation

Financial Statements

Statements of Operations and Retained Earnings

Years ended October 31, 2000 and 1999

	2000	1999
Revenue		
Interest	\$ 1,860,971	\$ 1,592,017
Dividends	2,013,499	1,914,065
	3,874,470	3,506,082
Net realized gains on investments and options	7,561,944	7,113,560
	11,436,414	10,619,642
Expenses (Note 5)		
Management fees	902,626	894,370
Administrative and other expenses	195,394	208,549
Government taxes	76,861	110,085
	1,174,881	1,213,004
Net Income before Distributions	10,261,533	9,406,638
Preferred Share Distributions (Note 7)	3,520,132	3,554,440
Net Income	\$ 6,741,401	\$ 5,852,198
Net Income Per Class A Share (Note 4)	\$ 1.69	\$ 1.46
Retained Earnings		
Balance, beginning of year	\$ 3,073,380	\$ 2,021,182
Net income	6,741,401	5,852,198
Distributions on Class A shares (Note 7)	(5,600,000)	(4,800,000)
Balance, end of year	\$ 4,214,781	\$ 3,073,380

Premium Income Corporation

Financial Statements

Statements of Changes in Net Assets

Years ended October 31, 2000 and 1999

	2000	1999
Share Capital Transactions		
Shares redeemed, net	\$ (255,643)	-
Net Income before Distributions	10,261,533	9,406,638
Distributions (Note 7)		
Preferred shares	(3,520,132)	(3,554,440)
Class A shares	(5,600,000)	(4,800,000)
	(9,120,132)	(8,354,440)
Change in Net Unrealized Appreciation (Depreciation) in Market Value of Investments During the Year	13,162,520	(2,214,468)
Changes in Equity During the Year	14,048,278	(1,162,270)
Equity, Beginning of Year	35,095,623	36,257,893
Equity, End of Year	\$ 49,143,901	\$ 35,095,623
Distribution Per Preferred Share (Note 7)	\$ 0.880033	\$ 0.888610
Distribution Per Class A Share (Note 7)	\$ 1.400000	\$ 1.200000

Statements of Changes in Investments

Years ended October 31, 2000 and 1999

	2000	1999
Investments at Market Value, Beginning of Year	\$ 92,933,821	\$ 95,070,548
Unrealized Depreciation in the Market Value of Investments, Beginning of Year	(3,648,757)	(1,434,289)
Investments at Cost, Beginning of Year	96,582,578	96,504,837
Cost of Investments Purchased During the Year	98,003,462	61,963,423
Cost of Investments Sold During the Year		
Proceeds from sales	113,429,402	68,999,242
Net realized gains on sales	7,561,944	7,113,560
	105,867,458	61,885,682
Investments at Cost, End of Year	88,718,582	96,582,578
Unrealized Appreciation (Depreciation) of Investments, End of Year	9,513,763	(3,648,757)
Investments at Market Value, End of Year	\$ 98,232,345	\$ 92,933,821

Premium Income Corporation

Financial Statements

Statement of Investments

October 31, 2000

	Par Value/ No. of Shares	Average Cost (\$)	Market Value (\$)	% of Portfolio
Investments				
Common Stocks				
Bank of Montreal	155,000	\$11,044,447	\$10,927,500	11.13%
The Bank of Nova Scotia	362,500	13,139,887	15,768,750	16.06%
Canadian Imperial Bank of Commerce	377,500	15,318,726	18,271,000	18.60%
Royal Bank of Canada	309,000	12,213,914	14,924,700	15.19%
The Toronto-Dominion Bank	422,000	15,421,804	17,702,900	18.02%
Total Common Stocks		67,138,778	77,594,850	79.00%
Bonds				
Canada Mortgage and Housing Corp. 7.75% December 01, 2000	22,441,000	22,472,304	22,510,352	22.91%
Total Bonds		22,472,304	22,510,352	22.91%
Written Call Options				
Number of contracts (100 shares per contract)				
The Bank of Nova Scotia - January 2001 @ \$40	1,500	(238,875)	(652,500)	
Canadian Imperial Bank of Commerce - December 2000 @ 45	500	(99,000)	(213,750)	
Canadian Imperial Bank of Commerce - January 2001 @ \$45	750	(202,875)	(348,750)	
Royal Bank of Canada - January 2001 @ \$45	750	(135,750)	(379,402)	
The Toronto-Dominion Bank - December 2000 @ \$43	500	(67,500)	(87,500)	
The Toronto-Dominion Bank - January 2001 @ \$43	750	(148,500)	(190,955)	
Total Written Call Options		(892,500)	(1,872,857)	(1.91)%
Total Investments		\$88,718,582	\$98,232,345	100.00%

Premium Income Corporation

Notes to the Financial Statements

1. Corporate Information

The Company is a mutual fund corporation incorporated under the laws of the Province of Ontario on August 27, 1996. All shares outstanding on November 1, 2003 will be redeemed by the Company on that date.

The Company 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.

To generate additional returns above the dividend income earned on the portfolio, the Company 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 Company may 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. The following is a summary of the significant accounting principles:

Investment valuation policies

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

Shares or other securities for which market quotations are readily available are valued at the closing sale price or, if there is no sale price, the average of the closing bid and ask prices.

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

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

Policies for the recognition of investment appreciation, depreciation and income

Realized gains and losses on investment sales, which are included in income, and unrealized appreciation or depreciation in investment values, which are included in a separate component of shareholders' equity, are calculated on the average cost basis.

Option fees paid or received are deferred and included in investments on the statement of financial position. Income is recognized when options are exercised, expire or are closed out.

Deferred gains and losses on options are recognized in investments and as a component of net unrealized appreciation (depreciation) in the value of investments in shareholders' equity.

Dividend income is recognized on the ex-dividend date. Interest income is recognized when earned.

3. Share Capital

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

Issued and outstanding:	2000	1999
3,979,300 (1999 - 4,000,000) Preferred Shares	\$ 59,689,500	\$ 60,000,000
3,979,300 (1999 - 4,000,000) Class A Shares	\$ 35,414,357	\$ 35,670,000
1,000 Class B Shares	1,000	1,000
	\$ 35,415,357	\$ 35,671,000

All Preferred Shares and Class A Shares outstanding on November 1, 2003 will be redeemed by the Company on that date.

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

Premium Income Corporation

Notes to the Financial Statements

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. Under the terms of a Recirculation Agreement, the Company 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 Company.

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.

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

A net of 20,700 (1999-nil) units of Preferred and Class A shares were redeemed during the year.

4. Net Asset/Net Income per Class A Share
The net income per Class A Share is based on the weighted average number of shares outstanding during the period.

The net asset values per Class A Share as at the end of the fiscal periods since inception were as follows:

	2000	1999	1998	1997
Net asset value per Class A Share	\$12.35	\$ 8.77	\$ 9.06	\$11.84

5. Expenses

The Company 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 Company'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. The fees are comprised of monthly fees calculated at $\frac{1}{12}$ of 0.80% and $\frac{1}{12}$ of 0.10%, respectively, of the net asset value (including the redeemable preferred shares).

The expense ratios for the Company since inception are as follows:

	Total Expenses	Expenses as a percent of average net assets
2000	\$ 1,174,881	1.17%
1999	\$ 1,213,004	1.22%
1998	\$ 1,259,631	1.17%
1997	\$ 1,089,334	1.04%

Average net assets are calculated to be the average of the net assets of the Company at each month end, including the redeemable preferred shares.

6. Income Taxes

The Company 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 Company is generally subject to a tax of $33\frac{1}{3}\%$ under Part IV of the Act on taxable dividends received in the year. This tax is fully refundable upon payment of sufficient dividends. The Company is also subject to tax on the amount of its interest income that is not offset by operating expenses and share issue expenses.

The Company 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.

Premium Income Corporation

Notes to the Financial Statements

Under the dividend policy of the Company, 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 premium income retained by the Company is subject to a refundable tax at 44.6%. This tax, amounting to \$81,000 in 2000, will be refundable to the Company in a subsequent year when premium income is distributed to the shareholders.

7. Distributions

Distributions per share paid to shareholders during the year were allocated as follows:

	2000		1999	
	Preferred Shares	Class A Shares	Preferred Shares	Class A Shares
Capital gains dividends	\$0.367348	\$1.400000	\$0.410074	\$1.200000
Taxable dividends	0.512685	-	0.478536	-
	\$0.880033	\$1.400000	\$0.888610	\$1.200000

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.

The difference between net income per Class A Share and the amount distributed per Class A Share represents primarily share issue expenses which are being deducted for tax purposes over five years.

8. Commissions Paid

Total commissions paid in 2000 in connection with portfolio transactions were \$169,420 (1999 - \$78,048).

9. Financial Instruments and Risk Management

The value of the Company's assets and liabilities is affected by changes in interest rates and equity markets. The Company manages these risks through the use of various risk limits and trading strategies. The Company's assets and liabilities are included in the statements of financial position at market value.

10. Statement of Portfolio Transactions

The Company will provide, without charge, a Statement of Portfolio Transactions (unaudited) upon written request by any shareholder to the Company at:

121 King Street West, Suite 2600,
Toronto, Ontario,
M5H 3T9.

Mulvihill Capital Management Inc.

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

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

Mulvihill's personal asset management division, Mulvihill Wealth Management, offers a comprehensive specialized approach tailored to clients' personal strategies. This not only relieves the client's burden of day-to-day investment decisions but also provides financial peace of mind for today and tomorrow. The company's personalized service and customized reporting assure that its powerful team of professionals is always working toward your current objectives and that you are fully aware of the progress you are making.

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

Other Premium Income products within the Mulvihill Group include First Premium Income Trust, First Premium U.S. Income Trust, First Premium Oil & Gas Income Trust, 60 Plus Income Trust, Global Plus Income Trust, MCM Split Share Corp., Global Telecom Split Share Corp., Digital World Trust, and Pro-AMS U.S. Trust.

These funds are Mutual Fund Corporations or Trusts and traded on the Toronto Stock Exchange over the past year as follows:

	Symbol	High	Low
First Premium Income Trust	FPI.UN	\$ 28.95	\$ 25.00
First Premium U.S. Income Trust	FPU.UN	\$ 27.75	\$ 24.20
First Premium Oil & Gas Income Trust	FPG.UN	\$ 10.30	\$ 7.25
60 Plus Income Trust	SIX.UN	\$ 29.50	\$ 25.25
Global Plus Income Trust	GIP.UN	\$ 27.00	\$ 23.00
Premium Income Corporation	PIC.A/PIC.PR.A	\$ 15.90/12.20	\$ 14.15/10.00
MCM Split Share Corp.	MUH.A/MUH.PR.A	\$ 18.45/15.00	\$ 12.95/13.25
Global Telecom Split Share Corp.	GT.A/GT.PR.A	\$ 22.90/16.00	\$ 15.20/13.25
Digital World Trust	DWT.UN	\$ 17.25	\$ 13.25
Pro-AMS U.S. Trust	PAM.UN	\$ 26.50	\$ 24.95

Board of Directors

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

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

**Audit Committee*

Michael M. Koerner*
Corporate Director

Robert W. Korthals*
Corporate Director

C. Edward Medland*
President, Beauwood Investments Inc.

Information

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

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

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

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

Other Premium Funds Managed by Mulvihill Capital Management Inc.

First Premium Funds
First Premium Income Trust
First Premium U.S. Income Trust
First Premium Oil & Gas Income Trust
60 Plus Income Trust
Global Plus Income Trust
Global Telecom Split Share Corp.
MCM Split Share Corp.

Mulvihill Summit Series
Digital World Trust

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

Mulvihill Platinum Series
Pro-AMS U.S. Trust

Head Office

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Fax: (416) 681-3901
email: premium@mulvihill.com

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



Premium Income Corporation
Investment Management by:

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