

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

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the secretary of Strathbridge Asset Management Inc., the manager of the issuer, at 121 King Street West, Suite 2600, Standard Life Centre, P.O. Box 113, Toronto, Ontario, M5H 3T9 or info@strathbridge.com or by calling 416.681.3966, toll-free at 1.800.725.7172 and are also available electronically at www.sedar.com.

SHORT FORM PROSPECTUS

Rights Offering

November 1, 2012

PREMIUM INCOME CORPORATION

**Rights to Subscribe for up to 9,517,553 Units
(each Unit consisting of one Class A Share and one Preferred Share)
at a Subscription Price of \$20.88**

If a Shareholder does not exercise or elects to sell their Rights, then the value of the shares held by that Shareholder may be diluted as a result of the exercise of Rights by others. If a Shareholder does not exercise their Rights and other holders of Rights exercise any of their Rights, that Shareholder's current percentage in the Fund will be diluted by the issue of shares under the Offering. There is currently no market through which the Rights may be sold and purchasers may not be able to resell Rights issued under this short form prospectus. This may affect the pricing of the Rights in the secondary market, the transparency and availability of trading prices, the liquidity of the Rights and the extent of issuer regulation. See "Risk Factors".

Premium Income Corporation (the "Fund") will issue to the holders of record of outstanding Class A Shares and Preferred Shares of the Fund at the close of business on November 13, 2012, 19,035,106 rights ("Rights") to subscribe for and purchase an aggregate of approximately 9,517,553 units ("Unit"). Each Unit consists of one transferable, redeemable Class A Share and one transferable, redeemable Preferred Share of the Fund (the "Offering"). This short form prospectus qualifies the distribution of the Rights and the Class A Shares and the Preferred Shares issuable upon the exercise thereof. See "Details of the Offering".

- Record Date:** November 13, 2012 (the "Record Date"), subject to obtaining all necessary regulatory and exchange approvals.
- Exercise Period and Expiry Date:** Rights may be exercised until December 11, 2012. Rights not exercised by 5:00 p.m. (Toronto time) on December 11, 2012 (the "Expiry Date") will be void and of no value.
- Subscription Price:** The subscription price (the "Subscription Price") for the Rights will be \$20.88, being the most recently calculated net asset value ("NAV") per Unit prior to the date of filing the final short form prospectus, plus the estimated per Unit fees and expenses of the Offering and the Exercise Fee.
- Basic Subscription Privilege:** Each holder (a "Shareholder") of a Class A Share or of a Preferred Share at the close of business (Toronto time) on the Record Date will receive one transferable Right for each Class A Share held and for each Preferred Share held. Two Rights will entitle the holder thereof to acquire one Unit upon payment of the Subscription Price prior to 5:00 p.m. (Toronto time) on the Expiry Date. See "Details of the Offering — Basic Subscription Privilege".
- Additional Subscription Privilege:** Holders of Rights who exercise their Rights under the Basic Subscription Privilege are entitled to purchase, on a *pro rata* basis, Units not issued pursuant to the exercise of the Basic Subscription Privilege by other holders of Rights, if any. See "Details of the Offering — Additional Subscription Privilege".
- No Minimum Issue Size:** The completion of the Offering is not conditional upon the receipt by the Fund of any minimum amount of subscription proceeds.

The Class A Shares and the Preferred Shares are listed on the Toronto Stock Exchange (the “TSX”) under the symbols PIC.A and PIC.PR.A, respectively. On October, 31 2012, the closing price on the TSX of the Class A Shares was \$5.85 per Class A Share and of the Preferred Shares was \$15.49 per Preferred Share. The TSX has conditionally approved the listing of the Rights distributed under this short form prospectus and the Class A Shares and the Preferred Shares issuable upon the exercise thereof on the TSX. Listing will be subject to the Fund fulfilling all of the listing requirements of the TSX. **There is currently no market through which the Rights may be sold and purchasers may not be able to resell the Rights issued under this short form prospectus. This may affect the pricing of the Rights in the secondary market, the transparency and availability of trading prices, the liquidity of the Rights and the extent of issuer regulation. See “Risk Factors”.**

	Subscription Price ⁽¹⁾⁽²⁾	Fee to Dealer on Exercise ⁽²⁾⁽³⁾	Net Proceeds to the Fund ⁽²⁾⁽⁴⁾
Per Unit.....	\$20.88	\$0.32	\$20.56
Total.....	\$198,726,507	\$3,045,617	\$195,680,890

- (1) The Subscription Price for the Rights will be \$20.88, being the most recently calculated NAV per Unit prior to the date of filing the final short form prospectus, plus the estimated per Unit fees and expenses of the Offering and the Exercise Fee.
- (2) Assumes that all Rights are exercised.
- (3) The Fund will pay a fee, referred to herein as the Exercise Fee, of \$0.32 for every two Rights exercised to the dealer whose client exercised the Rights, pursuant to the Basic Subscription Privilege. See “Fees and Expenses”.
- (4) Before deducting the estimated fees and expenses of the Offering of \$195,000, which will be paid by the Fund.

The Fund is a mutual fund corporation incorporated under the laws of the Province of Ontario on August 27, 1996. The principal office of the Fund is located at 121 King Street West, Suite 2600, Standard Life Centre, P.O. Box 113, Toronto, Ontario, M5H 3T9. The Fund invests in a portfolio (the “Portfolio”) consisting principally of common shares of Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank (collectively, the “Banks”).

The Fund’s investment objectives are: (a) to provide holders of Preferred Shares with cumulative preferential quarterly cash distributions in the amount of \$0.215625 per Preferred Share (resulting in a yield on the initial public offering price of 5.75% per annum); (b) to continue paying holders of Class A Shares quarterly cash distributions at a rate of \$0.81276 per annum until the NAV per Unit reaches \$25.00 at which time, quarterly distributions paid by the Fund will vary and will be calculated as approximately 8.0% per annum of the NAV per Class A Share; and (c) to return the issue price on the initial public offering of the shares to holders of both Preferred Shares and Class A Shares at the time of redemption of such shares.

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

Rights certificates will not be issued to Shareholders in connection with the Offering. The Fund utilizes the book-entry only system with respect to the Class A Shares and the Preferred Shares which is administered by CDS Clearing and Depository Services Inc. (“CDS”). The Fund may also use the book-entry only system with respect to the Rights, the non-certificated issue system or another system acceptable to the Fund. A holder of Rights may subscribe for Units by instructing the participant in CDS (a “CDS Participant”) holding the subscriber’s Rights to exercise all or a specified number of such Rights and concurrently forwarding the Subscription Price for each Unit subscribed for to such CDS Participant. See “Details of the Offering — Basic Subscription Privilege”.

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

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

Computershare Trust Company of Canada (the “Subscription Agent”) has been appointed the subscription agent of the Fund to receive subscriptions and payments from holders of Rights, to act as registrar and transfer agent for the Rights and to perform certain services relating to the exercise and transfer of Rights. Holders of Rights desiring to exercise Rights and purchase Units should ensure that subscriptions and payment in full of the Subscription Price are received by the Subscription Agent prior to 5:00 p.m. (Toronto time) on the Expiry Date. See “Details of the Offering — Exercise of Rights and Subscription Agent”.

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

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GLOSSARY

1933 Act	the U.S. <i>Securities Act of 1933</i> , as may be amended from time to time.
Additional Subscription Privilege	means the right given to holders of Rights who exercise their Rights under the Basic Subscription Privilege to purchase, on a <i>pro rata</i> basis, Class A Shares or Preferred Shares not issued pursuant to the Basic Subscription Privilege by other holders of Rights, if any.
Additional Units	means the additional Units a holder of Rights is entitled to subscribe for pursuant to the Additional Subscription Privilege.
AIF	means the annual information form of the Fund dated January 31, 2012.
Basic Subscription Privilege	means the right given to holders of Rights to subscribe for Units in accordance with the terms of the Offering.
Banks	means the Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank.
business day	any day on which the Toronto Stock Exchange is open for business.
CDS	means CDS Clearing and Depository Services Inc.
CDS Participant	means a participant in CDS.
Class A Market Price	means the weighted average trading price of the Class A Shares on the principal stock exchange on which the Class A Shares are listed (or, if the Class A Shares are not listed on any stock exchange, on the principal market on which the Class A Shares are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date.
Class A Share	a transferable, redeemable class A share of the Fund.
Class B Share	a transferable class B share of the Fund.
CRA	means the Canada Revenue Agency.
Diluted NAV per Unit	means, if warrants of the Fund are outstanding on a particular date and the NAV per Unit on such date is greater than the Dilution Threshold, the fraction equal to (A) the NAV on such date plus the product of (1) the number of Units issuable upon the exercise of the warrants then outstanding and (2) the Dilution Threshold over (B) the number of Units outstanding on such date plus the number of Units issuable upon the exercise of such warrants as of the applicable October Valuation Date.
Dilution Threshold	means the threshold calculated on the basis that, if warrants of the Fund are outstanding, the Subscription Price payable on the exercise of warrants less the Exercise Fee, if any, for such warrants.
Dividend Payment Date	means the last day of January, April, July and October in each year on which the Fund will pay a cumulative preferential quarterly distribution per Preferred Share to holders of Preferred Shares.
Escrow Agreement	means the escrow agreement dated October 17, 1996 between Strathbridge, RBC Investor Services Trust and the Fund.
Exercise Fee	means the fee payable by the Fund for every two Rights exercised to the dealer whose client exercised such Rights.
Expiry Date	means December 11, 2012, the last date on which a Shareholder may exercise a Right. Rights not exercised by 5:00 p.m. (Toronto time) on December 11, 2012 will be void and of no value.
Fund	means Premium Income Corporation.

Investment Manager	means Strathbridge as investment manager of the Fund.
Manager	means Strathbridge as manager of the Fund.
NAV or NAV of the Fund	the net asset value of the Fund which, on any date, will be equal to (a) the aggregate value of the assets of the Fund, less (b) the aggregate value of the liabilities of the Fund, including any distributions declared and not paid that are payable to shareholders on or before such date, less (c) the stated capital of the Class B Shares of the Fund, being \$1,000.
NAV per Unit	in general, the net asset value of the Fund divided by the number of Units then outstanding. See “Details of the Offering — Dilution”.
NI 81-102	means National Instrument 81-102 – <i>Mutual Funds</i> .
October Valuation Date	means the last day of October in any year on which holders of Preferred Shares or Class A Shares may concurrently retract an equal number of Preferred Shares and Class A Shares at a retraction price equal to the NAV per Unit on that date.
Offering	the offering of up to 19,035,106 Rights and the up to 9,517,553 Units issuable upon the exercise thereof, as contemplated in this short form prospectus.
Portfolio	means the portfolio of securities in which the Fund invests.
Preferred Market Price	means the weighted average trading price of the Preferred Shares on the principal stock exchange on which the Preferred Shares are listed (or, if the Preferred Shares are not listed on any stock exchange, on the principal market on which the Preferred Shares are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date.
Preferred Share	a transferable, redeemable Preferred Share of the Fund.
Record Date	means November 13, 2012.
Retraction Payment Date	means the tenth business day following a Valuation Date.
Right	a transferable Right of the Fund to be issued to Shareholders of record on the Record Date.
Shareholder	means a holder of Class A Shares or Preferred Shares of the Fund.
Subscription Agent	means Computershare Trust Company of Canada as subscription agent of the Fund.
Subscription Price	means \$20.88, being the most recently calculated NAV per Unit prior to the date of filing the final short form prospectus, plus the estimated per Unit fees and expenses of the Offering and the Exercise Fee.
Strathbridge	means Strathbridge Asset Management Inc.
Tax Act	means the current provisions of the <i>Income Tax Act</i> (Canada), including current published administrative policies and assessing practices of the CRA made publicly available prior to the date hereof, and the regulations thereunder.
Termination Date	means the date on which the Board of Directors of the Fund determine to redeem the Class A Shares and Preferred Shares.
Unit	a notional unit consisting of one Class A Share and one Preferred Share. The number of Units outstanding at any time is equal to the sum of the number of Class A Shares and Preferred Shares then outstanding divided by two.
United States	the United States of America, its territories and possessions.
Unit Market Price	means the sum of the Class A Market Price and the Preferred Market Price.
U.S. person	has the meaning given to such term in Regulation S under the 1933 Act.

Valuation Date

means the last day of a month in any year, on which Class A Shares or Preferred Shares surrendered for retraction will be retracted.

\$

means Canadian dollars unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

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

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the AIF of the Fund dated January 31, 2012;
- (b) the annual financial statements of the Fund, together with the accompanying report of the auditors, for the year ended October 31, 2011;
- (c) the management report of fund performance related to the annual financial statements of the Fund for the year ended October 31, 2011;
- (d) the interim financial statements of the Fund for the six months ended April 30, 2012; and
- (e) the management report of fund performance related to the interim financial statements of the Fund for the six months ended April 30, 2012.

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

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

THE FUND

Premium Income Corporation is a mutual fund corporation incorporated under the laws of the Province of Ontario on August 27, 1996. The principal office of the Fund is located at 121 King Street West, Suite 2600, Standard Life Centre, P.O. Box 113, Toronto, Ontario, M5H 3T9.

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

Summary Description of the Fund

Investment Objectives

The investment objectives for the Class A Shares are:

- (a) to continue paying holders of Class A Shares quarterly cash distributions at a rate of \$0.81276 per annum until the NAV per Unit reaches \$25.00 at which time, quarterly distributions paid by the Fund will vary and will be calculated as approximately 8.0% per annum of the NAV per Class A Share; and
- (b) to return the issue price on the initial public offering of the Class A Shares to holders of Class A Shares at the time of redemption of such shares.

The investment objectives for the Preferred Shares are:

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

Investment Strategies

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

Current Portfolio

The following table presents unaudited information relating to the allocation of the Fund's Portfolio as of October 31, 2012:

Bank of Montreal	19.6%
Bank of Nova Scotia	17.2%
Canadian Imperial Bank of Commerce	21.3%
Royal Bank of Canada	22.3%
The Toronto-Dominion Bank	18.1%
Portfolio in Cash & Short Term Investments	1.4%

Recent Developments

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

On January 22, 2012, the Fund announced a normal course issuer bid. Under the bid, the Fund has the right to purchase up to a maximum of 951,755 Class A Shares and 951,755 Preferred Shares (respectively representing approximately 10% of the Fund's public float of 9,517,533 Class A Shares and 9,517,533 Preferred Shares, both as of January 10, 2012), together in Units. The Fund may not purchase more than 190,351 of its Units (representing approximately 2% of the Fund's 9,517,533 issued and outstanding Class A Shares and approximately 2% of the Fund's 9,517,533 issued and outstanding Preferred Shares, both as of January 10, 2012) in any 30-day period under the bid. Purchases made pursuant to the bid will be made in the open market through the facilities of the TSX. The normal course issuer bid will remain in effect until the earliest of January 22, 2013, the termination of the bid by the Fund, or the Fund purchasing the maximum number of Units permitted under the bid. Units purchased by the Fund pursuant to the normal course issuer bid will be cancelled. The directors of the Fund believe that the Units of the Fund may become available during the proposed purchase period at prices that would make such purchases in the best interests of the Fund. As of the date hereof, the Fund has not purchased any Class A Share or Preferred Share under this bid.

Prior Warrant Offerings

On April 26, 2011, the Fund issued 9,523,493 warrants ("Warrants") to subscribe for up to 4,761,746 units (each unit consisting of one Class A Share and one Preferred Share of the Fund) of the Fund under a short form prospectus dated April 26, 2011. During the exercise period from May 6, 2011 to December 15, 2011, no Warrants were exercised. All unexercised Warrants expired on December 15, 2011 in accordance with their terms.

RATIONALE FOR THE OFFERING

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

The Manager believes that current markets offer an excellent opportunity for Shareholders to increase their exposure to the Fund and its portfolio of five Canadian banks for the following reasons:

- **Strong Balance Sheets and Capital Adequacy**

For the 4th consecutive year, Canadian banks were ranked #1 by the Geneva based World Economic Forum in the "Soundness of Banks" category.

- **Dividend Growth and Share Repurchase**

All 5 banks raised their dividend in the third quarter by 3-7% and The Toronto-Dominion Bank increased its payout ratio to 40-50% from 35-45%. Canadian Imperial Bank of Commerce and Royal Bank of Canada also announced normal course issuer bids to repurchase shares.

- **Attractive Dividend Yields Relative to the Market and Bonds**

Currently, the average indicated yield on the 5 banks is 4.3% per annum versus the S&P/TSX dividend yield of 2.9% per annum and the 10-year Government of Canada bond yield of 1.8%.

- **Valuations Reasonable**

On a trailing price to earnings (“P/E”) ratio basis, the 5 banks trade on average at 11.0x their earnings per share (“EPS”) compared to 15.5x for the S&P/TSX Composite Index. This is below the historical trailing P/E average of 11.2x for the 5 banks.

- **Inexpensive Relative to other Domestic Yield Sectors**

The Canadian banks currently trade at a forward P/E ratio which is at a 34% discount to the forward P/E ratio for Canadian REITs, a 39% discount to the forward P/E ratio for Canadian utilities and a 22% discount to the forward P/E ratio for Canadian telecommunications companies.

Consequently, the Fund believes this is an opportune time to issue Rights to all Shareholders of the Fund to allow Shareholders to acquire additional Shares of the Fund.

DETAILS OF THE OFFERING

Rights

Subject to the Fund obtaining all necessary regulatory and exchange approvals, Shareholders at the close of business (Toronto time) on the Record Date, being November 13, 2012, will be issued 19,035,106 Rights to subscribe for and purchase an aggregate of approximately 9,517,553 Units. Each Shareholder will receive one transferable Right for each Class A Share held or for each Preferred Share held. Two Rights will entitle the holder to acquire one Unit upon payment of the Subscription Price prior to 5:00 p.m. (Toronto time) on the Expiry Date. The Subscription Price will be \$20.88, being the most recently calculated NAV per Unit prior to the date of filing the final short form prospectus, plus the estimated per Unit fees and expenses of the Offering and the Exercise Fee. Each Unit consists of one transferable, redeemable Class A Share and one transferable, redeemable Preferred Share. The Fund will also issue Rights on the same basis to the holder of the Class B Shares.

Exercise of Rights and Subscription Agent

Rights may be exercised on or prior to 5:00 p.m (Toronto time) on the Expiry Date. **RIGHTS NOT EXERCISED PRIOR TO 5:00 P.M. (TORONTO TIME) ON THE EXPIRY DATE WILL BE VOID AND OF NO VALUE.** If a Shareholder does not exercise, or sells, the Rights, then the value of the Shareholder’s investment may be diluted as a result of the exercise of Rights by others.

The Subscription Agent has been appointed by the Fund to receive subscriptions and payments from holders of Rights, to act as registrar and transfer agent for the Rights and to perform certain services relating to the exercise and transfer of Rights. The Fund will pay for the services of the Subscription Agent. Holders of Rights desiring to exercise Rights and purchase Units should ensure that subscriptions and payments in full of the Subscription Price are received by the Subscription Agent prior to 5:00 p.m. (Toronto time) on the Expiry Date.

The Class A Shares and the Preferred Shares purchased pursuant to the Rights so exercised shall be deemed to have been issued and the person or persons in whose name or names such shares are to be registered shall be deemed to have become the holder or holders of record of such shares on the date on which such shares are entered into the register maintained by the Fund’s transfer agent for such shares. Units will only be issued pursuant to the Additional Subscription Privilege after all necessary calculations have been made following the Expiry Date as described under “Details of the Offering — Additional Subscription Privilege”.

Basic Subscription Privilege

A holder of Rights may subscribe for the resulting whole number of Units or any lesser whole number of Units by instructing the CDS Participant holding the subscriber’s Rights to exercise all or a specified number of such Rights and forwarding the Subscription Price for each Unit subscribed for in accordance with the terms of the Offering to the CDS Participant that holds the subscriber’s Rights.

The Subscription Price is payable in Canadian funds by certified cheque, bank draft or money order drawn to the order of a CDS Participant, by direct debit from the subscriber's brokerage account or by electronic funds transfer or other similar payment mechanism. All payments must be forwarded to the appropriate office of the CDS Participant. The entire Subscription Price for Units subscribed for must be paid at the time of subscription and must be received by the Subscription Agent prior to 5:00 p.m. (Toronto time) on the Expiry Date. **If mail is used for delivery of subscription funds, for the protection of the subscriber, "certified mail – return receipt requested" should be used and sufficient time should be allowed to avoid the risk of late delivery. A subscriber subscribing through a CDS Participant must deliver its payment and instructions sufficiently in advance of the Expiry Date to allow the CDS Participant to properly exercise the Rights on such subscriber's behalf. Holders of Rights are encouraged to contact their broker or other CDS Participant as each CDS Participant may have a different cut-off time.**

CDS Participants that hold Rights for more than one beneficial holder may, upon providing evidence satisfactory to the Fund and the Subscription Agent, exercise Rights on behalf of their accounts on the same basis as if the beneficial owners of such Rights were the holders of record.

Notwithstanding anything to the contrary in this short form prospectus, the Rights may be exercised only by a holder of Rights who represents at the time of exercise that the holder of Rights is not located in the United States, did not acquire the Rights while in the United States, is not a U.S. person (as defined in Regulation S under the 1933 Act) and is not exercising the Rights for resale to or for the account or benefit of a U.S. person or a person in the United States. Payment of the Subscription Price will constitute a representation to the CDS Participant that the subscriber is not located in the United States, did not acquire Rights while in the United States, is not a U.S. person and is not exercising the Rights for resale to or for the account or benefit of a U.S. person or a person in the United States.

Additional Subscription Privilege

Each holder of Rights that subscribes for Units to which such holder is entitled pursuant to the Basic Subscription Privilege may subscribe for Additional Units pursuant to the Additional Subscription Privilege, if applicable, at a price equal to the Subscription Price for each Additional Unit. Holders of Rights will not be required to exercise all of their Rights under the Basic Subscription Privilege to be eligible for the Additional Subscription Privilege.

The aggregate number of Additional Units available under the Additional Subscription Privilege for all additional subscriptions will be the difference, if any, between the total number of Units issuable upon exercise of the Rights and the total number of Units subscribed and paid for prior to 5:00 p.m. (Toronto time) on the Expiry Date. Subscriptions for Additional Units will be received subject to allotment only and the number of Additional Units, if any, which may be allotted to each subscriber will be equal to the lesser of: (a) the number of Additional Units which that subscriber has subscribed for under the Additional Subscription Privilege, and (b) the product (disregarding fractions) obtained by multiplying the number of available Additional Units by a fraction, the numerator of which is the number of Rights exercised by that subscriber under the Basic Subscription Privilege and the denominator of which is the aggregate number of Rights exercised under the Basic Subscription Privilege by holders of Rights that have subscribed for Additional Units pursuant to the Additional Subscription Privilege. If any holder of Rights has subscribed for fewer Additional Units than such holder's *pro rata* allotment of Additional Units, the excess Additional Units will be allotted in a similar manner among the holders who were allotted fewer Additional Units than they subscribed for.

To apply for Additional Units under the Additional Subscription Privilege, a beneficial holder of Rights must forward the holder's request to a CDS Participant prior to 5:00 p.m. (Toronto time) on the Expiry Date. Payment for Additional Units, in the same manner as for Units, must accompany the request when it is delivered to the CDS Participant. Any excess funds will be returned by mail or credited to a subscriber's account with its CDS Participant without interest or deduction. Payment in full of the Subscription Price must be received by the Subscription Agent prior to 5:00 p.m. (Toronto time) on the Expiry Date, failing which the subscriber's entitlement to such Units will terminate. Accordingly, the subscriber must deliver payment and instructions sufficiently in advance of the Expiry Date to allow the CDS Participant to properly apply for Additional Units under the Additional

Subscription Privilege. Units issued pursuant to the Additional Subscription Privilege will only be issued after all necessary calculations have been made following the Expiry Date.

Sale or Transfer of Rights

Holders of Rights in Canada may, instead of exercising their Rights to subscribe for Units, sell or transfer their Rights. Holders of Rights who wish to sell or transfer their Rights through CDS Participants must do so in the same manner as they sell or transfer Class A Shares or Preferred Shares, namely, by providing instructions to the CDS Participant holding their Rights in accordance with the policies and procedures of the CDS Participant. The TSX has conditionally approved the listing of the Rights distributed under this short form prospectus and the Class A Shares and Preferred Shares issuable upon the exercise thereof on the TSX. Listing will be subject to the Fund fulfilling all of the listing requirements of the TSX.

Dilution

The value of a Unit will be reduced if the NAV per Unit exceeds \$20.56 (being the Subscription Price payable on the exercise of two Rights less the Exercise Fee) and two or more Rights are exercised. If the NAV per Unit exceeds \$20.56, then a Shareholder will face dilution of its investment to the extent holders of Rights exercise their Rights and acquire Units. If a Shareholder does not exercise Rights in such circumstances, such Shareholder's *pro rata* interest in the assets of the Fund will be diluted.

Due to the dilutive effect on the value of the Units when Rights are exercised, Shareholders should carefully consider the exercise of the Rights or the sale of the Rights prior to the Expiry Date. The failure to take either such action in the circumstances described above will result in the loss of value to the investor. To maintain the Shareholder's *pro rata* interest in the assets of the Fund, the Shareholder will be required to pay in connection with the exercise of two Rights an additional amount equal to the Subscription Price payable on the exercise of two Rights. While a Shareholder may sell the Shareholder's Rights, no assurance can be given that the proceeds of such sale will compensate the Shareholder for such dilution. The factors that would be expected to influence the price of a Right include the difference between the Subscription Price and the NAV per Unit calculated on a diluted basis, price volatility, distributions payable on the Class A Shares and the remaining time to expiry of the Right.

The value of a Unit will be reduced if the NAV per Unit exceeds \$20.56 and two or more Rights are exercised. If a Shareholder does not exercise Rights in such circumstances, such Shareholder's *pro rata* interest in the assets of the Fund will be diluted. To maintain the Shareholder's *pro rata* interest in the assets of the Fund, the Shareholder will be required to pay in connection with the exercise of Rights an additional amount equal to the Subscription Price. While a Shareholder may sell the Shareholder's Rights, no assurance can be given that the proceeds of such sale will compensate the Shareholder for such dilution. While the exercise of Rights should not dilute the interests of the holders of Preferred Shares, such exercise could reduce the then-current asset coverage ratio applicable to the Preferred Shares. In no circumstances, however, should such asset coverage ratio, even if so reduced, be less than the asset coverage ratio that will apply immediately prior to the date of setting the Subscription Price. See "Details of the Offering — Dilution".

Delivery Form and Denomination of Rights

The Fund may use the book-entry only system administered by CDS with respect to the Rights, the non-certificated issue system or another system acceptable to the Fund. Shareholders hold their Class A Shares or Preferred Shares through a CDS Participant will not receive physical certificates evidencing their ownership of Rights and all holders of Rights will hold their Rights through a CDS Participant. The Fund expects that each Shareholder will receive a confirmation of the number of Rights issued to it under the Offering from its CDS Participant in accordance with the practices and procedures of that CDS Participant. CDS will be responsible for establishing and maintaining accounts for its participants holding Rights.

None of the Fund, the Manager or the Subscription Agent will have any liability for: (a) the records maintained by CDS or CDS Participants relating to the Rights or the accounts maintained by them; (b) maintaining, supervising or reviewing any records relating to the Rights; or (c) any advice or representations made or given by

CDS or CDS Participants with respect to the rules and regulations of CDS or any action to be taken by CDS or its participants.

The ability of a person having an interest in Rights to pledge such interest or otherwise take action with respect to such interest (other than through a CDS Participant) may be limited due to the lack of a physical certificate. Holders of Rights must arrange purchases, transfers and exercises of Rights through CDS Participants.

FEES AND EXPENSES

Expenses of the Offering

The expenses of the Offering (including the costs of preparing and printing this short form prospectus, legal expenses, expenses of the auditors and translation fees), which are estimated to be \$195,000 in the aggregate, will be paid by the Fund.

Exercise Fee

The Fund will pay a Exercise Fee of \$0.32 for every two Rights exercised to the dealer whose client exercised such Rights pursuant to the Basic Subscription Privilege.

Management Fees

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

Investment Management Fees

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

Ongoing Expenses

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

DESCRIPTION OF SHARE CAPITAL

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

The Class A Shares and the Preferred Shares have been issued on the basis that an equal number of shares of each class will be issued and outstanding at all times. As at October 31, 2012 there were 9,517,553 Class A Shares and 9,517,553 Preferred Shares outstanding. The following is a summary of certain provisions of the Class A Shares and the Preferred Shares which are more fully described in the AIF.

Distributions

The Fund intends to pay to holders of Class A Shares, quarterly cash distributions on the Class A Shares of \$0.20319 per Class A Share (\$0.81276 per annum) subject to the prior rights of holders of Preferred Shares to receive cumulative, fixed, preferential dividends. The Fund intends to continue to pay distributions at this rate until the NAV per Unit reaches \$25.00. At such time, quarterly distributions paid by the Fund will vary and will be

calculated as approximately 8.0% per annum of the NAV of a Class A Share. The quarterly distributions will be determined using the last published NAV prior to the declaration date for the distribution.

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

Retractions

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

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

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

Redemptions

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

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

CONSOLIDATED CAPITALIZATION

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

	Authorized	Outstanding as at October 31, 2012⁽¹⁾	Outstanding as at October 31, 2012 after giving effect to the Offering⁽¹⁾⁽²⁾
Liabilities			
Preferred Shares.....	Unlimited	\$142,763,295 (9,517,553 Preferred Shares)	\$285,526,590 (19,035,106 Preferred Shares)
Share Capital			
Class A Shares.....	Unlimited	\$52,630,643 (9,517,553 Class A Shares)	\$105,353,237 (19,035,106 Class A Shares)
Class B Shares	Unlimited	\$1,000 (1,000 Class B Shares)	\$1,000 (1,000 Class B Shares)
Total Capitalization		\$195,394,938	\$390,880,827

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

⁽²⁾ Based on the number of Class A Shares and Preferred Shares outstanding as at October 31, 2012, less the payment of the fees and expenses of the Offering, estimated to be \$195,000, and assuming the exercise of all Rights issued hereunder at the Subscription Price and the payment of the Exercise Fees by the Fund.

NET ASSET VALUE, TRADING PRICE AND VOLUME

The Class A Shares and the Preferred Shares are listed on the TSX under the symbols PIC.A and PIC.PR.A, respectively. On October 31, 2012, the closing price on the TSX of the Class A Shares was \$5.85 per Class A Share and of the Preferred Shares was \$15.49 per Preferred Share. On October 31, 2012, the NAV per Class A Share was \$5.53 and the NAV per Preferred Share was \$15.00.

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

Period	NAV per Unit⁽¹⁾		Class A Shares			Preferred Shares		
			Market Price		Volume	Market Price		Volume
	High	Low	High	Low		High	Low	
2011								
<i>October</i>	\$20.99	\$20.63	\$6.36	\$5.38	260,700	\$14.78	\$14.35	101,428
<i>November</i>	\$20.61	\$ 19.27	\$6.10	\$5.23	275,364	\$14.75	\$14.41	104,188
<i>December</i>	\$20.91	\$ 19.92	\$6.00	\$5.32	211,471	\$14.65	\$14.07	169,548
2012								
<i>January</i>	\$21.23	\$20.93	\$6.82	\$5.95	243,900	\$14.93	\$14.37	138,729
<i>February</i>	\$21.38	\$21.19	\$6.69	\$6.37	165,193	\$15.18	\$14.80	145,449
<i>March</i>	\$22.03	\$ 21.44	\$7.32	\$6.50	224,865	\$15.30	\$15.00	240,641
<i>April</i>	\$21.81	\$ 21.10	\$7.19	\$6.65	190,918	\$15.40	\$15.11	92,724

Period	NAV per Unit ⁽¹⁾		Class A Shares			Preferred Shares		
	High	Low	Market Price		Volume	Market Price		Volume
			High	Low		High	Low	
May	\$20.61	\$ 20.17	\$6.75	\$5.60	182,898	\$15.36	\$15.16	144,016
June	\$20.40	\$ 20.10	\$5.85	\$5.46	166,343	\$15.31	\$14.98	110,849
July	\$20.61	\$ 19.92	\$6.28	\$5.70	132,917	\$15.39	\$15.15	94,917
August	\$20.31	\$ 20.05	\$6.10	\$5.85	119,685	\$15.49	\$15.00	91,464
September	\$20.68	\$ 20.48	\$6.19	\$5.95	119,069	\$15.56	\$15.35	81,593
October	\$20.88	\$20.26	\$6.29	\$5.72	150,191	\$15.50	\$15.16	88,332

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

USE OF PROCEEDS

The net proceeds from the exercise of the Rights offered hereby are estimated to be \$195,485,890 (assuming that all Rights are exercised and after payment of the fees and expenses of the Offering and all applicable Exercise Fees). Such proceeds will be invested by the Fund in accordance with its investment objectives, strategy and restrictions. For further information on the anticipated use of proceeds, see “The Fund — Rationale for the Offering”.

PLAN OF DISTRIBUTION

The TSX has conditionally approved the listing of the Rights distributed under this short form prospectus and the Class A Shares and the Preferred Shares issuable upon the exercise thereof on the TSX. Listing will be subject to the Fund fulfilling all of the listing requirements of the TSX. The Fund will deliver a copy of the final short form prospectus to Shareholders of record on the Record Date. Holders of Rights who are Shareholders resident outside of Canada are cautioned that the acquisition and disposition of Rights, Class A Shares and Preferred Shares may have tax consequences in the jurisdiction where they reside and in Canada which are not described herein.

U.S. Shareholders

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

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

Other Foreign Shareholders and Undeliverable Documents

Shareholders whose recorded addresses are outside of Canada (but not in the United States) will be permitted to subscribe for Units pursuant to the terms of the Offering or, if they do not wish to exercise any of their Rights to subscribe for Units, will be permitted to sell or otherwise transfer their Rights through a CDS Participant

provided that they represent to the Fund that the receipt by them of Rights and the issuance to them of Class A Shares and Preferred Shares upon the exercise of Rights is not in violation of the laws of their jurisdiction of residence.

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

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

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

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

RISK FACTORS

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

Dilution to Existing Shareholders

The value of a Unit will be reduced if the NAV per Unit exceeds \$20.56 and two or more Rights are exercised. If a Shareholder does not exercise Rights in such circumstances, such Shareholder's *pro rata* interest in the assets of the Fund will be diluted. To maintain the Shareholder's *pro rata* interest in the assets of the Fund, the Shareholder will be required to pay in connection with the exercise of two Rights an additional amount equal to the Subscription Price payable on the exercise of two Rights. While a Shareholder may sell the Shareholder's Rights, no assurance can be given that the proceeds of such sale will compensate the Shareholder for such dilution.

No Public Market for Rights

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

Tax Changes

There can be no assurance that changes will not be made to the tax rules affecting the taxation of the Fund or the Fund's investments, or that such tax rules will not be administered in a way that is less advantageous to the Fund or holders of its Class A Shares or Preferred Shares.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

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

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

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

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

Receipt of Rights

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

Exercise of Rights

The exercise of Rights will not constitute a disposition of property for purposes of the Tax Act and, consequently, no gain or loss will be realized by a Holder upon the exercise of Rights. Upon the exercise of two Rights, the Fund intends, for its purposes, to issue each Class A Share for \$5.88 and each Preferred Share for \$15.00. Although the Fund believes that such allocation of the aggregate Subscription Price is reasonable, such allocation is not binding on CRA. A Class A Share and a Preferred Share acquired by a Holder upon the exercise of two Rights will have a cost to the Holder equal to the portion of the Subscription Price per Unit allocated to such Class A Share and Preferred Share and the portion of the adjusted cost base, if any, to the Holder of the Rights so exercised that have been allocated to such Class A Share and Preferred Share. The cost of a Class A Share and Preferred Share acquired by a Holder upon the exercise of Rights will be averaged with the adjusted cost base to the

Holder of all other Class A Shares and Preferred Shares, respectively, held at that time as capital property to determine the adjusted cost base of each such Class A Share and Preferred Share to the Holder.

Disposition of Rights

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

Expiry of Rights

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

ELIGIBILITY FOR INVESTMENT

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

However, if the Class A Shares, Preferred Shares or Rights are a “prohibited investment” for a trust governed by a tax-free savings account, a registered retirement savings plan or registered retirement income fund, the holder of such tax-free savings account or annuitant of such registered retirement savings plan or registered retirement income fund will be subject to a penalty tax as set out in the Tax Act. Holders of tax-free savings accounts and annuitants of registered retirement savings plans and registered retirement income funds should consult their own tax advisors to ensure Class A Shares, Preferred Shares and Rights would not be a “prohibited investment” for purposes of the Tax Act in their particular circumstances.

REGISTRAR AND TRANSFER AGENT AND SUBSCRIPTION AGENT

Computershare Investor Services Inc. provides the Fund with registrar, transfer and distribution agency services in respect of the Class A Shares and the Preferred Shares from its principal offices in Toronto, Ontario. The Subscription Agent and the registrar and transfer agent for the Rights is Computershare Trust Company of Canada at its principal offices in Toronto, Ontario.

AUDITORS

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

INTERESTS OF EXPERTS

The matters referred to under “Canadian Federal Income Tax Considerations” and certain other legal matters relating to the Offering and the Rights and the Class A Shares and the Preferred Shares issuable upon the exercise of the Rights to be distributed pursuant to this short form prospectus will be passed upon by Osler, Hoskin

& Harcourt LLP on behalf of the Fund. As of the date hereof, the partners and associates of Osler, Hoskin & Harcourt LLP, as a group, beneficially owned, directly or indirectly, less than one percent of the outstanding Class A Shares and less than one percent of the outstanding Preferred Shares of the Fund.

The Fund's auditors, Deloitte & Touche LLP, have prepared a report to the shareholders of the Fund dated November 30, 2011 which is incorporated by reference herein. Deloitte & Touche LLP has advised the Manager that they are independent in accordance with their rules of professional conduct.

PURCHASERS' STATUTORY RIGHTS

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

INDEPENDENT AUDITOR'S CONSENT

We have read the short form prospectus (the "prospectus") of Premium Income Corporation (the "Fund") dated November 1, 2012, relating to the issue of Rights to subscribe for Units of the Fund (each Unit consisting of one Class A Share and one Preferred Share of the Fund). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use, through incorporation by reference in the prospectus, of our report dated November 30, 2011 to the shareholders of the Fund on the statement of investments as at October 31, 2011, the statements of financial position as at October 31, 2011 and 2010, and the statements of operations and deficit, of changes in net assets and of cash flows for the years then ended.

Toronto, Ontario
November 1, 2012

(Signed) Deloitte & Touche LLP
Chartered Accountants
Licensed Public Accountants

CERTIFICATE OF THE FUND AND THE MANAGER

Dated: November 1, 2012

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

PREMIUM INCOME CORPORATION

(Signed) JOHN P. MULVIHILL
Chief Executive Officer

(Signed) JOHN D. GERMAIN
Chief Financial Officer

On behalf of the Board of Directors

(Signed) MICHAEL M. KOERNER
Director

(Signed) ROBERT G. BERTRAM
Director

STRATHBRIDGE ASSET MANAGEMENT INC.
(as manager of Premium Income Corporation)

(Signed) JOHN P. MULVIHILL
Chief Executive Officer

(Signed) JOHN D. GERMAIN
Chief Financial Officer

On behalf of the Board of Directors

(Signed) JOHN P. MULVIHILL
Director

(Signed) JOHN D. GERMAIN
Director

(Signed) DAVID E. ROODE
Director