Mulvihill

Mulvihill Structured Products

Hybrid Income Funds

Annual Report 2008

Mulvihill Premium *Canadian Bank Fund*

Premium Income Corporation

Message to Shareholders

We are pleased to present the annual financial results of Premium Income Corporation, which operates as Mulvihill Premium Canadian Bank Fund (the “Fund”).

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

The Fund was launched in 1996 with the objectives to:

(1) pay out a yield of 5.75 percent to Preferred shareholders and 8.00 percent to Class A shareholders; and

(2) return the original issue price to shareholders upon termination of the Fund on November 1, 2010.

To accomplish these objectives the Fund invests only in common shares issued by the Bank of Montreal, Canadian Imperial Bank of Commerce, Royal Bank of Canada, The Bank of Nova Scotia and The Toronto-Dominion Bank, and, from time to time, may write covered call options against these securities. Accordingly, the distributions paid out by the Fund are funded from the dividend income earned on the portfolio, realized capital gains from the sale of securities and option premiums from the sale of covered call options. During the fiscal year ended 2008 the Fund’s annual total return was negative 20.46 percent. Distributions amounting to $1.762500 per unit were paid during the year, contributing to the overall decline in the net asset value from $26.17 per unit as at October 31, 2007 to $19.19 per unit as at October 31, 2008.

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

	2008	2007	2006	2005	2004
Annual Total Fund Return	(20.46)%	7.08%	10.91%	7.45%	10.18%
Preferred Share Distribution Paid (annual target of $0.86250 per share)	$ 0.862500	$ 0.865319	$ 0.875210	$ 0.877731	$ 0.889263
Class A Share Distribution Paid (annual target of $0.80 per share)	$ 0.90	$ 1.20	$ 1.20	$ 1.20	$ 1.20
Ending Net Asset Value per Unit (initial issue price was $25.00 per unit)	$ 19.19	$ 26.17	$ 26.41	$ 25.75	$ 25.96

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

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

Mulvihill Premium *Canadian Bank Fund* [PIC.A/PIC.PR.A]

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Management Report on Fund Performance

This report, prepared in accordance with National Instrument 81-106 (Investment Fund Continuous Disclosure), contains the financial highlights for the year ended October 31, 2008 of Premium Income Corporation, which operates as Mulvihill Premium Canadian Bank Fund (the “Fund”). The annual financial statements of the Fund are attached.

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

Investment Objectives and Strategies

The Fund’s investment objectives are:

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

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

(3) to return, at a minimum, the original issue price to holders of both Preferred shares and Class A shares upon windup on November 1, 2010. The Fund has a dividend policy on the Class A shares of $0.20 per quarter.

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

Risk

The underlying portfolio holds securities selected from common shares issued by The Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank (collectively the “Banks”). In addition, the process of writing covered call options on the securities held in the portfolio will tend to lower the volatility of the Net Asset Value of the portfolio. Investors should be aware that the primary risks associated with the Fund relate to the non-diversified nature of the investment universe, and the level of option volatility realized in undertaking the writing of covered call options.

Any capital appreciation in the value of the portfolio will be for the benefit of the holders of Class A shares. However, any decrease in the value of the portfolio or the dividends paid on the common shares of the corporations held in the portfolio will effectively be first for the account of the holders of Class A shares. The Class A shares will have no value on November 1, 2010 if the Net Asset Value per unit on that date is less than or equal to $15.00.

In order to generate income, the Fund writes covered call options in respect of all or part of the securities held in the portfolio. During the course of this year, volatility has remained high and escalated to record levels in the month of October as investor fears mounted that financial markets were collapsing after several of the largest financial institutions in the United States and around the world either failed (Lehman Brothers Holdings Inc.), required government intervention (American International Group Inc., Fannie Mae and Freddie Mac) or were taken over by stronger institutions in order to survive (Bear Stearns, Merrill Lynch, Washington Mutual, Wachovia Corporation). It is evident that the credit crisis that originated in the United States has spread to the global economy and will now require major intervention by central banks and governments to provide stability and restore investor confidence. Due to this high volatility, the Fund reduced its investment position materially during the period in order to preserve the Net Asset Value while increasing the amount of call writing to take advantage of the higher volatility.

Summary of Investment Portfolio

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

Asset Mix

October 31, 2008

	% OF NET ASSET VALUE*
Financial Institutions	69 %
Cash and Short-Term Investments	35 %
Other Assets (Liabilities)	(4)%
	100 %

*The Net Asset Value excludes the Preferred share liability.

Portfolio Holdings

October 31, 2008

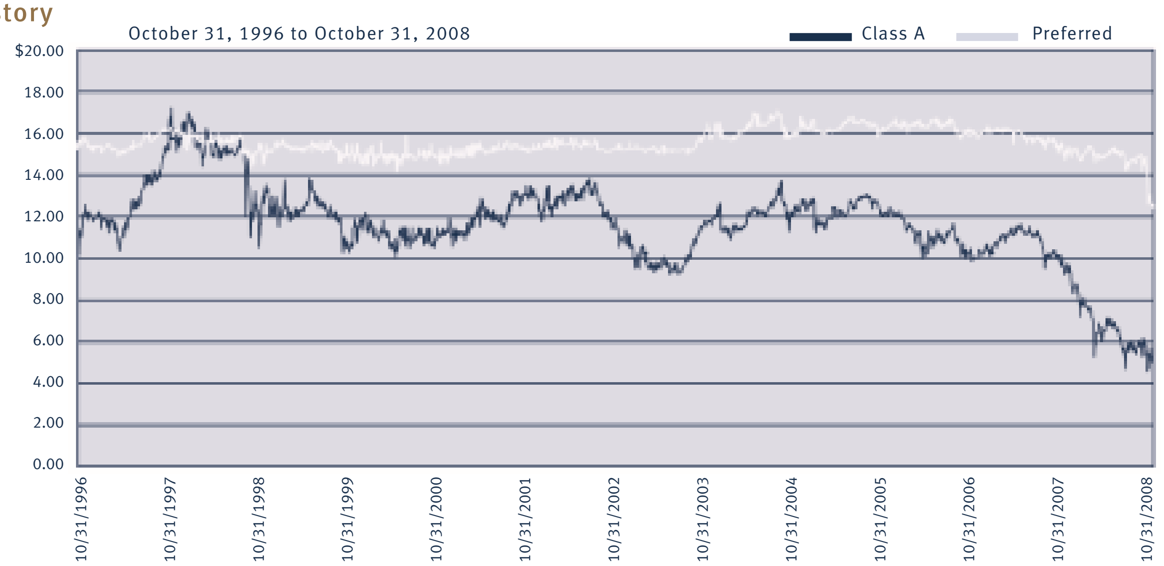
	% OF NET ASSET VALUE*
Cash and Short-Term Investments	35%
Royal Bank of Canada	17%
The Toronto-Dominion Bank	16%
The Bank of Nova Scotia	15%
Canadian Imperial Bank of Commerce	12%
Bank of Montreal	9%
	104%

*The Net Asset Value excludes the Preferred share liability.

Distribution History

INCEPTION DATE: OCTOBER 1996	CLASS A REGULAR DISTRIBUTION	CLASS A SPECIAL DISTRIBUTION	TOTAL CLASS A DISTRIBUTION	REGULAR PREFERRED DISTRIBUTION
Total for 1997	**$ 0.80**	**$ 1.90**	**$ 2.70**	**$ 0.877800**
Total for 1998	**0.80**	**0.50**	**1.30**	**0.884300**
Total for 1999	**0.80**	**0.40**	**1.20**	**0.888610**
Total for 2000	**0.80**	**0.60**	**1.40**	**0.880033**
Total for 2001	**0.80**	**1.35**	**2.15**	**0.884226**
Total for 2002	**0.80**	**0.60**	**1.40**	**0.884170**
Total for 2003	**0.80**	**0.40**	**1.20**	**0.892795**
Total for 2004	**0.80**	**0.40**	**1.20**	**0.889263**
Total for 2005	**0.80**	**0.40**	**1.20**	**0.877731**
Total for 2006	**0.80**	**0.40**	**1.20**	**0.875210**
Total for 2007	**0.80**	**0.40**	**1.20**	**0.865319**
Total for 2008	**0.80**	**0.10**	**0.90**	**0.862500**
Total Distributions to Date	**$ 9.60**	**$ 7.45**	**$ 17.05**	**$ 10.561957**

Trading History



Results of Operations

For the fiscal year ended October 31, 2008, the net asset value of the Fund for pricing purposes based on closing prices totalled $352.11 million, or $19.19 per unit (see Note 3 to the Financial Statements) compared to $26.17 per unit on October 31, 2007. The Fund's Preferred shares, listed on the Toronto Stock Exchange as PIC.PR.A, closed on October 31, 2008, at $12.60 per share. The Fund's Class A shares, listed on the Toronto Stock Exchange as PIC.A, closed on October 31, 2008, at $5.30 per share. Each unit consists of one Preferred share and one Class A share.

Distributions totalling $0.8625 were made to the Preferred shareholders during the fiscal year and distributions totalling $0.90 were made to Class A shareholders ($0.80 in regular distributions and $0.10 in special distributions).

Volatility was high for most of the year and escalated to record levels in the month of October as investor fears mounted that financial markets were collapsing after several of the largest financial institutions in the United States and around the world either failed (Lehman Brothers Holdings Inc.), required government intervention (American International Group Inc., Fannie Mae and Freddie Mac) or were taken over by stronger institutions in order to survive (Bear Stearns, Merrill Lynch, Washington Mutual, Wachovia Corporation). It is evident that the credit crisis that originated in the United States has spread to the global economy and will now require major intervention by central banks and governments to provide stability and restore investor confidence. This can be evidenced by the fact that the U.S. Treasury set up the Troubled Assets Relief Program (TARP) with many other governments in the world following suit and also by the coordinated rate cuts by central banks on a global basis. Due to this high volatility, the Fund reduced its investment position materially during the period in order to preserve the Net Asset Value while increasing the amount of call writing to take advantage of the higher volatility.

The S&P/TSX Diversified Banks Index declined 21.7 percent during the fiscal period ending October 31, 2008 and outperformed the broader S&P/TSX Composite Index, which was down 31.4 percent. The equal weighted total return of the 5 Banks that make up the Fund was negative 24.6 percent. Each of the five banks experienced negative returns during the period with the Royal Bank of Canada generating the least negative total return of 12.8 percent while the Canadian Imperial Bank of Commerce lagged the group considerably, generating a negative total return of 43.5 percent, mainly due to its greater exposure to troubled U.S. residential mortgage assets. Fundamentally, the banks continue to post strong profitability because of stable domestic retail banking operations and relatively low levels of loan losses. However, fears emanating from the U.S. sub-prime mortgage market, as well as liquidity and credit risks associated with asset backed commercial paper and collateralized debt obligations holdings has led to negative revisions to earning growth forecasts for the banks for the 2008 fiscal year.

The one year annual compound total return for the Fund, including reinvestment of distributions, was negative 20.5 percent. This performance reflects the underweight allocation to the Canadian Imperial Bank of Commerce shares in the Fund's portfolio, as well as the cash position maintained during the year and the cost of protective put options purchased and the enhancement to the Fund returns from covered call writing. For more detailed information on investment returns, please see the Annual Total Return bar graph on page 6 and the Annual Compound Returns table on page 7 of this report.

Financial Highlights

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

For October 31, 2008 and October 31, 2007, the Net Assets included in the Net Assets per Unit table is from the Fund's financial statements and calculated using bid prices while the Net Asset Value included in the Ratios/Supplemental Data table is for Fund pricing purposes and calculated using closing prices (see Notes 2 and 3 to the Financial Statements). All other calculations for the purposes of this MRFP are made using Net Asset Value.

Years ended October 31

	2008	2007	2006	2005	2004
THE FUND'S NET ASSETS PER UNIT					
Net Assets, beginning of year (based on bid prices)(1)	$ 26.16	$ 26.40(4)	$ 25.75	$ 25.96	$ 25.55
INCREASE (DECREASE) FROM OPERATIONS					
Total revenue	**0.89**	0.95	0.86	0.81	0.80
Total expenses	**(0.25)**	(0.30)	(0.28)	(0.27)	(0.31)
Realized gains (losses) for the period	**(1.40)**	1.78	1.72	1.73	1.39
Unrealized gains (losses) for the period	**(4.48)**	(0.61)	0.44	(0.41)	0.87
Total Increase (Decrease) from Operations(2)	**(5.24)**	**1.82**	**2.74**	**1.86**	**2.75**
DISTRIBUTIONS					
Preferred Share					
From capital gains	**–**	(0.05)	(0.20)	(0.24)	(0.41)
From net investment income	**(0.86)**	(0.82)	(0.68)	(0.64)	(0.48)
Total Preferred Share Distributions	**(0.86)**	**(0.87)**	**(0.88)**	**(0.88)**	**(0.89)**
Class A Share					
From capital gains	**(0.90)**	(1.20)	(1.20)	(1.20)	(1.20)
Total Class A Share Distributions	**(0.90)**	**(1.20)**	**(1.20)**	**(1.20)**	**(1.20)**
Total Annual Distributions(3)	**(1.76)**	**(2.07)**	**(2.08)**	**(2.08)**	**(2.09)**
Net Assets, as at October 31 (based on bid prices)(1)	**$ 19.16**	**$ 26.16**	**$ 26.41**	**$ 25.75**	**$ 25.96**

(1) Net Assets per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities excluding Preferred shares of the Fund on that date and including the valuation of securities at bid prices divided by the number of units then outstanding. For years prior to 2007, securities were valued at closing prices. The change to the use of bid prices is due to new accounting standards set out by the Canadian Institute of Chartered Accountants relating to Financial Instruments. Refer to Note 2 to the financial statements for further discussion.

(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized and unrealized gains (losses), less expenses, excluding Preferred share distributions, and is calculated based on the weighted average number of units outstanding during the year. The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of units outstanding during the year.

(3) Distributions to shareholders are based on the number of shares outstanding on the record date for each distribution and were paid in cash.

(4) Net Assets per unit has been adjusted for the Transition Adjustment (see Note 2 to the Financial Statements).

	2008	2007	2006	2005	2004
RATIOS/SUPPLEMENTAL DATA					
Net Asset Value, excluding Preferred shares liability ($millions)(1)	**$ 352.11**	$ 497.18	$ 503.69	$ 491.14	$ 496.60
Net Asset Value ($millions)(1)	**$ 76.36**	$ 211.31	$ 216.32	$ 203.44	$ 207.79
Number of units outstanding(1)	**18,345,439**	18,995,200	19,073,063	19,074,439	19,126,246
Management expense ratio(2)	**1.08%**	1.04%	1.08%	1.05%	1.20%
Portfolio turnover rate(3)	**11.51%**	109.89%	148.47%	171.56%	157.22%
Trading expense ratio(4)	**0.04%**	0.07%	0.07%	0.10%	0.12%
Net Asset Value per Unit(5)	**$ 19.19**	$ 26.17	$ 26.41	$ 25.75	$ 25.96
Closing market price - Preferred	**$ 12.60**	$ 15.25	$ 16.01	$ 16.30	$ 16.129
Closing market price - Class A	**$ 5.30**	$ 10.10	$ 10.24	$ 10.50	$ 12.40

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

(2) Management expense ratio is the ratio of all fees and expenses, including goods and service taxes and capital taxes but excluding transaction fees and income taxes and Preferred share distributions, charged to the Fund to the average net asset value, excluding the liability for the Redeemable Preferred shares.

(3) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by the average value of the portfolio securities. The Fund employs an option overlay strategy which can result in higher portfolio turnover by virtue of option exercises, when compared to a conventional equity mutual fund.

(4) Trading expense ratio represents total commissions expressed as a percentage of the daily average net asset value during the period.

(5) Net Asset Value per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities excluding Preferred shares of the Fund on that date and including the valuation of securities at closing prices divided by the number of units then outstanding.

Management Fees

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

Mulvihill Fund Services Inc. is entitled to fees under the Management Agreement calculated monthly as 1/12 of 0.10 percent of the net asset value of the Fund at each month end, excluding the liability for Redeemable Preferred shares and unamortized premium on issue of Preferred shares. Services received under the Management Agreement included providing for or arranging for required administrative services to the Fund.

Recent Developments

The Canadian banks continue to demonstrate strong fundamentals and profitability with strong capital positions and high returns on equity. The 4.8 percent dividend yield on the Big 5 Banks relative to the 10-year Government of Canada bond yield at 3.8 percent continues to lend yield support and the price/earnings multiple of the banks relative to the broad market is still attractive.

The outlook for bank earnings growth and profitability is likely to be lower than the exceptional levels enjoyed in recent years due to weaker wholesale and wealth management earnings, higher loan loss provisions, and lower balance sheet leverage. However, the banks should still be able to generate a reasonable Return on Equity in the coming year. This is due to their steady domestic retail banking operations driven by a higher loan spreads and a more stable housing market relative to that south of the border.

Due to the uncertain environment currently surrounding the economy and financial markets, the Canadian banks are likely to maintain their strong capital ratios to deal with unforeseen events rather than make large acquisitions or return capital to shareholders in the form of increased dividends and share repurchases.

Past Performance

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

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

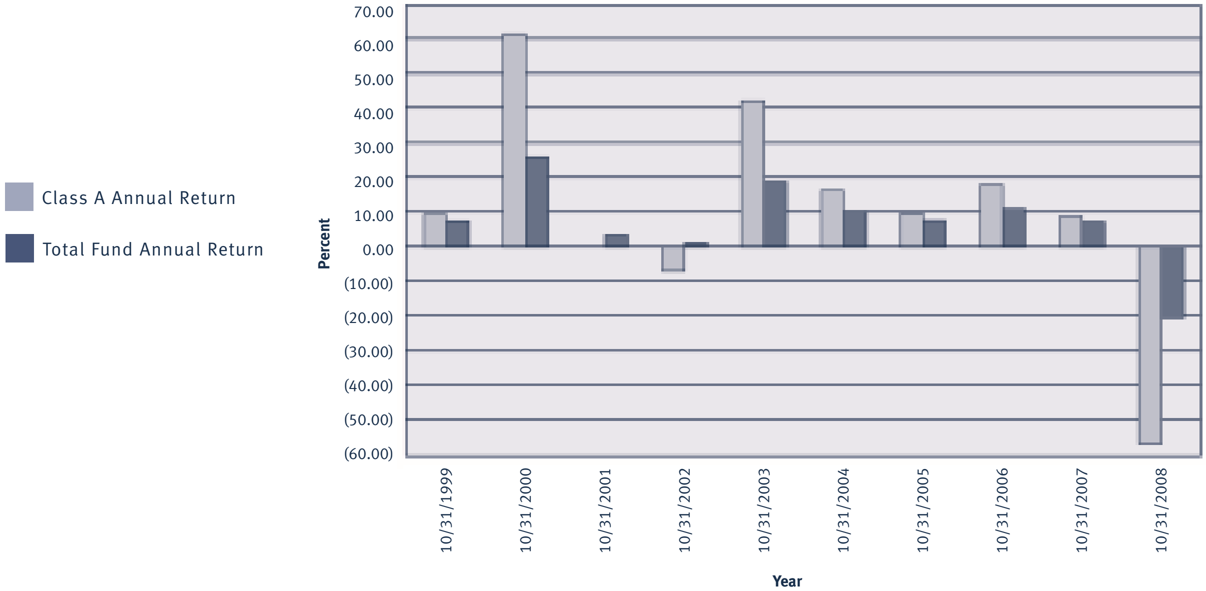
(2) the information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

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

Year-By-Year Returns

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

Annual Total Return



Annual Compound Returns

The following table shows the Fund's historical annual compound total return for the periods ended October 31, 2008, as compared to the performance of the S&P/TSX Diversified Banks Index.

	One Year	Three Years	Five Years	Ten Years
Mulvihill Premium Canadian Bank Fund	**(20.46)%**	(1.88)%	2.26 %	6.50 %
Mulvihill Premium Canadian Bank Fund – Preferred	**5.88 %**	5.91 %	5.96 %	6.00 %
Mulvihill Premium Canadian Bank Fund – Class A	**(56.77)%**	(17.88)%	(6.75)%	5.10 %
In order to meet regulatory requirements, the performance of a broader based market index has been included below.				
S&P/TSX Diversified Banks Index*	**(21.72)%**	1.80 %	7.49 %	11.75 %

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

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

These investment strategies result in a rate of return for the Fund that differs from that of a conventional, fully-invested portfolio. During periods of strongly rising markets, the Fund's approach will tend to underperform a comparable fully-invested portfolio of the same stocks as the Fund is not fully invested and writing covered call options generally limits portfolio performance to the option premium received. In periods of declining markets, however, the Fund's defensive cash balances help to protect net asset value, and covered option writing income provides returns exceeding those of a conventional portfolio.

Related Party Transactions

Mulvihill Capital Management Inc. ("MCM") manages the Fund's investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and MCM dated October 17, 1996.

Mulvihill Fund Services Inc. ("Mulvihill") is the Manager of the Fund pursuant to a Management Agreement made between the Fund and Mulvihill dated October 17, 1996, and, as such, is responsible for providing or arranging for required administrative services to the Fund. Mulvihill is a wholly-owned subsidiary of MCM. These parties are paid the fees described under the Management Fees section of this report.

Forward-Looking Statements

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

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

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

Management's Responsibility for Financial Reporting

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

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

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

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

John P. Mulvihill
Director
Mulvihill Fund Services Inc.

Sheila S. Szela
Director
Mulvihill Fund Services Inc.

November 21, 2008

To the Shareholders of Mulvihill Premium Canadian Bank Fund

We have audited the accompanying statement of investments of Premium Income Corporation (operating as Mulvihill Premium Canadian Bank Fund) (the "Fund") as at October 31, 2008, the statements of financial position as at October 31, 2008 and 2007, and the statements of operations and retained earnings (deficit), of changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at October 31, 2008 and 2007, and the results of its operations, the changes in its net assets, and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
November 21, 2008

Statements of Financial Position

October 31, 2008 and 2007

	2008	2007
ASSETS		
Investments at fair value (cost - $313,386,453; 2007 - $463,525,113)	**$ 237,725,407**	$ 472,900,913
Short-term investments at fair value (cost - $124,649,243; 2007 - $24,172,079)	**124,603,890**	24,120,829
Cash	**3,550**	776
Interest and dividends receivable	**1,364,391**	2,245,339
TOTAL ASSETS	**$ 363,697,238**	**$ 499,267,857**
LIABILITIES		
Redemptions payable	**$ 11,615,257**	$ 1,914,024
Accrued liabilities	**278,954**	76,161
Accrued management fees	**277,491**	381,808
	12,171,702	**2,371,993**
Redeemable preferred shares (Note 4)	**275,181,585**	284,928,000
Unamortized premium on issue of preferred shares (Note 4)	**571,026**	940,495
	287,924,313	**288,240,488**
EQUITY		
Class A and Class B shares (Note 4)	**186,220,042**	192,814,726
Retained earnings (deficit)	**(110,447,117)**	18,212,643
	75,772,925	**211,027,369**
TOTAL LIABILITIES AND EQUITY	**$ 363,697,238**	**$ 499,267,857**
Number of Units Outstanding (Note 4)	**18,345,439**	**18,995,200**
Net Assets per Unit		
Preferred share (Note 2)	**$ 15.00**	$ 15.00
Class A share	**4.16**	11.16
	$ 19.16	**$ 26.16**

On Behalf of the Board of Directors

John P. Mulvihill, Director

Robert W. Korthals, Director

The notes are an integral part of the Financial Statements.

Statements of Operations and Retained Earnings (Deficit)

Years ended October 31, 2008 and 2007

	2008	2007
REVENUE		
Interest	**$ 2,269,342**	$ 1,533,810
Dividends	**14,636,116**	16,490,571
	16,905,458	**18,024,381**
Net realized gains (losses) on investments	**(38,483,993)**	35,163,045
Net realized losses on short-term investments	**(59,314)**	–
Net realized gains (losses) on derivatives	**12,021,829**	(1,168,065)
Total Net Realized Gains (Losses)	**(26,521,478)**	**33,994,980**
TOTAL REVENUE	**(9,616,020)**	**52,019,361**
EXPENSES (Note 5)		
Management fees	**3,779,038**	4,625,589
Administrative and other expenses	**153,126**	230,675
Transaction fees (Notes 2 and 8)	**165,463**	334,371
Custodian fees	**65,755**	74,333
Audit fees	**36,222**	37,149
Director fees	**19,482**	20,727
Independant review committee fees	**3,865**	–
Legal fees	**5,517**	6,118
Shareholder reporting costs	**52,843**	59,241
Capital tax	**220,000**	–
Goods and services tax	**209,136**	294,231
TOTAL EXPENSES	**4,710,447**	**5,682,434**
Net Realized Income (Loss) before Preferred Share Transactions	**(14,326,467)**	**46,336,927**
Preferred share distributions (Note 7)	**(16,369,954)**	(16,503,272)
Net Realized Income (Loss)	**(30,696,421)**	**29,833,655**
Net change in unrealized appreciation/depreciation of investments	**(85,036,846)**	(11,526,002)
Net change in unrealized depreciation of short-term investments	**5,897**	(47,128)
Total Net Change in Unrealized Appreciation/Depreciation of Investments	**(85,030,949)**	**(11,573,130)**
Amortization of premium on issue of preferred shares (Note 4)	**313,498**	316,852
Gain on retraction of preferred shares	**55,971**	10,061
	(84,661,480)	**(11,246,217)**
NET INCOME (LOSS) FOR THE YEAR	**$ (115,357,901)**	**$ 18,587,438**
NET INCOME (LOSS) PER CLASS A SHARE (based on the weighted average number of Class A shares outstanding during the year of 18,984,696; 2007 - 19,072,516)	**$ (6.08)**	**$ 0.97**
RETAINED EARNINGS (DEFICIT)		
Balance, beginning of year	**$ 18,212,643**	$ 22,718,017
Transition Adjustment (Note 2)	**–**	(126,477)
Net allocations on retractions	**3,781,387**	(80,066)
Net income (loss) for the year	**(115,357,901)**	18,587,438
Distributions on Class A shares	**(17,083,246)**	(22,886,269)
BALANCE, END OF YEAR	**$ (110,447,117)**	**$ 18,212,643**

The notes are an integral part of the Financial Statements.

Statements of Changes in Net Assets

Years ended October 31, 2008 and 2007

	2008	2007
NET ASSETS – CLASS A AND B SHARES, BEGINNING OF YEAR	$ 211,027,369	$ 216,323,006
Net Realized Income (Loss) before Preferred Share Transactions	(14,326,467)	46,336,927
Transition Adjustment (Note 2)	–	(126,477)
Class A Share Capital Transactions		
Amounts paid for shares redeemed (Note 4)	(2,813,297)	(870,329)
Amortization of Premium on Issue of Preferred Shares	313,498	316,852
Gain on Retraction of Preferred Shares	55,971	10,061
Distributions (Note 7)		
Preferred Shares		
From net investment income	(16,369,954)	(15,658,773)
From capital gains	–	(844,499)
Class A Shares		
From capital gains	(17,083,246)	(22,886,269)
Total Distributions	(33,453,200)	(39,389,541)
Net Change in Unrealized Appreciation/Depreciation of Investments	(85,030,949)	(11,573,130)
Change in Net Assets during the Year	(135,254,444)	(5,295,637)
NET ASSETS – CLASS A AND B SHARES, END OF YEAR	$ 75,772,925	$ 211,027,369

The statement of changes in net assets excludes cash flows pertaining to the Preferred shares as they are reflected as liabilities. During the year, amounts paid for the redemption of 649,761 Preferred shares (2007 - 77,863) totalled $9,746,415 (2007 - $1,167,945).

Statements of Cash Flows

Years ended October 31, 2008 and 2007

	2008	2007
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	$ 24,121,605	$ 77,251,482
Cash Flows Provided by (Used In) Operating Acivities		
Net Realized Income (Loss) before Preferred Share Transactions	(14,326,467)	46,336,927
Adjustments to Reconcile Increase/Decrease in Net Assets from Operations to Net Cash Provided by (Used In) Operating Activities		
Purchase of investment securities	(40,752,046)	(550,812,090)
Proceeds from disposition of investment securities	190,890,706	491,340,851
(Increase)/decrease in interest and dividends receivable	880,948	(246,714)
Increase/(decrease) in accrued liabilities and accrued management fees	98,476	(151,594)
Net change in unrealized depreciation of cash and short-term investments	5,897	(47,128)
	136,797,514	(13,579,748)
Cash Flows Provided by (Used In) Financing Activities		
Distributions to Class A shares	(17,083,246)	(22,886,269)
Distributions to Preferred shares	(16,369,954)	(16,503,272)
Class A share redemptions	(1,094,014)	(69,613)
Preferred share redemptions	(1,764,465)	(90,975)
	(36,311,679)	(39,550,129)
Net Increase/(Decrease) in Cash and Short-Term Investments During the Year	100,485,835	(53,129,877)
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	$ 124,607,440	$ 24,121,605
Cash and Short-Term Investments comprise of:		
Cash	$ 3,550	$ 776
Short-Term Investments	124,603,890	24,120,829
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	$ 124,607,440	$ 24,121,605

The notes are an integral part of the Financial Statements.

Statement of Investments

October 31, 2008

	Par Value/ Number of Shares/ Number of Contracts	Average Cost/ Proceeds	Fair Value	% of Portfolio
SHORT-TERM INVESTMENTS				
Treasury Bills				
Government of Canada, 2.06% - November 13, 2008	915,000	$ 913,765	$ **913,765**	
Government of Canada, 1.94% - December 11, 2008	22,985,000	22,915,072	**22,915,072**	
Government of Canada, 2.20% - January 8, 2009	5,175,000	5,151,092	**5,151,092**	
Government of Canada, 2.07% - January 22, 2009	8,890,000	8,847,220	**8,847,220**	
Province of Ontario, 2.20% - December 9, 2008	665,000	663,278	**663,278**	
Province of Ontario, 2.15% - January 16, 2009	40,445,000	40,227,001	**40,227,001**	
Province of Ontario, 2.20% - January 21, 2009	12,910,000	12,839,511	**12,839,511**	
Province of Ontario, 2.24% - February 3, 2009	22,000,000	21,872,400	**21,872,400**	
Total Treasury Bills		**113,429,339**	**113,429,339**	90.9 %
Bonds				
Export Development Corporation, 5.000% - February 9, 2009	11,095,000	**11,219,904**	**11,174,551**	8.9 %
		124,649,243	**124,603,890**	**99.8 %**
Accrued Interest			**199,481**	**0.2 %**
TOTAL SHORT-TERM INVESTMENTS		**$ 124,649,243**	**$ 124,803,371**	**100.0 %**
INVESTMENTS				
Canadian Common Shares				
Bank of Montreal	751,300	$ 50,026,315	$ **32,320,926**	
Canadian Imperial Bank of Commerce	751,800	67,584,169	**40,988,136**	
Royal Bank of Canada	1,278,000	66,418,779	**59,720,940**	
The Bank of Nova Scotia	1,290,000	64,323,028	**51,832,200**	
The Toronto-Dominion Bank	1,026,100	69,387,695	**58,077,260**	
Total Canadian Common Shares		**$ 317,739,986**	**$ 242,939,462**	**102.2 %**
OPTIONS				
Written Covered Call Options (100 shares per contract)				
Bank of Montreal - November 2008 @ $42	(792)	$ (190,872)	$ **(336,149)**	
Bank of Montreal - December 2008 @ $45	(2,213)	(495,712)	**(811,184)**	
Canadian Imperial Bank of Commerce - November 2008 @ $58	(1,500)	(463,500)	**(321,291)**	
Royal Bank of Canada - November 2008 @ $52	(1,080)	(159,840)	**(32,566)**	
Royal Bank of Canada - December 2008 @ $46	(1,700)	(458,150)	**(964,587)**	
Royal Bank of Canada - December 2008 @ $50	(2,010)	(580,890)	**(648,886)**	
The Bank of Nova Scotia - November 2008 @ $47	(1,095)	(273,202)	**(121,204)**	
The Bank of Nova Scotia - December 2008 @ $41	(2,000)	(468,000)	**(700,134)**	
The Toronto-Dominion Bank - November 2008 @ $60	(1,150)	(323,150)	**(204,445)**	
The Toronto-Dominion Bank - December 2008 @ $59	(1,540)	(523,600)	**(750,168)**	
The Toronto-Dominion Bank - December 2008 @ $61	(1,007)	(326,268)	**(323,441)**	
Total Written Covered Call Options		**(4,263,184)**	**(5,214,055)**	(2.2)%
TOTAL OPTIONS		**$ (4,263,184)**	**$ (5,214,055)**	**(2.2)%**
Adjustment for transaction fees		**(90,349)**		
TOTAL INVESTMENTS		**$ 313,386,453**	**$ 237,725,407**	**100.0 %**

The notes are an integral part of the Financial Statements.

1. Corporate Information

Premium Income Corporation (the "Fund") is a mutual fund corporation incorporated under the laws of the Province of Ontario on August 27, 1996. All shares outstanding on November 1, 2010 will be redeemed by the Fund on that date.

The Fund operates under the registered name Mulvihill Premium Canadian Bank Fund.

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

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

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), which include estimates and assumptions by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Actual results may differ from estimates. The Fund has adopted, effective November 1, 2006, the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, "Financial Instruments - Recognition and Measurement". The standard requires that the fair value of securities which are traded in active markets be measured based on bid price and transaction fees, such as brokerage commissions, incurred in the purchase or sale of securities by the Fund be charged to net income in the period incurred. The standard has been adopted retrospectively with no restatement of prior periods' comparative amounts.

As a result of the adoption of the standard, the Fund recorded a transition adjustment to the 2007 opening retained earnings and net assets in the amount of $126,477. This transition adjustment represents the adjustment to fair value of investments from the closing sale price to the closing bid price as of October 31, 2006. The significant accounting policies of the Fund are as follows:

Valuation of Investments

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

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

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

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

Transaction Fees

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

Investment Transactions and Income

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

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

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

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

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

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

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

(ii) Settlement of purchased put options whereby realized gains are equivalent to the difference between the exercise price of the option less the premium paid; and

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

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

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

Redeemable Preferred Shares

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

Premium on Preferred Shares

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

New Accounting Standards

Commencing November 1, 2007, the Fund adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862 “Financial Instruments - Disclosures” and Section 3863, “Financial Instruments - Presentation”. The new standards replace Section 3861 “Financial Instruments - Disclosure and Presentation”. The new disclosure standards increase the emphasis on the disclosure on the nature and extent of risks associated with financial instruments and how those risks are managed. The previous requirements related to presentation of financial instruments have been carried forward relatively unchanged. Adoption of the new standards does not impact the net asset value for pricing purposes, nor the calculation of net assets. These expanded disclosures are found in Note 9.

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

3. Net Asset Value

The Canadian securities regulatory authorities have published amendments to NI 81-106 that remove the requirement that net asset value be calculated in accordance with Canadian GAAP effective September 8, 2008. As a result of the amendments, the net asset value of investment Funds will continue to be calculated using the fair value of investments using the close or last trade price (“Net Asset Value”). The adoption of these new rules will result in a different Net Assets per Unit for financial reporting purposes and Net Asset Value per Unit due to the use of different valuation techniques. The Net Asset Value per Unit at October 31 is as follows:

	2008	2007
Net Asset Value (for pricing purposes)	**$19.19**	$26.17

4. Share Capital

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

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

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

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

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

During the year, 649,761 (2007 - 77,863) each of Preferred shares and Class A shares with a total retraction value of $12,559,712 (2007 - $2,037,049) were redeemed.

Issued and Outstanding

	2008	2007
18,345,439 Preferred shares (2007 - 18,995,200)	**$ 275,181,585**	$ 284,928,000
18,345,439 Class A shares (2007 - 18,995,200)	**$ 186,219,042**	$ 192,813,726
1,000 Class B shares (2007 - 1,000)	**1,000**	1,000
	$ 186,220,042	$ 192,814,726

5. Management Fees and Expenses

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

Fees are paid to Mulvihill Capital Management Inc. ("MCM") under the terms of an investment management agreement and to Mulvihill Fund Services Inc. ("Mulvihill") under the terms of a management agreement. The fees are comprised of monthly fees calculated at 1/12 of 0.80 percent and 1/12 of 0.10 percent, respectively, of the net asset value of the Fund at each month end, excluding the liability for Redeemable Preferred shares and unamortized premium on issue of Preferred shares.

6. Income Taxes

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

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

Under the dividend policy of the Fund, premiums received in respect of written options that are still outstanding at year end are not to be distributed in the year to the shareholders. The premiums retained by the Fund are subject to a refundable tax. This tax was nil for 2008 (2007 - nil).

Accumulated non-capital losses of approximately $3.7 million (2007 - nil) and capital losses of $17.5 million (2007 - nil) are available for utilization against net investment income and realized gains on sale of investments, respectively, in future years. The capital losses can be carried back for 3 years and carried forward indefinitely. The non-capital losses can be carried back for 3 years and can be carried forward for 20 years.

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

7. Distributions

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

8. Transaction Fees

Total transaction fees paid for the year ended October 31, 2008 in connection with portfolio transactions were $165,463 (2007 $334,371). Of this amount $95,251 (2007 - $71,075) was directed for payment of trading related goods and services.

9. Financial Instruments and Risk Management

The Fund's financial instruments consist of cash, investments and certain derivative contracts. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include other price risk, liquidity risk, interest rate risk, short-term investments credit rating and credit risk.

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

Other Price Risk

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

Approximately 69 percent of the Fund's net assets held at October 31, 2008 were publicly traded securities. If equity prices on the exchange increased or decreased by 10 percent as at October 31, 2008, the net assets of the Fund would have increased or decreased by $24.3M respectively or 6.9 percent of the net assets, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

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

All securities present a risk of loss of capital. The Manager moderates this risk by taking a long-term perspective and utilizing an option writing program. The maximum risk resulting from financial instruments is determined by the market value of financial instruments.

Liquidity Risk

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

Cash is required to fund redemptions. Shareholders must surrender shares at least 5 business days prior to the last day of the month and receive payment on or before 5 business days following the month end valuation date. Therefore the Fund has a maximum of 10 business days to generate sufficient cash to fund redemptions mitigating liquidity issues.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. The financial instruments which potentially expose the Fund to interest rate risk are the short term fixed income securities. Effective durations, a commonly used measure of interest rate risk, incorporates a security's yield, coupon, final maturity, call features and other embedded options into one number expressed in years that indicates how price-sensitive a security or portfolio of securities is to changes in interest rates. The effective duration of a security or portfolio of securities indicates the approximate percentage change in fair value expected for a one percent change in interest rates. The longer the duration, the more sensitive the security or portfolio is to changes in interest rates. The Fund has minimal sensitivity to change in rates since they are usually held to maturity and short-term in nature.

Short-Term Investments Credit Rating

The following are credit ratings for short-term investments held by the Fund as at October 31, 2008:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Government of Canada Treasury Bills	AAA	30%
Province of Ontario Treasury Bills	AA	61%
Bonds	AAA	9%
Total		**100%**

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

Credit Risk

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

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

The following are credit ratings for the counterparties to derivative instruments the Fund deals with during the period, based on Standard & Poor's credit rating as of October 31, 2008:

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

10. Future Accounting Policy Changes

At June 30, 2008 the Manager has developed a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants ("CICA") for changeover to International Financial Reporting Standards ("IFRS"). The key elements of the plan include disclosures of the qualitative impact in the 2008 annual financial statements, the disclosures of the quantitative impact, if any, in the 2009 financial statements and the preparation of the 2011 financial statements in accordance with IFRS with comparatives. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of additional notes disclosures in the financial statements of the Fund.

11. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

Statement of Corporate Governance Practices

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

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

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

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

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

Independent Review Committee

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

In accordance with NI 81-107, the IRC became operational on November 1, 2007. Members of the IRC are Robert W. Korthals, Michael M. Koerner, and effective January 1, 2009, Robert G. Bertram.

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

MULVIHILL HYBRID INCOME FUNDS	**SYMBOL**	**HIGH** For the period November 1, 2007 to October 31, 2008	**LOW**
MULVIHILL PLATINUM			
Mulvihill *Government Strip Bond Fund*	GSB.UN	$ 22.60	$ 20.08
Mulvihill Pro-AMS *U.S. Fund*	PAM.UN	$ 23.40	$ 21.61
Mulvihill Pro-AMS *RSP Split Share Fund*	SPL.A/SPL.B	$ 9.11/$16.73	$ 7.50/$14.48
MULVIHILL PREMIUM			
Mulvihill *Core Canadian Dividend Fund*	CDD.UN	$ 9.94	$ 5.03
Mulvihill Premium *Canadian Fund*	FPI.UN	$ 17.99	$ 10.00
Mulvihill Premium *60 Plus Fund*	SIX.UN	$ 17.22	$ 10.16
Mulvihill Premium *Global Plus Fund*	GIP.UN	$ 11.24	$ 5.56
Mulvihill Premium *Canadian Bank Fund*	PIC.A/PIC.PR.A	$ 10.14/$15.66	$ 4.28/$11.98
Mulvihill Premium *Split Share Fund*	MUH.A/MUH.PR.A	$ 6.70/$15.65	$ 1.31/$12.25
Mulvihill *S Split Fund*	SBN/SBN.PR.A	$ 11.88/$10.48	$ 5.60/$ 8.00
Mulvihill *Top 10 Canadian Financial Fund*	TCT.UN	$ 15.00	$ 9.16
Mulvihill *Top 10 Split Fund*	TXT.UN/TXT.PR.A	$ 9.50/$13.51	$ 3.00/$11.02
Mulvihill *World Financial Split Fund*	WFS/WFS.PR.A	$ 10.21/$10.75	$ 2.66/$ 6.66

Board of Directors

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

Sheila S. Szela[1]
Vice President, Finance & CFO,
Mulvihill Capital Management Inc.

Michael M. Koerner[1,2]
Corporate Director

Robert W. Korthals[1,2]
Corporate Director

Robert G. Bertram[2,3]
Corporate Director

1 Audit Committee
2 Independent Review Committee
3 Effective January 1, 2009

Information

Auditors:
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Toronto Stock Exchange
trading under
PIC.A/PIC.PR.A

Custodian:
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Mulvihill *World Financial Split Fund*

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