Premium Income Corporation

Annual Report 2014

strathbridge
ASSET MANAGEMENT

Letter to Shareholders

We are pleased to present the 2014 annual report containing the management report of fund performance and the audited financial statements of Premium Income Corporation.

North American equity markets advanced for the fiscal year ended October 31, 2014 due to improved economic numbers as well as expectations that central banks would maintain accommodative monetary policy. Although markets experienced increased volatility from late September to the middle of October as geopolitical concerns, tepid global growth, and Ebola fears gripped the market, North American equities gained their footing and rallied strongly into the end of October on the back of stronger earnings.

The total return for the S&P/TSX Diversified Banks Index for the year was 18.0 percent, which for the second consecutive year significantly outperformed the broader S&P/TSX Composite Index which increased 12.6 percent. The five banks that make up the portfolio advanced strongly during the period with the Canadian Imperial Bank of Commerce leading the group up 20.8 percent, while The Bank of Nova Scotia lagged the group, but still returned 13.1 percent during the period.

The net asset value per Unit of the Fund increased from $21.95 per Unit at October 31, 2013 to $23.60 per Unit at October 31, 2014, primarily reflecting a net gain on portfolio investments. During the year ended October 31, 2014, the Fund paid cash distributions of $0.86 per Preferred share and $0.81 per Class A share. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

On October 31, 2014, the Fund filed a final short form prospectus relating to a treasury offering of Preferred shares and Class A shares. Investors may purchase Preferred shares and Class A shares by way of cash payment or through an exchange of freely tradable shares of the five banks (collectively, the "Banks") included in the portfolio and of shares of the National Bank of Canada. The Class A shares were priced at $8.92 per share and the Preferred shares were priced at $15.60 per share. The pricing of the issue was determined so as to be non-dilutive to the most recently calculated net asset value per Unit on the date of the pricing of the issue. Upon closing of this offering on November 10, 2014, the Fund completed the issuance of 900,000 Class A shares and 900,000 Preferred shares for aggregate gross proceeds of $22.1 million.

On November 12, 2014, the Board of Directors approved a proposal to change the investment restrictions and the investment strategy of the Fund. The purpose of the proposal is to permit the Manager to have greater flexibility in managing the Fund's portfolio securities and includes: (i) changing the Fund's investment restrictions so that the Fund must invest at least 75 percent of its net asset value in common shares of the Banks, (ii) changing the Fund's investment strategy so that the Fund may invest up to 25 percent of its net asset value in common shares of National Bank of Canada, (iii) changing the Fund's investment restrictions so that the Fund may purchase securities other than common shares of the Banks and National Bank of Canada or public investment funds including exchange traded funds and other Strathbridge Funds (provided that no more than 15 percent of the net asset value of the Fund may be invested in securities of other Strathbridge Funds) and (iv) enabling the Manager to invest the Fund's portfolio entirely in cash or cash equivalents in its discretion. A special meeting of shareholders of the Fund has been called to consider and vote upon the proposal. Further details of the proposal are outlined in a joint management information circular mailed to shareholders of record on November 21, 2014. The information circular is also available online for your convenience at www.strathbridge.com.

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 & CEO
Strathbridge Asset Management Inc.

The Fund

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

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

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

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

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Management Report of Fund Performance

This annual management report of fund performance contains the financial highlights for the year ended October 31, 2014 of Premium Income Corporation (the "Fund"). The annual financial statements of the Fund are attached.

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

Investment Objectives and Strategies

The Fund's investment objectives are to:

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

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

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

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

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

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

Risk

Risks associated with an investment in the securities of the Fund are discussed in the Fund's 2014 annual information form, which is available on the Fund's website at www.strathbridge.com or on SEDAR at www.sedar.com. There were no changes to the Fund over the year that materially affected the risks associated with an investment in the securities of the Fund.

Results of Operations

Distributions

For the year ended October 31, 2014, cash distributions of $0.86 per Preferred share and $0.81 per Class A share were paid to the respective classes of shareholders, both unchanged from the prior year. Since the inception of the Fund in October 1996, the Fund has paid total cash distributions of $15.74 per Preferred share and $21.35 per Class A share.

Revenue and Expenses

The Fund's total revenue was $0.92 per Unit for the year ended October 31, 2014, up $0.05 per Unit compared to the prior year. The increase in revenue reflected higher dividends per Unit recorded in fiscal 2014. Total expenses for 2014 were $0.28 per Unit, up $0.01 per Unit from a year ago. Higher management fees partially offset by the non-recurring costs associated with the rights offering in November 2012 contributed to the slight increase. The Fund had a net realized and unrealized gain of $2.69 per Unit in 2014 as compared to a net realized and unrealized gain of $2.51 per Unit a year earlier.

Net Asset Value

The net asset value per Unit of the Fund increased 7.5 percent from $21.95 per Unit at October 31, 2013 to $23.60 per Unit at October 31, 2014. The aggregate net asset value of the Fund increased $16.1 million, from $214.0 million at October 31, 2013 to $230.1 million at October 31, 2014, primarily attributable to net investment income of $6.2 million and net gain on investments of $26.2 million, partially offset by cash distributions of $16.3 million to Class A and Preferred shareholders during the year.

Recent Developments

On October 17, 2014, the Fund filed a Notice of Intention to make a normal course issuer bid to purchase up to 974,926 Class A shares and 974,926 Preferred shares representing approximately 10 percent of the public float of 9,749,268 Class A shares and 9,749,268 Preferred shares, as of September 30, 2014. The Fund may purchase up to 194,985 of each respective class of shares in any 30 day period which is 2 percent of the 9,749,268 shares issued and outstanding of each respective class as at September 30, 2014. The shares may be purchased for cancellation from October 22, 2014 to October 21, 2015 through the facilities of the Toronto Stock Exchange ("TSX") or other eligible alternative market and may only be purchased together as a Unit (consisting of one Class A share and one Preferred share) at a price per share not exceeding the last published net asset value per Unit. As at October 31, 2014, nil Units have been purchased by the Fund.

On October 31, 2014, the Fund filed a final short form prospectus relating to a treasury offering of Preferred shares and Class A shares. Investors may purchase Preferred shares and Class A shares by way of cash payment or through an exchange of freely tradable shares of the five banks included in the portfolio and of shares of the National Bank of Canada (the "Exchange Eligible Issuers"). Under the exchange option, the number of Units issuable in exchange for shares of any Exchange Eligible Issuer was determined by dividing the adjusted weighted average trading price of the respective Exchange Eligible Issuer on the TSX for the three consecutive trading days ended October 28, 2014 by the offering price of $24.52 per Unit (consisting of one Class A Share at a price of $8.92 and one Preferred Share at a price of $15.60). The offering price was determined so as to be non-dilutive to the most recently calculated net asset value per Unit on the date of the pricing of the issue. Upon closing of this offering on November 10, 2014, the Fund completed the issuance of 900,000 Class A shares and 900,000 Preferred shares for aggregate gross proceeds of $22.1 million.

Future Accounting Policy Changes

Strathbridge Asset Management Inc. (“Strathbridge”), as the Manager of the Fund, has developed a changeover plan to meet the timetable published by the Chartered Professional Accountants of Canada for changeover to International Financial Reporting Standards (“IFRS”).

The changeover plan was prepared to address the requirements and includes disclosures of the qualitative and quantitative impact, if any, of the changeover to IFRS in the 2013 financial statements and the preparation of the 2014 financial statements in accordance with IFRS with comparatives. In January 2011, the Canadian Accounting Standards Board (“AcSB”) approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies (“AcG-18”). Subsequently, in December 2011, AcSB extended the deferral for another year to January 1, 2014. As a result, the Fund will adopt IFRS for its fiscal period beginning November 1, 2014 and will issue its first semi-annual and annual financial statements in accordance with IFRS, with comparative information, for the period ended April 30, 2015 and year ending October 31, 2015 respectively.

As at October 31, 2014, some anticipated changes to financial reporting include:

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

Based on the Manager’s current understanding and analysis of IFRS as compared to the accounting policies under Canadian GAAP, the Manager does not anticipate that the transition to IFRS will have a material impact on the Fund’s net assets per Unit, systems and processes, and it is expected that it will mainly result in additional note disclosure in the financial statements.

Related Party Transactions

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

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

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

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

Independent Review Committee

National Instrument 81-107 - Independent Review Committee for Investment Funds (“NI 81-107”) requires all publicly offered investment funds to establish an IRC to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions. The Chief Compliance Officer, designated by the Manager, is in charge of facilitating the fulfillment of these obligations.

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

Financial Highlights

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

The net assets per Unit presented in the financial statements differs from the net asset value per Unit calculated weekly, primarily as a result of investments being valued at bid prices for financial statement purposes and at closing prices for weekly net asset value purposes.

Years ended October 31	2014	2013	2012	2011	2010
THE FUND'S NET ASSETS PER UNIT					
Net Assets, beginning of year (based on bid prices)(1)	**$ 21.94**	$ 20.53	$ 20.79	$ 22.53(4)	$ 19.15
INCREASE (DECREASE) FROM OPERATIONS					
Total revenue	**0.92**	0.87	0.91	0.83	0.87
Total expenses	**(0.28)**	(0.27)	(0.25)	(0.28)	(0.32)
Realized gain (loss) for the period	**2.40**	0.33	(0.47)	1.43	0.82
Unrealized gain (loss) for the period	**0.29**	2.18	1.22	(2.04)	1.53
Total Increase (Decrease) from Operations(2)	**3.33**	3.11	1.41	(0.06)	2.90
DISTRIBUTIONS					
Preferred Share					
From net investment income	**(0.86)**	(0.86)	(0.86)	(0.84)	(0.86)
Non-taxable distributions	**–**	–	–	(0.02)	–
Total Preferred Share Distributions	**(0.86)**	(0.86)	(0.86)	(0.86)	(0.86)
Class A Share					
From net investment income	**–**	–	–	–	(0.60)
Non-taxable distributions	**(0.81)**	(0.81)	(0.81)	(0.81)	–
Total Class A Share Distributions	**(0.81)**	(0.81)	(0.81)	(0.81)	(0.60)
Total Annual Distributions(3)	**(1.67)**	(1.67)	(1.67)	(1.67)	(1.46)
Net Assets, as at October 31 (based on bid prices)(1)	**$ 23.60**	$ 21.94	$ 20.53	$ 20.79	$ 20.56

(1) Net Assets per Unit is the difference between the aggregate value of the assets including the valuation of securities at bid prices and the aggregate value of the liabilities excluding the Redeemable Preferred Share liability, divided by the number of Units then outstanding. Net Assets per Unit were derived from the Fund's audited annual financial statements that were prepared in accordance with Canadian GAAP.
(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized and unrealized gain (loss), less expenses, excluding Preferred share distributions, and is calculated based on the weighted average number of Units outstanding during the year. The schedule is not intended to total to the ending net assets as calculations are based on the weighted average number of Units outstanding during the year.
(3) Distributions to shareholders are based on the number of shares outstanding on the record date for each distribution. All distributions were paid in cash.
(4) Net Assets per Unit was adjusted for the consolidation of the Class A shares effective the opening of trading on November 1, 2010. Each shareholder received 0.738208641 new Class A shares for each Class A share held. The total value of a shareholder's investment did not change; however, the number of Class A shares reflected in the shareholder's account declined and the Net Assets per Class A share increased proportionately.

Years ended October 31	2014	2013	2012	2011	2010
RATIOS/SUPPLEMENTAL DATA					
Net Asset Value, excluding the Redeemable Preferred Share liability ($millions)(1)	**$ 230.08**	$ 213.95	$ 195.39	$ 198.09	$ 292.34
Net Asset Value ($millions)(1)	**$ 83.84**	$ 67.71	$ 52.63	$ 55.33	$ 79.25
Number of Units outstanding(1)	**9,749,268**	9,749,268	9,517,553	9,517,553	14,206,046
Management expense ratio(2)	**1.16%**	1.30%	1.17%	1.15%	1.44%
Portfolio turnover rate(3)	**83.84%**	76.34%	53.70%	81.29%	93.32%
Trading expense ratio(4)	**0.04%**	0.05%	0.04%	0.06%	0.09%
Net Asset Value per Unit(5)	**$ 23.60**	$ 21.95	$ 20.53	$ 20.81(6)	$ 20.58
Closing market price - Preferred	**$ 15.60**	$ 15.20	$ 15.49	$ 14.58	$ 15.00
Closing market price - Class A	**$ 8.31**	$ 6.57	$ 5.85	$ 6.03	$ 5.84

(1) This information is provided as at October 31. One Unit consists of one Preferred share and one Class A share.
(2) The management expense ratio ("MER") is the sum of all fees and expenses for the stated period, including federal and provincial sales taxes and capital tax but excluding transaction fees, income taxes and Preferred share distributions, divided by the average net asset value excluding the Redeemable Preferred Share liability. The MER for 2013 includes rights offering costs. The MER for 2013 excluding rights offering costs is 1.19%. The MER for 2011 includes warrant offering costs and special resolution recovery. The MER for 2011 excluding warrant offering costs and special resolution recovery is 1.13%. The MER for 2010 includes the special resolution expense. The MER for 2010 excluding the special resolution expense is 1.10%. The MER, including Preferred share distributions, is 4.92%, 5.50% 5.34%, 5.02% and 5.60% for 2014, 2013, 2012, 2011 and 2010 respectively.
(3) Portfolio turnover rate is calculated based on the lesser of purchases or sales of investments, excluding short-term investments, divided by the average value of the portfolio securities. The Fund employs an option overlay strategy which can result in higher portfolio turnover by virtue of option exercises, when compared to a conventional equity mutual fund.
(4) Trading expense ratio represents total commissions expressed as a percentage of the daily average net asset value during the year.
(5) Net Asset Value per Unit is the difference between the aggregate value of the assets including the valuation of securities at closing prices and the aggregate value of the liabilities excluding the Redeemable Preferred Share liability, divided by the number of Units then outstanding.
(6) Net Asset Value per Unit was adjusted for the consolidation of the Class A shares effective the opening of trading on November 1, 2010. Each shareholder received 0.738208641 new Class A shares for each Class A share held. The total value of a shareholder's investment did not change; however, the number of Class A shares reflected in the shareholder's account declined and the Net Asset Value per Class A share increased proportionately.

Management Fees

Strathbridge, as the Investment Manager of the Fund, is entitled to fees under the Investment Management Agreement calculated monthly as 1/12 of 0.80 percent of the net asset value of the Fund at each month end. Services received under the Investment Management Agreement include the making of all investment decisions and writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. Strathbridge also makes all decisions as to the purchase and sale of securities in the Fund's portfolio and as to the execution of all portfolio and other transactions.

Strathbridge, as the Manager of the Fund, is entitled to fees under the Management Agreement calculated monthly as 1/12 of 0.10 percent of the net asset value of the Fund at each month end. Services received under the Management Agreement include providing or arranging for required administrative services to the Fund.

Past Performance

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

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

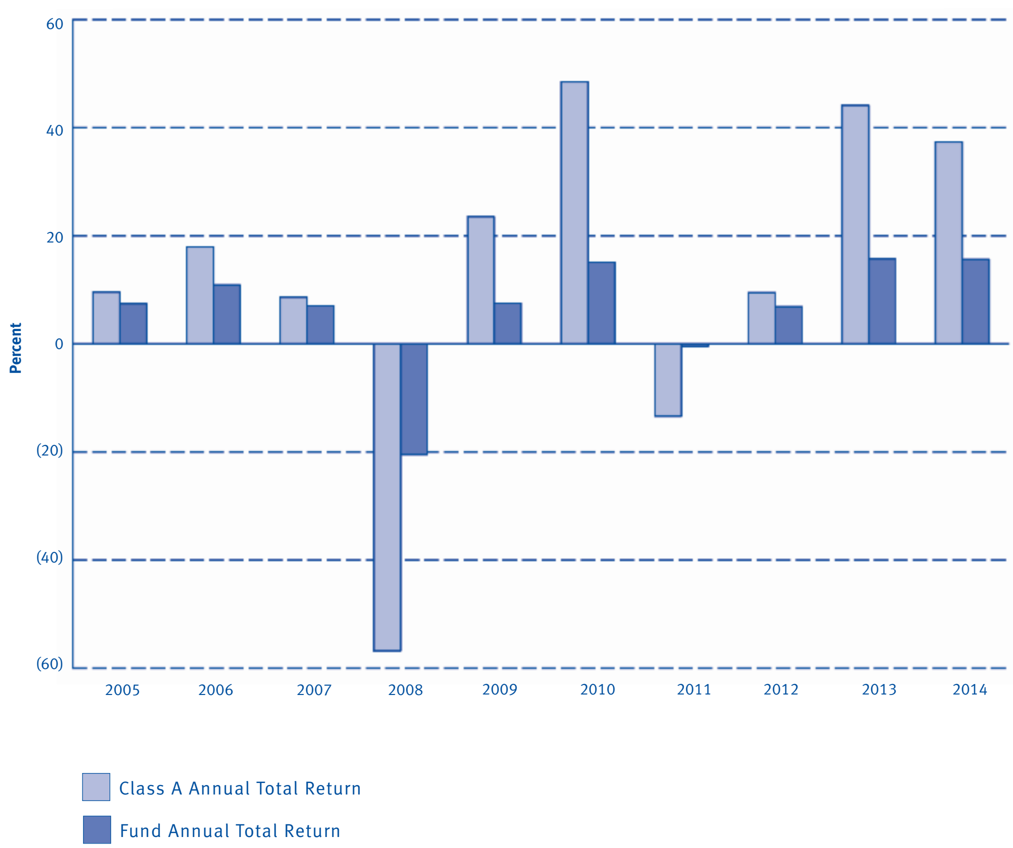
(2) information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

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

Year-By-Year Returns

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

Annual Total Return



Annual Compound Returns

The following table shows the Fund's historical annual compound return (net of expenses) for the periods ended October 31, 2014, as compared to the performance of the S&P/TSX Diversified Banks Index.

	One Year	Three Years	Five Years	Ten Years
Premium Income Corporation	**15.63%**	12.67%	10.38%	5.98%
Premium Income Corporation - Preferred	**5.88%**	5.88%	5.88%	5.89%
Premium Income Corporation - Class A	**37.32%**	29.42%	22.75%	7.64%
S&P/TSX Diversified Banks Index[1]	**17.95%**	18.08%	14.33%	11.14%

[1] The S&P/TSX Diversified Banks Index is a subset of the S&P/TSX Composite Index.

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

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

Portfolio Manager Report

North American equity markets advanced for the fiscal year ending October 31, 2014 due to improved economic numbers as well as expectations that central banks would maintain accommodative monetary policy. Although markets experienced increased volatility from late September to the middle of October as geopolitical concerns, tepid global growth, and Ebola fears gripped the market, North American equities gained their footing and rallied strongly into the end of October on the back of stronger earnings.

The Canadian banks continued to generate stable earnings in 2014 on stronger capital markets that resulted in higher wealth management and trading revenues. Capital ratios also continued to rise with an average Basel III Common Equity Tier 1 capital ratio of 9.8 percent for the group, well above the 8 percent minimum common equity Tier 1 ratio requirement commencing January 1, 2016. The strong capital ratios have allowed all five banks in the portfolio to increase their dividend during the year by an average of 7.7 percent. The Canadian banks continued to demonstrate strong balance sheets and capital adequacy as they were ranked number one for the seventh consecutive year by the Geneva based World Economic Forum in the "Soundness of Banks" category.

The net asset value of the Fund at October 31, 2014 was $23.60 per Unit compared to $21.95 per unit at October 31, 2013. Preferred shareholders received cash distributions of $0.8625 per share during the year while Class A shareholders received cash distributions of $0.81276 per share. The Fund's Preferred shares, listed on the TSX as PIC.PR.A, and the Fund's Class A shares, listed on the TSX as PIC.A, closed on October 31, 2014 at $15.60 per share and $8.31 per share, respectively. When combined, this represents a premium of 1.3 percent to the net asset value of the Fund.

For the year ended October 31, 2014, the Fund's annual total return per Unit and per Class A share, including reinvestment of distributions, were 15.6 percent and 37.3 percent respectively. The Fund maintained its invested position during the majority of the year and ended October 31, 2014 with a cash position of 1 percent, unchanged from the prior year. The total return for the S&P/TSX Diversified Banks Index for the year was 18.0 percent, which for the second consecutive year significantly outperformed the broader S&P/TSX Composite Index which increased 12.6 percent. The five banks that make up the portfolio advanced strongly during the period with the Canadian Imperial Bank of Commerce leading the group up 20.8 percent, while The Bank of Nova Scotia lagged the group, but still returned 13.1 percent during the period.

Volatility was subdued for most of the year for the Canadian banks but the Fund did selectively write covered-call options from time to time as the higher volatility in February and late September did compensate the Fund enough to justify this activity. During the year, the net realized gain on options attributable to the SSO strategy was $0.02 per Unit. The Fund ended 2014 with nil percent of the portfolio subject to covered calls.

Similar to 2014, the profitability of Canadian banks is likely to grow at a slower pace in 2015 due to decelerating consumer loan growth, low net interest margins and volatile capital markets. However, in the context of low interest rates, the valuations of companies in the portfolio remain at attractive levels when measured by price to earnings ratios and current dividend yields which should continue to act as support for the share prices. Due to their strong capital ratios, Canadian banks are likely to continue to return capital to shareholders in the form of dividend growth and share buybacks.

Summary of Investment Portfolio

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

Asset Mix

October 31, 2014

	% OF NET ASSET VALUE*
Financial Institutions	99%
Cash and Short-Term Investments	1%
	100%

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

Portfolio Holdings

October 31, 2014

	% OF NET ASSET VALUE*
Bank of Montreal	22%
Royal Bank of Canada	21%
The Toronto-Dominion Bank	20%
Canadian Imperial Bank of Commerce	19%
The Bank of Nova Scotia	17%
Cash and Short-Term Investments	1%

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

Forward-Looking Statements

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

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

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

Management's Responsibility for Financial Reporting

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

The financial statements have been prepared by management in accordance with 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 3 of the annual financial statements.

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

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

John P. Mulvihill
Director
Strathbridge Asset Management Inc.
December 3, 2014

John D. Germain
Director
Strathbridge Asset Management Inc.

To the Shareholders of Premium Income Corporation

We have audited the accompanying financial statements of Premium Income Corporation, which comprise the statement of investments as at October 31, 2014, the statements of financial position as at October 31, 2014 and 2013, and the statements of operations and deficit, changes in net assets and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Premium Income Corporation as at October 31, 2014 and 2013, and the results of its operation, changes in its net assets, and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte LLP

Chartered Professional Accountants
Chartered Accountants
Licensed Public Accountants
December 3, 2014
Toronto, Ontario

Statements of Financial Position

As at October 31

	2014	2013
ASSETS		
Investments at fair value (cost - $199,470,541; 2013 - $186,243,869)	**$ 227,466,529**	$ 211,413,240
Short-term investments at fair value (cost - $997,200; 2013 - $999,100)	**997,200**	999,100
Cash	**872,525**	1,465,368
Interest and dividends receivable	**963,474**	833,436
TOTAL ASSETS	**$ 230,299,728**	$ 214,711,144
LIABILITIES		
Accrued management fees	**$ 176,019**	$ 163,679
Accrued liabilities	**72,005**	102,369
Due to brokers - investments	**–**	528,414
Redemptions payable	**–**	3,226
Redeemable Preferred shares (Note 5)	**146,239,020**	146,239,020
	146,487,044	147,036,708
EQUITY		
Class A and Class B shares (Note 5)	**132,166,887**	132,166,887
Deficit	**(48,354,203)**	(64,492,451)
	83,812,684	67,674,436
TOTAL LIABILITIES AND EQUITY	**$ 230,299,728**	$ 214,711,144
Number of Units Outstanding (Note 5)	**9,749,268**	9,749,268
Net Assets per Unit		
Preferred share	**$ 15.0000**	$ 15.0000
Class A share	**8.5968**	6.9415
Net Assets per Unit (Note 4)	**$ 23.5968**	$ 21.9415

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 Deficit

Years ended October 31

	2014	2013
REVENUE		
Dividends	$ 8,931,681	$ 8,394,208
Interest	10,388	47,899
TOTAL REVENUE	8,942,069	8,442,107
EXPENSES (Note 6)		
Management fees	2,022,547	1,818,621
Administrative and other expenses	217,092	201,891
Transaction fees (Note 9)	97,304	91,597
Custodian fees	42,090	41,656
Audit fees	36,040	36,961
Director fees	20,400	20,545
Independent review committee fees	7,070	7,867
Legal fees	1,087	7,798
Shareholder reporting costs	29,720	34,450
Harmonized sales tax	222,760	214,223
Subtotal Expenses	2,696,110	2,475,609
Rights offering costs (Note 5)	–	212,670
TOTAL EXPENSES	2,696,110	2,688,279
Net Investment Income before Distributions	6,245,959	5,753,828
Preferred share distributions (Note 8)	(8,408,744)	(8,408,871)
Net Investment Loss	(2,162,785)	(2,655,043)
Net realized gain on investments	23,170,029	5,821,394
Net realized gain (loss) on derivatives	228,202	(2,657,513)
Net Gain on Sale of Investments	23,398,231	3,163,881
Net change in unrealized appreciation/depreciation of investments	2,826,617	21,205,809
Net Gain on Investments	26,224,848	24,369,690
NET INCOME FOR THE YEAR	$ 24,062,063	$ 21,714,647
NET INCOME PER CLASS A SHARE (based on the weighted average number of Class A shares outstanding during the year of 9,749,268; 2013 - 9,722,735)	$ 2.4681	$ 2.2334
DEFICIT		
Balance, beginning of year	$ (64,492,451)	$ (78,284,136)
Net allocations on retractions of Class A shares (Note 5)	–	972
Net income for the year	24,062,063	21,714,647
Class A share distributions	(7,923,815)	(7,923,934)
BALANCE, END OF YEAR	$ (48,354,203)	$ (64,492,451)

Statements of Changes in Net Assets

Years ended October 31

	2014	2013
NET ASSETS – CLASS A AND B SHARES, BEGINNING OF YEAR	**$ 67,674,436**	$ 52,594,570
Net Investment Income before Distributions	**6,245,959**	5,753,828
Net Gain on Investments	**26,224,848**	24,369,690
Class A Share Capital Transactions		
Proceeds from insurance of Class A shares, net of rights exercise fees (Note 5)	**–**	1,290,174
Value for Class A shares redeemed (Note 5)	**–**	(1,021)
	–	1,289,153
Distributions		
Preferred Shares		
From net investment income	**(8,408,744)**	(8,408,871)
Class A Shares		
Non-taxable distributions	**(7,923,815)**	(7,923,934)
	(16,332,559)	(16,332,805)
Changes in Net Assets during the Year	**16,138,248**	15,079,866
NET ASSETS – CLASS A AND B SHARES, END OF YEAR	**$ 83,812,684**	$ 67,674,436

Statements of Cash Flows

Years ended October 31

	2014	2013
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	**$ 2,464,468**	$ 1,583,669
Cash Flows Provided by (Used In) Operating Activities		
Net Investment Income before Distributions	**6,245,959**	5,753,828
Adjustments to Reconcile Net Cash Flows Provided by (Used In) Operating Activities		
Purchase of investment securities	**(185,154,996)**	(149,591,855)
Proceeds from disposition of investment securities	**195,326,555**	155,155,410
(Increase)/decrease in interest and dividends receivable and due from brokers - investments	**(130,038)**	2,739,703
Increase/(decrease) in accrued management fees, accrued liabilities and due to brokers - investments	**(546,438)**	(1,611,586)
	9,495,083	6,691,672
Cash Flows Provided by (Used In) Financing Activities		
Preferred share distributions	**(8,408,744)**	(8,408,871)
Class A share distributions	**(7,923,815)**	(7,923,934)
Preferred share redemptions	**(2,205)**	–
Class A share redemptions	**(1,021)**	–
Proceeds from issuance of Units, net of rights exercise fees	**–**	4,768,104
	(16,335,785)	(11,564,701)
Net Increase/(Decrease) in Cash and Short-Term Investments During the Year	**(594,743)**	880,799
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	**$ 1,869,725**	$ 2,464,468
Cash and Short-Term Investments comprised of:		
Cash	**$ 872,525**	$ 1,465,368
Short-Term Investments	**997,200**	999,100
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	**$ 1,869,725**	$ 2,464,468

The notes are an integral part of the Financial Statements.

Statement of Investments

As at October 31, 2014

	Par Value/ Number of Shares	Average Cost	Fair Value	% of Net Assets
SHORT-TERM INVESTMENTS				
Bankers' Acceptances				
National Bank of Canada, 1.15% - November 4, 2014	1,000,000	$ 997,200	$ 997,200	
Accrued Interest			2,706	
TOTAL SHORT-TERM INVESTMENTS		$ 997,200	$ 999,906	0.4 %
INVESTMENTS				
Canadian Common Shares				
Bank of Montreal	620,600	$ 45,081,996	$ 50,721,638	
Canadian Imperial Bank of Commerce	412,700	35,673,236	42,458,576	
Royal Bank of Canada	616,000	43,588,888	49,280,000	
The Bank of Nova Scotia	576,100	34,690,754	39,750,900	
The Toronto-Dominion Bank	816,001	40,498,425	45,255,415	
Total Canadian Common Shares		$ 199,533,299	$ 227,466,529	98.9 %
Adjustment for transaction fees		(62,758)		
TOTAL INVESTMENTS		$ 199,470,541	$ 227,466,529	98.9 %
OTHER NET ASSETS			1,585,269	0.7 %
TOTAL NET ASSETS, excluding the Redeemable Preferred Share liability			$ 230,051,704	100.0 %

1. Corporate Information

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

Strathbridge Asset Management Inc. ("Strathbridge") is the Manager as well as the Investment Manager of the Fund.

2. Investment Objectives of the Fund

The Fund's investment objectives are to:

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

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

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

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

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

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

3. 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 made by management that may affect the reported amounts of assets, liabilities, income and expenses during the reported periods. Primary estimates include valuation of investments. While management believes that the estimates used in preparing its financial statements are reasonable and prudent, actual results could differ from these estimates.

Financial Instruments – Disclosures

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

The significant accounting policies of the Fund are as follows:

Valuation of Investments

Investments are recorded in the financial statements at their fair value which is determined by the closing bid price for long positions and by the closing ask price for short positions from the recognized stock exchange on which the securities are listed or principally traded. If no bid or ask prices are available, the securities are valued at the closing sale price or the Manager may estimate fair value using appropriate and accepted industry valuation techniques including valuation models. The fair value of an investment, determined using valuation models, requires the use of inputs and assumptions based on observable market data including volatility and other applicable rates or prices. In limited circumstances, the fair value of a security may be determined using valuation techniques that are not supported by observable market data. Over-the-counter options are valued using the Black-Scholes valuation model.

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.

Transaction Fees

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

Investment Transactions and Income

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

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

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

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

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

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

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

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

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

Option premiums received are reflected as deferred credits in investments so long as the options are outstanding. Any difference resulting from revaluation is included in net 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.

4. Net Asset Value

The net asset value of the Fund is calculated using the fair value of investments as the close or last trade price. The net assets per Unit is calculated using the fair value of investments at the closing bid price. The net assets per Unit for financial reporting purposes and net asset value per Unit for pricing purposes will not be the same due to the use of different valuation techniques.

The difference between the net asset value per Unit for pricing purposes and the net assets per Unit reflected in the financial statements is as follows:

	2014	2013
Net Asset Value per Unit (for pricing purposes)	**$23.5999**	$21.9451
Difference	**(0.0031)**	(0.0036)
Net Assets per Unit (for financial statement purposes)	**$23.5968**	$21.9415

5. Share Capital

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

Preferred shares and Class A shares may be surrendered at any time for retraction on the last day of a month (a “Valuation Date”). Class A shares retracted on a monthly Valuation Date will be entitled to receive a retraction price per share equal to 96 percent of the lesser of: (i) the NAV per Unit on the applicable Valuation Date less the cost to the Fund of purchasing a Preferred share in the market for cancellation; and (ii) the market price per Unit less the cost to the Fund of purchasing a Preferred share in the market for cancellation. Preferred shares retracted on a monthly Valuation Date will be entitled to receive a retraction price per share equal to 96 percent of the lesser of: (i) the NAV per Unit on the applicable Valuation Date less the cost to the Fund of purchasing a Class A share in the market for cancellation; and (ii) the lesser of (a) the market price per Unit less the cost to the Fund of purchasing a Class A share in the market for cancellation and (b) $15.00. In addition, holders of Preferred shares and Class A shares may concurrently retract one Preferred share and one Class A share on an October Valuation Date of each year at a retraction price equal to the NAV per Unit on that date.

Net allocations on retractions of Class A shares represent gains on retractions where the price paid upon retraction is less than the carry ing value of the retracted shares. Under the terms of a Recirculation Agreement, the Fund may, but is not obligated to, require the Recirculation Agent to use its best efforts to find purchasers for any Preferred shares and Class A shares tendered for retraction. The Preferred shares rank in priority to the Class A shares and the Class A shares rank in priority to the Class B shares with respect to the payment of dividends and repayment of capital on the dissolution, liquidation or winding up of the Fund.

The holders of Class B shares are not entitled to receive dividends. The Class B shares are retractable at a price of $1.00 per share. Strathbridge owns all of the issued and outstanding Class B shares.

Class B shares are entitled to one vote per share at any meeting of shareholders while Preferred shares and Class A shares are entitled to vote on certain shareholder matters only.

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

During the year, nil (2013 - 147) each of Preferred shares and Class A shares were redeemed with a total retraction value of nil (2013 - $3,226).

Issued and Outstanding

	2014	2013
9,749,268 Preferred shares (2013 - 9,749,268)	**$ 146,239,020**	$ 146,239,020
9,749,268 Class A shares (2013 - 9,749,268)	**$ 132,165,887**	$ 132,165,887
1,000 Class B shares (2013 - 1,000)	**1,000**	1,000
	$ 132,166,887	$ 132,166,887

Normal Course Issuer Bid

On January 19, 2012, the Fund renewed its previous normal course issuer bid to purchase up to 951,755 Class A shares and 951,755 Preferred shares representing approximately 10 percent of the public float as of January 10, 2012. The normal course issuer bid remained in effect until January 22, 2013, and at such time nil Units had been purchased by the Fund.

On October 17, 2014, the Fund filed a Notice of Intention to make a normal course issuer bid to purchase up to 974,926 Class A shares and 974,926 Preferred shares representing approximately 10 percent of the public float of 9,749,268 Class A shares and 9,749,268 Preferred shares, as of September 30, 2014. The Fund may purchase up to 194,985 of each respective class of shares in any 30 day period which is 2 percent of the 9,749,268 shares issued and outstanding of each respective class as at September 30, 2014. The shares may be purchased for cancellation from October 22, 2014 to October 21, 2015 through the facilities of the Toronto Stock Exchange ("TSX") or other eligible alternative market and may only be purchased together as a Unit (consisting of one Class A share and one Preferred share) at a price per share not exceeding the last published net asset value per Unit. As at October 31, 2014, nil Units have been purchased by the Fund.

Rights

On November 5, 2012, the Fund announced it filed a short form prospectus relating to an offering of rights to holders of its Class A shares and Preferred shares. Each shareholder of record on November 13, 2012 received one right for each Class A share or Preferred share held, and two rights entitled the holder to acquire one Class A share and one Preferred share upon payment of the subscription price of $20.88. The costs associated with the rights offering was $212,670.

On December 11, 2012, a total of 463,724 rights were exercised and as a result, 231,862 Units were issued for gross proceeds of $4,841,279. Rights exercise fees totalling $73,175 were incurred and charged to Class A shareholders' equity.

Treasury Offering

On October 31, 2014, the Fund filed a final short form prospectus relating to a treasury offering of Preferred shares and Class A shares. Investors may purchase Preferred shares and Class A shares by way of cash payment or through an exchange of freely tradable shares of the five banks included in the portfolio and of shares of the National Bank of Canada (the "Exchange Eligible Issuers"). Under the exchange option, the number of Units issuable in exchange for shares of any Exchange Eligible Issuer was determined by dividing the adjusted weighted average trading price of the respective Exchange Eligible Issuer on the TSX for the three consecutive trading days ended October 28, 2014 by the offering price of $24.52 per Unit (consisting of one Class A Share at a price of $8.92 and one Preferred Share at a price of $15.60). The offering price was determined so as to be non-dilutive to the most recently calculated net asset value per Unit on the date of the pricing of the issue.

6. Management Fees and Expenses

Strathbridge, as Manager under the terms of the Management Agreement and as Investment Manager under terms of the Investment Management Agreement, receives fees payable at annual rates of 0.10 percent and 0.80 percent respectively of the Fund's net asset value, calculated and payable monthly, plus applicable taxes.

The Fund is responsible for all ongoing custodian, manager, legal, accounting and audit fees as well as all other expenses incurred by the Manager in the ordinary course of business relating to the Fund's operations. The Fund is also responsible for commissions and other costs of portfolio transactions and any extraordinary expenses of the Fund which may be incurred from time to time.

7. Income Taxes

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

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

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

No amount is payable on account of income taxes in 2014 or 2013.

Accumulated non-capital losses of approximately $8.1M (2013 - $8.5M) and capital losses of $20.4M (2013 - $38.4M) are available for utilization against net investment income and realized gains on sale of investments, respectively, in future years. The capital losses can be carried back for 3 years and carried forward indefinitely. The non-capital losses expire as follows:

Expiration Date	Amount (in $M)
2028	$ 2.9
2029	2.2
2032	2.3
2033	0.7
Total	**$ 8.1**

8. Distributions

Preferred shares are entitled to a cumulative preferential quarterly dividend of $0.215625 per share payable on the last day of January, April, July and October in each year.

The Fund is permitted to make distributions to holders of Class A and Preferred shares in the form of returns of capital. Return of capital distributions are generally not subject to tax. However, returns of capital reduce the adjusted cost base of the shares in respect of which they are paid.

9. Transaction Fees

Total transaction fees for the year ended October 31, 2014 in connection with portfolio transactions were $97,304 (2013 - $91,597). Of this amount $36,251 (2013 - $44,145) was directed to cover payment of research services provided to the Investment Manager.

10. Capital Disclosures

Chartered Professional Accountants ("CPA") of Canada Handbook Section 1535, "Capital Disclosures" requires the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data and qualitative information about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Fund's objectives, policies and processes are described in Note 2, information on the Fund's shareholders' equity is described in Note 5 and Note 8, and the Fund does not have any externally imposed capital requirements.

11. Financial Instruments and Risk Management

The Fund's financial instruments consist of cash, investments, certain derivative contracts, receivables, payables and Redeemable Preferred shares. Cash, receivables, and payables are short-term in nature and as such their carrying values approximates fair value. The fair value of a Redeemable Preferred share is based on the redemption price payable by the Fund which is valued at the lessor of: (i) $15.00; and (ii) the net assets of the Fund divided by the number of Preferred shares outstanding. In accordance with CPA Canada Handbook Section 3862, "Financial Instruments - Disclosures", the Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

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

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

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

The following is a summary of the inputs used as of October 31, 2014 in valuing the Fund's investments carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Term Investments	$ –	$ 999,906	$ –	$ 999,906
Canadian Common Shares	227,466,529	–	–	227,466,529
Total Investments	$ 227,466,529	$ 999,906	$ –	$ 228,466,435

The following is a summary of the inputs used as of October 31, 2013 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Term Investments	$ –	$ 999,580	$ –	$ 999,580
Canadian Common Shares	212,262,436	–	–	212,262,436
Options	–	(849,196)	–	(849,196)
Total Investments	$ 212,262,436	$ 150,384	$ –	$ 212,412,820

There were no transfers between Level 1 and Level 2 during 2014 and 2013.

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

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

Other Price Risk

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

Approximately 99 percent (2013 - 99 percent) of the Fund's net assets, excluding the Redeemable Preferred Share liability, held at October 31, 2014 were publicly traded equities. If equity prices on the exchange increased or decreased by 10 percent as at October 31, 2014, the net assets, excluding the Redeemable Preferred Share liability, of the Fund would have increased or decreased by $22.7M (2013 - $21.2M) respectively or 9.9 percent (2013 - 9.9 percent) of the net assets, excluding the Redeemable Preferred Share liability, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

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 short-term investments to maintain liquidity and to meet its obligations when due. Liabilities are payable within one year except the Redeemable Preferred Share liability which matures on November 1, 2017 (see Note 5).

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

Interest Rate Risk

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

Credit Risk

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 the credit ratings for the counterparties to derivative financial instruments that were authorized for trading with the Fund during the current year based on Standard & Poor's credit rating as of October 31, 2014:

Dealer	Long-Term Local Currency Rating	Short-Term Local Currency Rating
Bank of Montreal	A+	A-1
Canadian Imperial Bank of Commerce	A+	A-1
Deutsche Bank	A	A-1
National Bank of Canada	A	A-1
Royal Bank of Canada	AA-	A-1+
The Bank of Nova Scotia	A+	A-1
The Toronto-Dominion Bank	AA-	A-1+

The following are the credit ratings for the counterparties to derivative financial instruments that were authorized for trading with the Fund during the prior year based on Standard & Poor's credit ratings as of October 31, 2013:

Dealer	Long-Term Local Currency Rating	Short-Term Local Currency Rating
Bank of Montreal	A+	A-1
Canadian Imperial Bank of Commerce	A+	A-1
Deutsche Bank	A	A-1
National Bank of Canada	A	A-1
Royal Bank of Canada	AA-	A-1+
The Bank of Nova Scotia	A	A-1
The Toronto-Dominion Bank	AA-	A-1+
UBS AG	A	A-1

The following is the credit rating for short-term investments held by the Fund based on Standard & Poor's credit ratings as of October 31, 2014 and 2013:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Bankers' Acceptances	A-1	100%
Total		100%

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

12. Future Accounting Policy Changes

The Fund was required to adopt International Financial Reporting Standards ("IFRS") for the year beginning on January 1, 2011. In January 2011, the Canadian Accounting Standards Board ("AcSB") approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies. Subsequently, in December 2011, AcSB extended the deferral for another year to January 1, 2014. As a result, the Fund will adopt IFRS for the year beginning on November 1, 2014 and will issue its first semi-annual and annual statements, with comparative information, for the period ended April 30, 2015 and year ending October 31, 2015 respectively.

Based on the Manager's current understanding and analysis of IFRS to the accounting policies under Canadian GAAP, the Manager does not anticipate the transition to IFRS will have a material impact on the Fund's net assets per unit, systems and processes, and it is expected that it will mainly result in additional note disclosures in the financial statements.

13. Subsequent Events

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

On November 12, 2014, the Board of Directors approved a proposal to change the investment restrictions and/or the investment strategy of the Fund. The purpose of the proposal is to permit the Manager to have greater flexibility in managing the Fund's portfolio securities and includes: (i) changing the Fund's investment restrictions so that the Fund must invest at least 75 percent of its net asset value in common shares of the five banks included in the portfolio, (ii) changing the Fund's investment strategy so that the Fund may invest up to 25 percent of its net asset value in common shares of National Bank of Canada, (iii) changing the Fund's investment restrictions so that the Fund may purchase securities other than common shares of the Banks and National Bank of Canada or public investment funds including exchange traded funds and other Strathbridge Funds (provided that no more than 15 percent of the net asset value of the Fund may be invested in securities of other Strathbridge Funds) and (iv) enabling the Manager to invest the Fund's portfolio entirely in cash or cash equivalents in its discretion. A special meeting of shareholders of the Fund has been called to consider and vote upon the proposal. Further details of the proposal are outlined in a joint management information circular mailed to shareholders of record on November 21, 2014.

Statement of Corporate Governance Practices

The Board of Directors of the Fund is responsible for the overall stewardship of the Fund's business and affairs. The Fund has investment objectives and investment strategies that are set out in the prospectus of the Fund. The Fund's manager, Strathbridge Asset Management Inc. (the "Manager" or the "Investment Manager"), administers, either directly or indirectly through third party service organizations, every function associated with the operations of the Fund pursuant to a management agreement entered into at the time the Fund issued its shares to the public. Under this agreement the Manager is responsible for day to day operations of the Fund including the payment of distributions on its shares and attending to the retraction or redemption of its shares in accordance with their terms.

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

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

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

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

Board of Directors

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

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

Michael M. Koerner[1,2]
Corporate Director

Robert W. Korthals[1,2]
Corporate Director

Robert G. Bertram[1,2]
Corporate Director

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

Information

Independent Auditor:
Deloitte LLP
Brookfield Place
181 Bay Street, Suite 1400
Toronto, Ontario
M5J 2V1

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

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

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

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

Investment Funds Managed by Strathbridge Asset Management Inc.

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

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

Head Office:

Strathbridge Asset Management Inc.
121 King Street West, Suite 2600
Standard Life Centre, P.O. Box 113
Toronto, Ontario
M5H 3T9

Tel:	416 681-3966
Toll Free:	1 800 725-7172
Fax:	416 681-3901
Email:	info@strathbridge.com

Contact your broker directly for address changes.

Strathbridge Asset Management Inc.
Investor Relations
121 King Street West, Suite 2600
Standard Life Centre, P.O. Box 113
Toronto, Ontario
M5H 3T9

Tel: 416-681-3966
Toll Free: 1-800-725-7172
Fax: 416-681-3901
Email: info@strathbridge.com

strathbridge
ASSET MANAGEMENT
www.strathbridge.com