

PREMIUM INCOME CORPORATION

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
AND
MANAGEMENT INFORMATION CIRCULAR**

August 20, 2010

**Meeting to be held at 8:30 a.m.
Wednesday, September 29, 2010
1 First Canadian Place
Suite 6300
100 King Street West
Toronto, Ontario**

PREMIUM INCOME CORPORATION

**121 King Street West
Standard Life Centre
Suite 2600
Toronto, Ontario
M5H 3T9**

August 20, 2010

Dear Shareholders:

You are invited to a Special Meeting (the "Meeting") of holders of Class A Shares and Preferred Shares of Premium Income Corporation (the "Fund") to be held on September 29, 2010 at 8:30 a.m. (Toronto time) at 1 First Canadian Place, Suite 6300, 100 King Street West, Toronto, Ontario.

The purpose of the Meeting is to consider and vote upon a special resolution to extend the term of the Fund for an additional seven years after the scheduled redemption date of November 1, 2010. If the extension is approved, shareholders will be given a special right to retract their Class A Shares or Preferred Shares at net asset value ("NAV") on November 1, 2010.

Since its initial public offering on October 30, 1996, the Fund has paid holders of its Class A Shares regular distributions of \$10.50 per Class A Share and special distributions of \$7.45 per Class A Share, for a total of \$17.95 per Class A Share. This represents an average yield from inception of 13.1% per annum on the original issue price of \$10.00 per Class A Share. Distributions on Class A Shares are generally characterized and treated as capital gains dividends to holders of Class A Shares. The Fund has also paid holders of Preferred Shares all cumulative preferential dividends to which they are entitled, for a total of \$12.07 per Preferred Share.

The Fund believes that the seven-year extension and the other terms of the reorganization described in the attached management information circular (the "Circular") will provide the following benefits to shareholders.

Holders of Class A Shares are expected to benefit from:

- (a) ongoing leveraged exposure to a high-quality portfolio consisting principally of common shares of Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank; and
- (b) attractive quarterly cash distributions on the Class A Shares. Currently the Fund is paying quarterly distributions at a rate of \$0.60 per year. The Fund intends to continue to pay distributions at this rate until the NAV per Unit (a "Unit" being considered to consist of one Class A Share and one Preferred Share) reaches \$22.50. At such time quarterly distributions paid by the Fund will vary and will be calculated as approximately 8.0% per annum of the NAV of a Class A Share.

Holders of Preferred Shares are expected to benefit from:

- (a) fixed cumulative preferential quarterly cash dividends in the amount of \$0.215625 per Preferred Share (\$0.8625 per year) representing a yield of 5.75% per annum on the original issue price of \$15.00; and

(b) an attractive seven-year term.

The Fund is also proposing other changes described in more detail in the Circular including changing the Fund's authorized share capital by adding new classes of shares issuable in series, changing the monthly retraction prices for the Class A Shares and the Preferred Shares so that they are calculated by reference to market price in addition to NAV and changing the dates by which notice of monthly retractions needs to be provided and by which the retraction amount will be paid. The Fund will also allow for the calculation of a diluted NAV in the event the Fund should ever issue warrants or rights to acquire Class A Shares or Preferred Shares.

The reorganization must be approved by a two-thirds majority of votes cast at the Meeting by holders of Class A Shares and Preferred Shares voting separately as a class.

Attached is a Notice of Special Meeting of Shareholders and the Circular which contain important information relating to the proposed reorganization. You are urged to read the Circular carefully. If you are in doubt as to how to deal with the matters described in the Circular, you should consult your advisors.

If you wish to continue your investment in the Fund after November 1, 2010, you should submit a voting instruction form in favour of the special resolution as soon as possible, and in any event no later than 5:00 p.m. (Toronto time) on September 27, 2010. All holders of Class A Shares and Preferred Shares are encouraged to attend the Meeting.

The Board of Directors of the Fund has determined that the proposed reorganization is in the best interests of the Fund and of the holders of Class A Shares and Preferred Shares. Accordingly, the Board of Directors recommends that holders of Class A Shares and Preferred Shares vote in favour of the special resolution to be considered at the Meeting.

Sincerely,



JOHN P. MULVIHILL
President and Chief Executive Officer

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NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

TAKE NOTICE that a Special Meeting (the “Meeting”) of holders of Class A Shares and Preferred Shares of Premium Income Corporation (the “Fund”) will be held on September 29, 2010 at 8:30 a.m. (Toronto time) at 1 First Canadian Place, Suite 6300, 100 King Street West, Toronto, Ontario for the following purposes:

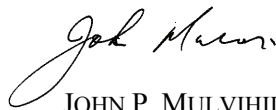
1. to consider and, if thought advisable, approve a special resolution (the “Special Resolution”) to:
 - (a) in respect of both classes of shares:
 - (i) extend the term of the Fund for an additional seven years by changing the redemption date of the Class A Shares and the Preferred Shares to November 1, 2017. The redemption date will automatically be extended for successive seven-year terms thereafter and shareholders will be able to retract their Class A Shares or Preferred Shares at net asset value (“NAV”) prior to any such additional extension;
 - (ii) provide a special retraction right (the “Special Retraction Right”) to enable holders of Class A Shares and Preferred Shares to retract their shares on November 1, 2010 on the same terms that would have applied had the Fund redeemed all Class A Shares and Preferred Shares in accordance with the existing terms of such shares;
 - (iii) allow the Fund to calculate a diluted NAV per Unit (a “Unit” being considered to consist of one Class A Share and one Preferred Share) and calculate and pay retraction prices in respect of the Class A Shares and Preferred Shares based on the diluted NAV per Unit while warrants of the Fund are outstanding;
 - (iv) change the monthly retraction prices for the Class A Shares and the Preferred Shares so that they are calculated by reference to market price in addition to NAV and change the notice period and payment period for the exercise of such rights and the payment of the retraction amount relating thereto;
 - (v) change the authorized capital of the Fund to permit the issuance of additional classes of shares of the Fund issuable in series; and
 - (vi) permit the Fund to make return of capital distributions on the Class A Shares and the Preferred Shares;
 - (b) in respect of the Class A Shares:
 - (i) acknowledge that the Fund intends to continue to pay quarterly cash distributions on the Class A Shares of \$0.15 per Class A Share (\$0.60 per year) until the NAV per Unit reaches \$22.50 and thereafter quarterly distributions paid by the Fund will vary and will be calculated as approximately 8.0% per annum of the NAV of a Class A Share; and
 - (ii) in connection with the Special Retraction Right, in order to maintain the same number of Class A Shares and Preferred Shares outstanding, authorize the Fund to consolidate the Class A Shares;

- (c) in respect of the Preferred Shares:
 - (i) eliminate the capital gains gross-up portion of the dividend entitlement and authorize the Board of Directors to set the dividend rate on the Preferred Shares for any extension of term following November 1, 2017; and
 - (ii) in connection with the Special Retraction Right, in order to maintain the same number of Class A Shares and Preferred Shares outstanding, provide the Fund with the ability to redeem such shares on a *pro rata* basis;
 - (d) make other changes consequential to the foregoing, all as more fully described in the accompanying management information circular; and
2. to transact such other business as may properly come before the Meeting or any adjournment or adjournments thereof.

As required by National Instrument 81-107 – *Independent Review Committee for Investment Funds*, Mulvihill Fund Services Inc., the manager of the Fund, has presented the Special Resolution to the independent review committee of the Fund for a recommendation. The independent review committee has reviewed the Special Resolution and recommended that the Special Resolution be put to shareholders for their consideration on the basis that it achieves a fair and reasonable result for the Fund.

DATED at Toronto, Ontario as of the 20th day of August, 2010.

BY ORDER OF THE BOARD OF DIRECTORS



JOHN P. MULVIHILL

Chairman and President

Note: Reference should be made to the accompanying management information circular for details of the above matters. If you are unable to be present in person at the Meeting, it is requested that you complete and sign the enclosed form of proxy or voting instruction form and return it in the enclosed prepaid envelope provided for that purpose. Voting instruction forms sent by Broadridge Financial Solutions, Inc. may be completed by telephone or through the internet at www.proxyvote.com.

THE FUND

Premium Income Corporation (the “Fund”) is a mutual fund corporation incorporated under the laws of the Province of Ontario on August 27, 1996. The Fund completed its initial public offering in October 1996 and further issuances of shares in September 2003 and September 2004. The Fund’s outstanding Class A Shares and Preferred Shares are listed on the Toronto Stock Exchange under the symbols PIC.A and PIC.PR.A, respectively. The manager of the Fund is Mulvihill Fund Services Inc. (“Mulvihill” or the “Manager”) and the investment manager of the Fund is Mulvihill Capital Management Inc. (“MCM” or the “Investment Manager”). Mulvihill is a wholly-owned subsidiary of MCM. The principal office of each of the Fund, Mulvihill and MCM is located at 121 King Street West, Standard Life Centre, Suite 2600, Toronto, Ontario.

For further information relating to the Fund, see “Appendix A – Additional Information Regarding Management of the Fund”.

The Fund invests in a portfolio (the “Portfolio”) consisting principally of common shares issued by Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank. To generate additional returns above the dividend income earned on the Portfolio, the Fund writes covered call options in respect of all or a part of the securities in the Portfolio from time to time. The Fund may also hold a portion of its assets in cash equivalents, which may be used to provide cover in respect of the writing of cash covered put options in respect of securities in which the Fund is permitted to invest.

On October 30, 1996, the Fund completed its initial public offering of 4,000,000 Class A Shares at a price of \$10.00 per Class A Share and 4,000,000 Preferred Shares at a price of \$15.00 per Preferred Share. On September 29, 2003, the Fund completed an additional offering of 8,500,000 Class A Shares at a price of \$11.00 per Class A Share and 8,500,000 Preferred Shares at a price of \$15.65 per Preferred Share. On October 7, 2003, the over-allotment option in respect of that offering closed, resulting in the issuance of an additional 160,000 Class A Shares and 160,000 Preferred Shares on the same terms. On September 30, 2004, the Fund completed a further follow-on offering of 6,487,846 Class A Shares at a price of \$11.23 per Class A Share and 6,487,846 Preferred Shares at a price of \$15.65 per Preferred Share. As of August 6, 2010, there were 14,206,046 Class A Shares and 14,206,046 Preferred Shares outstanding.

The redemption date for the Class A Shares and Preferred Shares of the Fund is November 1, 2010. The Fund proposes to implement a reorganization (“Reorganization”) that will allow shareholders to maintain their investment in the Fund for at least seven more years and will better position the Fund to achieve its investment objectives through the extended term of the shares.

HISTORICAL PERFORMANCE OF THE CLASS A SHARES AND THE PREFERRED SHARES

Between October 30, 1996 and August 20, 2010, the Fund paid holders of its Class A Shares regular distributions of \$10.50 per Class A Share and special distributions of \$7.45 per Class A Share, for a total of \$17.95 per Class A Share. This represents an average yield from inception of 13.1% per annum on the original issue price of \$10.00 per Class A Share. Distributions on Class A Shares are generally characterized and treated as capital gains dividends to holders of Class A Shares. The table below sets out in more detail information relating to the distributions paid to holders of Class A Shares.

Historical Distributions per Class A Share

| Year | Regular Distributions | Special Distributions ⁽¹⁾ | Total Distributions |
|--|--------------------------|---|------------------------|
| 1997 ⁽²⁾ | \$0.80 | \$1.90 | \$2.70 |
| 1998 | \$0.80 | \$0.50 | \$1.30 |
| 1999 | \$0.80 | \$0.40 | \$1.20 |
| 2000 | \$0.80 | \$0.60 | \$1.40 |
| 2001 | \$0.80 | \$1.35 | \$2.15 |
| 2002 | \$0.80 | \$0.60 | \$1.40 |
| 2003 | \$0.80 | \$0.40 | \$1.20 |
| 2004 | \$0.80 | \$0.40 | \$1.20 |
| 2005 | \$0.80 | \$0.40 | \$1.20 |
| 2006 | \$0.80 | \$0.40 | \$1.20 |
| 2007 | \$0.80 | \$0.40 | \$1.20 |
| 2008 | \$0.80 | \$0.10 | \$0.90 |
| 2009 | \$0.45 | \$- | \$0.45 |
| 2010 ⁽³⁾ | \$0.45 | \$- | \$0.45 |
| Total | \$10.50 | \$7.45 | \$17.95 |
| Annualized Distribution Yield⁽⁴⁾ | | | 13.1% |

(1) Special distributions are declared at the discretion of the Board of Directors on the basis of the performance of the Fund and therefore are not regular distributions.

(2) Includes accrued distributions from inception on October 31, 1996 and up to and including December 31, 1997.

(3) Includes all distributions from and after January 1, 2010 and up to and including August 20, 2010.

(4) Based on the original issue price.

Between October 30, 1996 and August 20, 2010, the Fund paid holders of Preferred Shares all cumulative preferential dividends to which they were entitled, for a total of \$12.07 per Preferred Share.

DETAILS OF THE PROPOSAL

Holders of Class A Shares and Preferred Shares are being asked to pass the Special Resolution in the form attached hereto as Appendix B to approve the following amendments to the Articles of the Fund.

Extension

The Articles of the Fund currently provide that the Preferred Shares and the Class A Shares shall be redeemed by the Fund on November 1, 2010. Shareholders are being asked to extend the term of the Fund for an additional seven years by changing the redemption date of the Class A Shares and the Preferred Shares to November 1, 2017. The redemption date will be further extended for successive seven-year terms thereafter and shareholders will be able to retract their Class A Shares or Preferred Shares at net asset value (“NAV”) prior to any such additional extension. In such circumstances, the Fund will provide at least 60 days’ notice to shareholders of the retraction date by way of press release.

The Fund proposes to extend the redemption date to November 1, 2017, with possible additional extensions of the term of the Fund, so that it may continue to provide shareholders with the opportunity to participate in the performance of the Portfolio.

Distributions and Dividends

Class A Shares

Currently, the Fund is paying quarterly cash distributions on the Class A Shares of \$0.15 per Class A Share (\$0.60 per year) subject to the prior rights of holders of Preferred Shares to receive cumulative, fixed, preferential dividends. The Fund intends to continue to pay distributions at this rate until the NAV per Unit (a "Unit" being considered to consist of one Class A Share and one Preferred Share) reaches \$22.50. At such time quarterly distributions paid by the Fund will vary and will be calculated as approximately 8.0% per annum of the NAV of a Class A Share. The Fund has determined to base the distributions it pays in such circumstances on the NAV of a Class A Share in order to better facilitate the preservation and enhancement of the Fund's NAV and to enable holders of Class A Shares to benefit from any increases in the NAV of the Class A Shares through the resulting increased distributions. The quarterly distributions will be determined using the last published NAV prior to the declaration date for the distribution.

Preferred Shares

Following the Reorganization, the Fund would initially maintain the current dividend rate on the Preferred Shares at 5.75% per annum on the \$15.00 original issue price. However, the Board of Directors would be permitted to change the dividend rate on the Preferred Shares following November 1, 2017. Any such change would be announced by way of the press release issued in connection with such extension of the term of the Fund.

In addition, the Fund proposes to eliminate the capital gains dividend gross-up entitlement under the Preferred Shares due to changes in Canadian tax laws since the Fund's initial public offering, specifically to the effective rates of tax on capital gains.

Returns of Capital

Finally, the Special Resolution contemplates amendments to the Articles of the Fund that would permit the Fund to make distributions to holders of Class A Shares and Preferred Shares, not only in the form of ordinary dividends and capital gains dividends, but also in the form of returns of capital. Return of capital distributions are generally not subject to tax (returns of capital reduce the adjusted cost base of the shares in respect of which they are paid).

Redemption and Retraction Privileges

Special Retraction Date

To preserve the rights that were originally provided to holders of Class A Shares and Preferred Shares, the Fund proposes to amend the terms of such shares to permit holders of such shares to retract such shares (the "Special Retraction Right") on November 1, 2010 (the "Special Retraction Date") on the terms on which such shares would have been redeemed had the November 1, 2010 redemption date not been extended.

Retraction payments for Class A Shares and Preferred Shares tendered pursuant to the Special Retraction Right will be made no later than 10 business days after the Special Retraction Date, provided that such shares have been surrendered for retraction on or prior to 5:00 p.m. (Toronto time) on October 15, 2010. Class A Shares and Preferred Shares will be irrevocably surrendered for such retraction upon delivery of written notice to CDS Clearing and Depository Services Inc. ("CDS") through a participant in CDS (a "CDS Participant").

The retraction price per share to be received by a holder of Class A Shares under the Special Retraction Right will be equal to the greater of (a) the NAV per Unit on the Special Retraction Date less \$15.00; and (b) nil. The retraction price per share to be received by a holder of Preferred Shares under the Special Retraction Right will be equal to the lesser of: (a) \$15.00; and (b) the NAV of the Fund divided by the number of Preferred Shares outstanding on the Special Retraction Date. Any declared and unpaid distributions payable on or before the Special Retraction Date in respect of Class A Shares or Preferred Shares tendered for retraction on the Special Retraction Date will also be paid on the retraction payment date.

If more Class A Shares than Preferred Shares are retracted under the Special Retraction Right, the Fund will redeem Preferred Shares (the "Call Right") on a *pro rata* basis to ensure an equal number of Class A Shares and Preferred Shares remain outstanding from and after the effective date of the Reorganization. If more Preferred Shares than Class A Shares are retracted under the Special Retraction Right, the Fund will consolidate the Class A Shares on a basis that will maintain an equal number of Class A Shares and Preferred Shares outstanding.

If Preferred Shares are to be redeemed by the Fund, notice of redemption will be provided to CDS on or before October 20, 2010 so that it may notify CDS Participants holding Preferred Shares on behalf of beneficial owners of such redemption. Redemption payments for Preferred Shares so redeemed will be made no later than 10 business days after November 1, 2010. Any Preferred Shares redeemed by the Fund on November 1, 2010 pursuant to the Call Right will be redeemed at a price equal to the lesser of: (a) \$15.00; and (b) the NAV of the Fund divided by the number of Preferred Shares outstanding on November 1, 2010; plus, in the case of either (a) or (b), any declared and unpaid distributions payable on such shares.

The Special Retraction Right will replace the annual concurrent retraction right for 2010, pursuant to which a holder would have been permitted to retract both a Class A Share and Preferred Share together in a Unit for the NAV per Unit. As a result of the availability of the Special Retraction Right, the Fund will not, for the October 2010 Valuation Date (as defined below) only, provide shareholders with the annual concurrent retraction right. However, this right will continue to be available in October of each year from and after October 2010, but will be replaced with an additional, special retraction right granted to holders of Class A Shares or Preferred Shares in connection with each additional extension of the term of the Fund.

Monthly Retraction Privileges

Notice and Payment Dates

The Special Resolution contemplates a change in the periods during which Class A Shares and Preferred Shares may be tendered for redemption. Currently, Class A Shares and Preferred Shares may be surrendered at any time for retraction by the Fund but will be retracted only on the last day of a month (a "Valuation Date"). Shares surrendered for retraction by a holder of Class A Shares or Preferred Shares at least five business days prior to a Valuation Date will be retracted on such Valuation Date and such shareholder will receive payment on or before the fifth business day following such Valuation Date. If the Reorganization is approved and implemented, shares will have to be surrendered for retraction by a holder of Class A Shares or Preferred Shares at least 10 business days prior to a Valuation Date in order to be retracted on such Valuation Date and such shareholder will receive payment on or before the tenth business day following such Valuation Date. Such changes in the notice and payment periods for the exercise of retractions rights bring the terms of the Fund in line with those of more recently offered funds.

Retraction Prices

Currently, shareholders whose Class A Shares are retracted on a Valuation Date will be entitled to receive a retraction price per share (the “Class A NAV Retraction Price”) equal to 96% of the difference between (a) the NAV per Unit as of the applicable Valuation Date and (b) the cost to the Fund of purchasing a Preferred Share in the market for cancellation. Shareholders whose Preferred Shares are retracted on a Valuation Date will be entitled to receive a retraction price per share (the “Preferred NAV Retraction Price”) equal to 96% of the lesser of (a) the NAV per Unit as of the applicable Valuation Date less the cost to the Fund of purchasing a Class A Share in the market for cancellation and (b) \$15.00. For this purpose, the cost of the purchase of a Preferred Share or a Class A Share includes the purchase price of the share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund the purchase. Any declared and unpaid distributions payable on or before a Valuation Date in respect of Class A Shares or Preferred Shares tendered for retraction on such Valuation Date will also be paid on the retraction payment date.

Under the Reorganization, the monthly retraction prices for the Class A Shares will be changed and shareholders whose Class A Shares are retracted on a Valuation Date will be entitled to receive a retraction price per share equal to the lesser of:

- (a) the Class A NAV Retraction Price; and
- (b) 96% of the difference between (i) the Unit Market Price (as defined below) and (ii) the cost to the Fund of purchasing a Preferred Share in the market for cancellation.

Under the Reorganization, the monthly retraction price for the Preferred Shares will be changed and shareholders whose Preferred Shares are retracted on a Valuation Date will be entitled to receive a retraction price per share equal to the lesser of:

- (a) the Preferred NAV Retraction Price; and
- (b) 96% of the lesser of (i) the Unit Market Price less the cost to the Fund of purchasing a Class A Share in the market for cancellation and (ii) \$15.00.

For this purpose, the cost of the purchase of a Preferred Share or a Class A Share will include the purchase price of the share, commission and such other costs, if any, related to the liquidation of any portion of the Portfolio to fund the purchase. Any declared and unpaid distributions payable on or before a Valuation Date in respect of Class A Shares or Preferred Shares tendered for retraction on such Valuation Date will also be paid on the retraction payment date. In addition, the following terms have the meanings set forth below.

Class A Market Price means the weighted average trading price of the Class A Shares on the principal stock exchange on which the Class A Shares are listed (or, if the Class A Shares are not listed on any stock exchange, on the principal market on which the Class A Shares are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date.

Preferred Market Price means the weighted average trading price of the Preferred Shares on the principal stock exchange on which the Preferred Shares are listed (or, if the Preferred Shares are not listed on any stock exchange, on the principal market on which the Preferred Shares are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date.

Unit Market Price means the sum of the Class A Market Price and the Preferred Market Price.

Calculation of NAV and NAV per Unit

Under the Articles of the Fund, the NAV of the Fund on a particular date is equal to the aggregate value of the assets of the Fund, less the aggregate value of the liabilities of the Fund (including any accrued dividends) and less the stated capital of the Class B Shares (\$1,000). The NAV per Unit (the “basic NAV per Unit”) on any day is obtained by dividing the NAV of the Fund on such day by the number of Units then outstanding.

Following the Reorganization, the Fund may in the future decide to issue to its shareholders warrants to subscribe for additional Class A Shares and Preferred Shares of the Fund, together in Units. It is proposed that, if, while such warrants are outstanding, the basic NAV per Unit is greater than the Dilution Threshold (being the subscription price payable on the exercise of one such warrant less the warrant exercise fee, if any, for such warrant), a diluted NAV per Unit would be calculated by adding to the denominator the total number of Units issuable upon the exercise of the warrants then outstanding and by adding to the numerator the product of such number of Units and the Dilution Threshold. The diluted NAV per Unit would be deemed to be the resulting quotient. For the purposes of retractions of Class A Shares and Preferred Shares, the NAV per Unit would be the basic NAV per Unit unless such basic NAV per Unit exceeded the Dilution Threshold, in which case the NAV per Unit would be the diluted NAV per Unit.

Authorized Capital

The Fund is authorized to issue an unlimited number of Class A Shares and Preferred Shares and 1,000 Class B Shares. The Special Resolution contemplates expanding the authorized capital of the Fund to include 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. This amendment to the Articles of the Fund would permit the Board of Directors to issue additional series of shares by way of private placement or public offering. Subject to the Articles of the Fund, the Board of Directors would be authorized to fix, before issuance, the designation, rights, privileges, restrictions and conditions attaching to the shares of such series. No such issuance is expected to be dilutive to existing shareholders.

Other Shareholder Matters

The Board of Directors has determined that, if the Special Resolution is approved and the Reorganization is completed, it may wish, if need be, to change the auditors of the Fund without obtaining the prior approval of shareholders. In such circumstances, the independent review committee of the Fund would be required to approve the change and shareholders would be sent a written notice at least 60 days before the effective date of the change.

In addition, subject to applicable law, the Fund may wish to undertake a reorganization with, or transfer its assets to, another mutual fund, without the prior approval of shareholders. Pre-approval of shareholders would not be required under applicable securities law if (a) the Fund ceases to continue after the reorganization or transfer of assets; and (b) the transaction results in shareholders of the Fund becoming securityholders of the other mutual fund, provided that the independent review committee of the Fund approves the transaction pursuant to National Instrument 81-107 – *Independent Review Committee for Investment Funds* (“NI 81-107”), the reorganization or transfer complies with certain requirements of NI 81-107 and National Instrument 81-102 – *Mutual Funds* (“NI 81-102”), shareholders are sent a written notice at least 60 days before the effective date of the change and shareholders have the ability to retract their shares at NAV prior to such transaction.

The foregoing processes for appointing auditors and conducting certain reorganizations are consistent with the requirements of NI 81-102 and bring the terms of the Fund in line with those of more recently offered funds.

RECOMMENDATION OF THE BOARD OF DIRECTORS

The Board of Directors has reviewed the Special Resolution, has determined that the Reorganization is in the best interests of the Fund and its shareholders and unanimously recommends that holders of Class A Shares and Preferred Shares vote in favour of the Special Resolution.

In arriving at this determination, consideration was given to the following factors:

- (a) in respect of Class A Shares:
 - (i) holders of Class A Shares will continue to benefit from the potential for leveraged capital appreciation in a high-quality portfolio consisting principally of common shares of the largest Canadian banks by market capitalization; and
 - (ii) holders of Class A Shares will receive attractive, quarterly distributions and will have the opportunity to benefit from any increases in the NAV of the Class A Shares through increased distributions;
- (b) in respect of Preferred Shares:
 - (i) the extension of the scheduled redemption date of the Preferred Shares will enable holders of Preferred Shares to enjoy attractive, preferential dividends at a rate of 5.75% on the original issue price; and
 - (ii) the Preferred Shares will have an attractive term of seven years;
- (c) in respect of both classes of shares:
 - (i) the extended term of the Fund permits holders of Class A Shares and Preferred Shares to maintain their investment and benefit from a portfolio of common shares with attractive current yields which the Fund believes are well positioned to deliver strong returns to investors;
 - (ii) the implementation of the Reorganization will provide holders of Class A Shares and Preferred Shares with a Special Retraction Right that will allow such holders to retract their shares at a retraction price determined on the same basis as the

redemption price that would have been available to them had the Reorganization not been effected; and

- (iii) the extension of the redemption date for the Class A Shares and the Preferred Shares and the other amendments to the share provisions will not result in a disposition of Class A Shares or Preferred Shares. Any capital gains tax liability that would have otherwise been realized on the redemption of Class A Shares or Preferred Shares or any capital loss will be deferred until such time as the Class A Shares or Preferred Shares are either sold or retracted by a shareholder or redeemed by the Fund on or after November 1, 2017.

As required by NI 81-107, Mulvihill has presented the Special Resolution to the independent review committee of the Fund for a recommendation. The independent review committee has reviewed the Special Resolution and recommended that the Special Resolution be put to shareholders for their consideration on the basis that the Reorganization achieves a fair and reasonable result for the Fund.

EXPENSES OF THE REORGANIZATION

Whether or not the Special Resolution is approved, all costs associated with the Reorganization will be borne by the Fund and therefore, in effect, by the holders of Class A Shares. These costs (not including the fees discussed below) are estimated to be \$145,000.

If the Reorganization is approved and implemented, a solicitation fee will be paid to properly designated soliciting brokers equal to (a) 1.50% of the NAV of the Class A Shares that are voted in favour of the Special Resolution and not retracted on the Special Retraction Date and (b) 0.50% of the NAV of the Preferred Shares that are voted in favour of the Special Resolution and not retracted on the Special Retraction Date.

If the Reorganization is completed, all costs of the Reorganization, consisting primarily of the fees described above, will be borne by the holders of Class A Shares that remain outstanding. Assuming that (a) 40% of the Class A Shares and Preferred Shares are voted at the Meeting and are voted in favour of the Special Resolution, (b) all Class A Shares remain outstanding after the Reorganization, and (c) NAV remains constant, the estimated cost per Class A Share outstanding will be \$0.17.

TERMINATION OF THE PROPOSAL

The Reorganization may, at any time before or after the holding of the Meeting but no later than the effective date of the Reorganization, be terminated by the Board of Directors without further notice to, or action on the part of, holders of Class A Shares or Preferred Shares if the Board of Directors determines in its sole judgment that it would be inadvisable for the Fund to proceed with the Reorganization.

INTERESTS OF MANAGEMENT AND OTHERS IN THE REORGANIZATION

Mulvihill is the manager of the Fund and MCM is the investment manager of the Fund. Mulvihill receives a management fee and MCM receives an investment management fee from the Fund as described in “Appendix A – Additional Information Regarding Management of the Fund”.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Osler, Hoskin & Harcourt LLP, counsel to the Fund, the following is a summary of the principal Canadian federal income tax considerations relating to the Reorganization that are generally applicable to holders of Class A Shares and Preferred Shares who, at all relevant times, for purposes of the *Income Tax Act* (Canada) (the “Tax Act”), are resident or are deemed to be resident in Canada, hold their Class A Shares and Preferred Shares as capital property and deal at arm’s length with and are not affiliated with the Fund. Certain holders whose Class A Shares or Preferred Shares might not otherwise qualify as capital property may be entitled to make the irrevocable election in the circumstances permitted by subsection 39(4) of the Tax Act to deem such shares (and all other Canadian securities owned by the holder) to be capital property. Class A Shares or Preferred Shares held by certain “financial institutions” (as defined in the Tax Act) will generally not be capital property to such holders and will be subject to special rules in the Tax Act applicable to securities held by financial institutions. These rules are not discussed in this summary and holders of Class A Shares or Preferred Shares to whom these rules may be relevant should consult their own tax advisors.

This summary is based on the current provisions of the Tax Act, the regulations thereunder (the “Regulations”), all specific proposals to amend the Tax Act and Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and counsel’s understanding of the current administrative policies and assessing practices of Canada Revenue Agency (“CRA”). This summary is not exhaustive of all possible Canadian federal income tax considerations and, except as mentioned above, does not anticipate any changes in the relevant laws, whether by judicial, governmental or legislative action or decision, nor any changes in the administrative policies or assessing practices of CRA, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein. This summary also relies on advice from the Fund relating to certain factual matters.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder of shares, and no representations with respect to the income tax consequences to any particular holder of shares are made. Accordingly, holders of Class A Shares or Preferred Shares should consult their own tax advisors for advice with respect to the tax consequences to them of the Reorganization.

The Fund currently meets and expects to continue to meet certain minimum requirements in respect of the public distribution of its shares, including after the Reorganization, if approved. The Reorganization will not affect the status of the Fund as a “mutual fund corporation” and a “financial intermediary corporation” under the Tax Act.

The changes to the share provisions set forth in the Special Resolution will not constitute a disposition of the Preferred Shares or Class A Shares if the Reorganization is completed.

RIGHTS OF DISSENT

The holders of Class A Shares and Preferred Shares have the right to dissent from the Special Resolution pursuant to section 185 of the *Business Corporations Act* (Ontario). A summary of these rights of dissent is set forth in “Appendix C – Right to Dissent”.

VOTING SECURITIES AND PRINCIPAL SHAREHOLDERS

As of August 6, 2010, there were 14,206,046 Class A Shares and 14,206,046 Preferred Shares outstanding.

As of August 6, 2010, to the knowledge of the directors and officers of the Fund, no person owned of record more than 10% of the outstanding Class A Shares or 10% of the outstanding Preferred Shares of the Fund other than CDS & Co., the nominee of CDS, which holds all of the Class A Shares and all of the Preferred Shares as registered owner for various brokers and other persons on behalf of their clients and others. The names of the beneficial owners of such Class A Shares and Preferred Shares are not known to the Fund.

GENERAL PROXY INFORMATION

Management Information Circular

This Circular is furnished in connection with the solicitation of proxies by management of the Fund to be used at a meeting of shareholders (the "Meeting") for the purposes set out in the Notice of Special Meeting of Shareholders (the "Notice") accompanying this Circular or at any adjournment thereof. The Meeting will be held on September 29, 2010 at 8:30 a.m. (Toronto time) at 1 First Canadian Place, Suite 6300, 100 King Street West, Toronto, Ontario. Solicitation of proxies will be by mail, and may be supplemented by telephone or other personal contact by representatives or agents of the Fund.

Proxy Information, Record Date, Voting Rights and Quorum

To be used at the Meeting, a proxy must be deposited with Computershare Investor Services Inc. ("Computershare") by delivery to its principal offices in Toronto at 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, Attention: Proxy Department at any time up to 5:00 p.m. (Toronto time) on September 27, 2010 or with the Chair of the Meeting prior to the commencement of the Meeting on the day of the Meeting or the day of any adjournment of the Meeting.

Only shareholders of record at the close of business on August 6, 2010 will be entitled to receive notice of the Meeting and to vote in respect of the matters to be voted at the Meeting or any adjournment thereof, including the Special Resolution.

With respect to each matter properly before the Meeting, a shareholder shall be entitled to one vote for each Class A Share or Preferred Share registered in the name of such shareholder. In order to become effective, the Special Resolution must be approved by 66⅔% of holders of Class A Shares and 66⅔% of holders of Preferred Shares, each voting separately as a class.

Pursuant to the Articles of the Fund, a quorum at the Meeting will consist of shareholders present in person or represented by proxy holding not less than 10% of the outstanding Class A Shares and 10% of the outstanding Preferred Shares of the Fund. If the quorum requirement is not satisfied within one-half hour of the scheduled time for the Meeting, then the Meeting will be adjourned by the Chair of the Meeting. If adjourned, the Meeting will be rescheduled to 9:00 a.m. (Toronto time) on September 29, 2010. At the adjourned Meeting, the business of the Meeting will be transacted by those holders of Class A Shares and Preferred Shares present in person or represented by proxy.

Appointment of Proxy Holders

Shareholders who are unable to be present at the Meeting may still vote through the use of proxies. If you are a shareholder, you should complete, execute and return the enclosed proxy form. By completing and returning the enclosed proxy form, you can participate in the Meeting through the person or persons named on the form. Please indicate the way you wish to vote and your vote will be cast accordingly. **If you do not indicate a preference, the shares represented by the enclosed proxy form,**

if the same is executed in favour of the management appointees named in the proxy form and deposited as provided in the Notice, will be voted in favour of all matters identified in the Notice.

Discretionary Authority of Proxies

The proxy form confers discretionary authority upon the management appointees named therein with respect to such matters, including, without limitation, amendment or variation to the Special Resolution, as, though not specifically set forth in the Notice, may properly come before the Meeting. Management does not know of any such matter which may be presented for consideration at the Meeting. However, if such a matter is presented, the proxy will be voted on the matter in accordance with the best judgment of the management appointees named in the proxy form.

On any ballot that may be called for at the Meeting, all shares in respect of which the management appointees named in the accompanying proxy form have been appointed to act will be voted in accordance with the specification of the shareholder signing the proxy form. If no such specification is made, the shares will be voted in favour of all matters identified in the Notice.

Alternate Proxy

A shareholder has the right to appoint a person to represent them at the Meeting other than the management appointees designated on the accompanying proxy form by crossing out the printed names and inserting the name of the person he or she wishes to act as proxy in the blank space provided or by completing another proxy form. Proxy forms that appoint persons other than the management appointees whose names are printed on the form should be submitted to the Fund and the person so appointed should be notified. A person acting as proxy need not be a shareholder.

On any ballot that may be called for at the Meeting, all shares in respect of which the management appointees named in the accompanying proxy form have been appointed to act will be voted in accordance with the specification of the shareholder signing the proxy form. If the shareholder specifies a choice with respect to any matter to be acted upon, the shares will be voted accordingly. If no such specification is made, the shares may be voted in accordance with the best judgement of the person named in the proxy form. Furthermore, the person named in the proxy form will have discretionary authority with respect to any amendments to the matters set forth in the Notice and with respect to any other matters that may properly come before the Meeting, and will vote on such amendments and other matters in accordance with the best judgment of the person named in the proxy form.

Revocation of Proxies

If the accompanying form of proxy is executed and returned, the proxy may nevertheless be revoked by an instrument in writing executed by the shareholder or his or her attorney authorized in writing, as well as in any other manner permitted by law. Any such instrument revoking a proxy must either be deposited (a) at the principal offices of Computershare at 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, Attention: Proxy Department no later than 5:00 p.m. (Toronto time) on the day before the day of the Meeting or (b) with the Chair of the Meeting on the day of the Meeting or any adjournment thereof. If the instrument of revocation is deposited with the Chair on the day of the Meeting or any adjournment thereof, the instrument will not be effective with respect to any matter on which a vote has already been cast pursuant to that proxy.

Solicitation of Proxies

In addition to solicitation by mail, officers and directors of the Fund, the Manager or the Investment Manager may, without additional compensation, solicit proxies personally or by telephone.

Advice to Beneficial Holders of Class A Shares and Preferred Shares

The information set forth in this section is of significant importance to beneficial holders of Class A Shares and Preferred Shares (“Beneficial Holders”). All of the Class A Shares and the Preferred Shares are held in book-entry form in the name of CDS & Co., the nominee of CDS, and not in the name of Beneficial Holders. Beneficial Holders should note that only proxies deposited by shareholders whose names appear on the records of the Fund as the registered holders of shares can be recognized and acted upon at the Meeting. Shares held by brokers, dealers or their nominees through CDS & Co. can only be voted upon the instructions of the Beneficial Holder. Without specific instructions, CDS & Co. and brokers, dealers and their nominees are prohibited from voting shares for their clients. The Fund does not know for whose benefit the Class A Shares and Preferred Shares registered in the name of CDS & Co. are held. Therefore, Beneficial Holders cannot be recognized at the Meeting for purposes of voting their shares in person or by way of proxy unless they comply with the procedures described below.

Applicable regulatory policy requires brokers, dealers and other intermediaries to seek voting instructions from Beneficial Holders in advance of the Meeting. Every intermediary has its own mailing procedures and provides its own return instructions, which should be carefully followed by Beneficial Holders in order to ensure that their Class A Shares or Preferred Shares are voted at the Meeting. Often, the form of proxy supplied to a Beneficial Holder by its intermediary is identical to that provided to registered shareholders. However, its purpose is limited to instructing the registered shareholders how to vote on behalf of the Beneficial Holders. The majority of intermediaries now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. (“Broadridge”). Broadridge typically prepares a voting instruction form that it mails to the Beneficial Holders and asks Beneficial Holders to complete and return directly to Broadridge. Broadridge then tabulates the results of all instructions received and provides appropriate instructions respecting the voting of shares to be represented at the Meeting. **A Beneficial Holder receiving a voting instruction form cannot use that form to vote shares directly at the Meeting. Rather, the voting instruction form must be returned to Broadridge well in advance of the Meeting to have the shares voted.**

If you are a Beneficial Holder and wish to vote in person at the Meeting, please contact your broker, dealer or other intermediary well in advance of the Meeting to determine how you can do so. Voting instruction forms sent by Broadridge may be completed by telephone or through the internet at www.proxyvote.com.

If you are a holder of Class A Shares or Preferred Shares and wish to continue your investment in the Fund, you should submit a voting instruction form in favour of the Special Resolution well in advance of the 5:00 p.m. (Toronto time) deadline on September 27, 2010 for the deposit of proxies.

FORWARD-LOOKING STATEMENTS

Certain statements in this Circular are forward-looking statements, including those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “expect”, “intend” and similar expressions to the extent they relate to the Fund, the Manager or the Investment Manager. Forward-looking statements are not historical facts but reflect the current expectations of the Fund, the Manager or the Investment Manager regarding future results or events. Such forward-looking statements reflect the Fund’s, the Manager’s or the Investment Manager’s current beliefs and are based on information currently available

to them. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results or events to differ materially from current expectations. Some of these risks, uncertainties and other factors are described under the heading “Risk Factors” in the annual information form of the Fund dated January 29, 2010 (the “Annual Information Form”). Although the forward-looking statements contained in this Circular are based upon assumptions that the Fund, the Manager and the Investment Manager believe to be reasonable, neither the Fund, the Manager nor the Investment Manager can assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained herein were prepared for the purpose of providing shareholders with information about the Fund and may not be appropriate for other purposes. Neither the Fund, the Manager nor the Investment Manager assumes any obligation to update or revise them to reflect new events or circumstances, except as required by law.

DOCUMENTS INCORPORATED BY REFERENCE

Additional information relating to the Class A Shares and Preferred Shares, the Fund and the risks associated with an investment therein are described in the Annual Information Form, which is specifically incorporated by reference into, and forms an integral part of, this Circular. Any statement contained herein or in a document incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Circular to the extent that a statement contained herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Circular. Information on any website maintained by the Fund, the Manager or the Investment Manager does not constitute a part of this Circular. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

The Annual Information Form is available on SEDAR at www.sedar.com. Upon request, the Manager will promptly provide a copy of the Annual Information Form free of charge to shareholders of the Fund. See “Additional Information”.

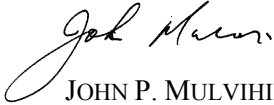
ADDITIONAL INFORMATION

Financial information about the Fund is available in the Fund’s comparative financial statements and management report of fund performance for its most recently completed financial year. These documents and other information about the Fund are available on SEDAR at www.sedar.com. Copies of these documents will be promptly provided by the Manager free of charge upon request. To make such a request, call toll-free at 1-800-725-7172, write to Investor Relations, Mulvihill Fund Services Inc., 121 King Street West, Standard Life Centre, Suite 2600, Toronto, Ontario, M5H 3T9, e-mail info@mulvihill.com or visit the Fund’s website at www.mulvihill.com.

Approval by the Board of Directors

The Board of Directors of the Fund has approved the contents and the sending of this Circular to holders of Class A Shares and Preferred Shares of the Fund.

DATED as of the 20th day of August, 2010.

A handwritten signature in cursive script, appearing to read "John P. Mulvihill".

JOHN P. MULVIHILL
Chairman and President

**APPENDIX A
ADDITIONAL INFORMATION REGARDING
MANAGEMENT OF THE FUND**

Capitalized terms used but not defined in this Appendix shall have the meanings attributed to them in the Management Information Circular of Premium Income Corporation dated August 20, 2010.

Directors and Officers

The following are the names, municipalities of residence, positions and principal occupations of the directors and officers of the Fund:

| <i><u>Name and Municipality of Residence</u></i> | <i><u>Position with the Fund</u></i> | <i><u>Principal Occupation</u></i> |
|--|--|---|
| John P. Mulvihill Toronto, Ontario | Chairman, President, Chief Executive Officer, Secretary and Director | Chairman, President, Chief Executive Officer, Secretary and Director, MCM |
| Michael M. Koerner ⁽¹⁾⁽²⁾ Toronto, Ontario | Director and Member of the Independent Review Committee | President, Canada Overseas Investments, Ltd. (private investment company) |
| Robert W. Korthals ⁽¹⁾⁽²⁾ Toronto, Ontario | Director and Member of the Independent Review Committee | Corporate Director |
| Robert G. Bertram ⁽¹⁾⁽²⁾ Aurora, Ontario | Director and Member of the Independent Review Committee | Corporate Director |
| Sheila S. Szela Toronto, Ontario | Chief Financial Officer and Director | Vice-President, Finance and Chief Financial Officer, MCM |

(1) Independent director.

(2) Member of the Audit Committee.

During the past five years all of the directors and officers have held the principal occupations noted opposite their respective names, or other occupations with their current employer or a predecessor company with the exception of Robert G. Bertram, who served as Executive Vice President of the Ontario Teachers' Pension Plan Board from 1990 until 2008. The independent directors of the Fund are paid an annual fee of \$5,000 and a fee for each board meeting attended of \$300.

Mr. Mulvihill and Mr. Korthals have served as directors of the Fund since its initial public offering. Mr. Koerner was elected a director on June 16, 2000, Ms. Szela was elected a director on November 23, 2004 and Mr. Bertram was elected a director on January 1, 2009. Each of the directors has been elected to serve until the next annual meeting of shareholders or until his or her successor is appointed.

The Manager

Pursuant to a management agreement (the “Management Agreement”) dated October 17, 1996, as amended from time to time, Mulvihill is the manager of the Fund and, as such, is responsible for providing or arranging for required administrative services to the Fund. Mulvihill is a wholly-owned subsidiary of MCM.

The name and municipality of residence, position held with Mulvihill and current principal occupation of each of the directors and officers of Mulvihill are as follows:

| <u><i>Name and Municipality of Residence</i></u> | <u><i>Office or Position with Mulvihill</i></u> | <u><i>Principal Occupation</i></u> |
|--|--|---|
| John P. Mulvihill Toronto, Ontario | Chairman, President, Chief Executive Officer, Secretary and Director | Chairman, President, Chief Executive Officer, Secretary and Director, MCM |
| Sheila S. Szela Toronto, Ontario | Chief Financial Officer and Director | Vice-President, Finance and Chief Financial Officer, MCM |
| John Germain Toronto, Ontario | Director | Senior Vice-President, MCM |

Each of the foregoing individuals has held his or her current office or has held a similar office with Mulvihill or an affiliate during the five years preceding the date hereof.

Mulvihill receives fees for its services under the Management Agreement equal to an annual rate of 0.10% of the Fund’s NAV calculated and payable monthly, plus applicable taxes and is reimbursed for all reasonable costs and expenses incurred by it on behalf of the Fund. In addition, Mulvihill and each of its directors, officers and employees will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against Mulvihill or any of its directors, officers or employees in the exercise of the duties of manager, except those resulting from Mulvihill’s wilful misconduct, bad faith, negligence or breach of its obligations under the Management Agreement.

Mulvihill may resign upon 60 days’ notice to shareholders and the Fund. If Mulvihill resigns it may appoint its successor, but its successor must be approved by shareholders unless it is an affiliate of Mulvihill. If Mulvihill is in material default of its obligations under the Management Agreement and such default has not been cured within 30 days after notice of the same has been given to Mulvihill, the Fund shall give notice thereof to shareholders and the shareholders may remove Mulvihill and appoint a successor manager.

The Investment Manager

MCM is the Fund’s investment manager. MCM is controlled by John P. Mulvihill. 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 (the “Investment Management Agreement”) made between the Fund and MCM dated October 17, 1996, as amended from time to time.

The services provided by MCM pursuant to the Investment Management Agreement include the making of all investment decisions of the Fund and managing the Fund’s call and put option writing, all in accordance with the investment objectives, strategy and criteria of the Fund. Decisions as to the

purchase and sale of securities comprising the Fund's investment portfolio and as to the execution of all portfolio and other transactions are made by MCM.

MCM receives fees for its services under the Investment Management Agreement equal to an annual rate of 0.80% of the Fund's NAV calculated and payable monthly, plus applicable taxes and is reimbursed for all reasonable costs and expenses incurred by MCM on behalf of the Fund. In addition, MCM and each of its directors, officers and employees will be indemnified by the Fund for all liabilities, costs and expenses incurred in connection with any action, suit or proceeding that is proposed or commenced or other claim that is made against MCM or any of its directors, officers or employees in the exercise of the duties of investment manager, except those resulting from MCM's wilful misconduct, bad faith, negligence or breach of its obligations under the Investment Management Agreement.

Proposed Amalgamation

Mulvihill and MCM plan to amalgamate. The continuing company will be named Mulvihill Capital Management Inc. Such change is expected to occur on or after September 1, 2010. Fees currently paid to each entity will be paid to Mulvihill Capital Management Inc. from and after the effective date of the amalgamation.

APPENDIX B
PREMIUM INCOME CORPORATION
SPECIAL RESOLUTION

Capitalized terms used but not defined in this Appendix shall have the meanings attributed to them in the Articles of Incorporation of Premium Income Corporation (the “Corporation”) dated August 27, 1996, as amended on October 18, 1996, July 30, 1999 and May 16, 2003 (collectively, the “Articles”).

BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The Articles be amended as follows:

Extension and Redemption and Retraction Privileges - Special Retraction Date

- (a) by adding the following after the word “thereafter” in Section 13 of Part B (the Class A Share provisions) and Section 13 of Part A (the Preferred Share provisions):

“(other than the October Valuation Date in each year in which there is a Special Retraction Date)”;

- (b) by adding the following new sections immediately following current Section 17 of Part B (the Class A Share provisions):

“18. **Special Retraction**

(a) Each holder of Class A Shares shall be entitled, subject to and upon compliance with the provisions hereof, to surrender at any time prior to 5:00 p.m. (Toronto time) on October 15 in each year in which there is a Special Retraction Date, all or any part of the Class A Shares registered in the name of such holder for redemption by the Corporation on the Special Retraction Date in that year, with payment to be made on the Special Retraction Payment Date at a price per Class A Share equal to the Class A Share Redemption Price as of the Special Retraction Date. For the purposes of calculating such Class A Share Redemption Price, the NAV per Unit shall be the NAV per Unit unless warrants of the Corporation are outstanding on the applicable Special Retraction Date and the NAV per Unit as of the applicable Special Retraction Date exceeds the Dilution Threshold, in which case the NAV per Unit shall be the Diluted NAV per Unit as of the applicable Special Retraction Date. In addition, for the purposes of determining the Class A Share Redemption Price in respect of the initial Special Retraction Date, the costs and expenses of the Corporation’s reorganization described in its management information circular dated August 20, 2010 shall not be included as a liability in the calculation of Net Asset Value.

(b) In connection with a retraction of Class A Shares in accordance with Section 18(a) following the initial Special Retraction Date, the Corporation shall, at least 60 days prior to the Special Retraction Date, provide notice to holders of Class A Shares of the Special Retraction Date by way of press release. Such notice shall set out the Special Retraction Date and the manner in which Class A Shares may be retracted on such date.

(c) The provisions of Sections 9, 10, 11 and 12 shall apply to a retraction on a Special Retraction Date as provided for in Section 18(a) with the necessary modifications.

19. **Consolidation**

To the extent that the number of Preferred Shares retracted on a Special Retraction Date exceeds the number of Class A Shares retracted on the Special Retraction Date, the Class A Shares shall be automatically consolidated on the Special Retraction Date or as soon as practicable thereafter such that the number of Class A Shares outstanding will be equal to the number of Preferred Shares outstanding after giving effect to the redemption of Preferred Shares pursuant to Section 19 of Part A (the Preferred Share provisions).”;

- (c) by adding the following new sections immediately following current Section 17 of Part A (the Preferred Share provisions):

“18. **Special Retraction**

(a) Each holder of Preferred Shares shall be entitled, subject to and upon compliance with the provisions hereof, to surrender at any time prior to 5:00 p.m. (Toronto time) on October 15 in each year in which there is a Special Retraction Date, all or any part of the Preferred Shares registered in the name of such holder for redemption by the Corporation on the Special Retraction Date in that year, with payment to be made on or before the tenth Business Day following such Special Retraction Date (the “Special Retraction Payment Date”) at a price per Preferred Share equal to the Preferred Share Redemption Price as of such Special Retraction Date. For the purposes of calculating such Preferred Share Redemption Price, the NAV per Unit shall be the NAV per Unit unless warrants of the Corporation are outstanding on the applicable Special Retraction Date and the NAV per Unit as of the applicable Special Retraction Date exceeds the Dilution Threshold, in which case the NAV per Unit shall be the Diluted NAV per Unit as of the applicable Special Retraction Date.

(b) In connection with a retraction of Preferred Shares in accordance with Section 18(a) following the initial Special Retraction Date, the Corporation shall, at least 60 days prior to the Special Retraction Date, provide notice to holders of Preferred Shares of the Special Retraction Date by way of press release. Such notice shall set out the Special Retraction Date and the manner in which Preferred Shares may be retracted on such date.

(c) The provisions of Sections 9, 10, 11 and 12 shall apply to a retraction on a Special Retraction Date as provided for in Section 18(a) with the necessary modifications.

19. **Special Redemption**

(a) The Preferred Shares shall be redeemable at the option of the Corporation on each Special Retraction Date to the extent that the number of Class A Shares retracted on the Special Retraction Date exceeds the number of Preferred Shares retracted on the Special Retraction Date. Any such Preferred Shares shall be redeemed by the Corporation on the Special Retraction Date on the payment by the Corporation of the Preferred Share Redemption Price as of Special Retraction Date, calculated in accordance with Section 19(b) below, in respect of each Preferred Share to be redeemed. If less than all of the outstanding Preferred Shares are to be redeemed pursuant to this Section 19, the Preferred Shares to be so redeemed shall be redeemed *pro rata* or in such other manner as the Board of Directors of the Corporation in its sole discretion shall by resolution determine.

(b) In connection with a redemption of Preferred Shares in accordance with this Section 19, the Corporation shall, on or before the seventh Business Day prior to the Special Retraction Date, provide notice to each person who is a registered holder of Preferred Shares to be redeemed of the intention of the Corporation to redeem such Preferred Shares. Such notice shall set out the date for redemption and the manner and place or places within Canada at which such Preferred Shares will be redeemed. On or prior to the Special Retraction Payment Date, the Corporation shall pay or cause to be paid to or to the order of the registered holders of the Preferred Shares an amount per Preferred Share being redeemed equal to the Preferred Share Redemption Price as of the Special Retraction Date. For the purposes of calculating such Preferred Share Redemption Price, the NAV per Unit shall be the NAV per Unit unless warrants of the Corporation are outstanding on the applicable Special Retraction Date and the NAV per Unit as of the applicable Special Retraction Date exceeds the Dilution Threshold, in which case the NAV per Unit shall be the Diluted NAV per Unit as of the applicable Special Retraction Date.

(c) The provisions of Sections 7(c) and 7(d) shall apply to a redemption of Preferred Shares as provided for in Section 19(a) on the Special Retraction Date with the necessary modifications.”;

(d) by adding the following new subparagraph immediately prior to current subparagraph (g)(vii) of Part D (Interpretation) and renumbering the applicable subparagraphs in paragraph (g) accordingly:

“ “Potential Redemption Date” means November 1, 2010 and, thereafter, the day that is the seventh year anniversary date of the immediately preceding Potential Redemption Date;”;

(e) by deleting current subparagraph (g)(ix) of Part D (Interpretation) and substituting the following:

“ “Redemption Date” means the Potential Redemption Date determined by the Board of Directors of the Corporation as the date on which all of the then outstanding shares of any class or series of shares of the Corporation shall be redeemed;”;

(f) by adding the following new subparagraph immediately prior to current subparagraph (g)(xii) of Part D (Interpretation) and renumbering the following subparagraphs in paragraph (g) accordingly:

“ “Special Retraction Date” means each Potential Redemption Date, other than the Redemption Date;”;

Distributions and Dividends - Preferred Shares

(a) by deleting Section 5(a) of Part A (the Preferred Share provisions) and substituting the following:

“The holders of the Preferred Shares shall initially be entitled to receive fixed cumulative preferential cash dividends payable quarterly on the last day of January, April, July and October in each year in the amount of \$0.215625 per share commencing on January 31, 1997 (in respect of which dividends shall accrue from the date of issue of the Preferred Shares). Commencing with each seven-year period starting November 1, 2017, the Board

of Directors of the Corporation shall determine the dividend rate in respect of the Preferred Shares for such period, provided that any such new rate is announced by way of the press release described in Section 18(b). The new dividend amount shall accrue commencing November 1 and the first dividend payment shall become payable commencing on January 31 in the year following the applicable Special Retraction Date. The dividends payable on the Preferred Shares may take the form of ordinary dividends, capital gains dividends or distributions representing a return of capital or any combination thereof.”;

Distributions and Dividends - Returns of Capital

- (a) by adding the following at the end of Section 5(a) of Part B (the Class A Share provisions):

“The dividends payable on the Class A Shares may take the form of ordinary dividends, capital gains dividends or distributions representing a return of capital or any combination thereof.”;

- (b) by adding the following new subsection immediately prior to current Section 5(b) of Part B (the Class A Share provisions) and renumbering the following subsection in Section 5 accordingly:

“The Corporation shall establish and maintain a capital account for the Class A Shares to which the amount represented by the consideration received by the Corporation in respect of any Class A Shares issued shall be added and from which the aggregate amount of any return of capital distributions and any capital represented by Class A Shares redeemed or purchased for cancellation by the Corporation shall be deducted.”;

- (c) by adding the following new subsection immediately prior to current Section 5(b) of Part A (the Preferred Share provisions) and renumbering the following subsection in Section 5 accordingly:

“The Corporation shall establish and maintain a capital account for the Preferred Shares to which the amount represented by the consideration received by the Corporation in respect of any Preferred Shares issued shall be added and from which the aggregate amount of any return of capital distributions and any capital represented by Preferred Shares redeemed or purchased for cancellation by the Corporation shall be deducted.”;

Redemption and Retraction Privileges - Monthly Retraction Privileges - Notice and Payment Dates

- (a) by deleting the word “fifth” from Section 9(a) of Part B (the Class A Share provisions) and Section 9(a) of Part A (the Preferred Share provisions) and substituting the word “tenth”;
- (b) by deleting the word “fifth” from subparagraph (g)(x) of Part D (Interpretation) and substituting the word “tenth”;

Redemption and Retraction Privileges - Monthly Retraction Privileges - Retraction Prices

- (a) by adding the following new subparagraph immediately prior to current subparagraph (g)(i) of Part D (Interpretation) and renumbering the following subparagraphs in paragraph (g) accordingly:

“ “Class A Market Price” means the weighted average trading price of the Class A Shares on the principal stock exchange on which the Class A Shares are listed (or, if the Class A Shares are not listed on any stock exchange, on the principal market on which the Class A Shares are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date;”;

- (b) by deleting current subparagraph (g)(ii) of Part D (Interpretation) and substituting the following:

“ “Class A Share Retraction Price” means an amount per Class A Share equal to the lesser of: (A) the sum of (1) 96% of the difference between (I) the NAV per Unit as of the applicable Valuation Date and (II) the cost to the Corporation of purchasing a Preferred Share in the market for cancellation at any time after the applicable Valuation Date and prior to the applicable Retraction Payment Date and (2) any accrued and unpaid dividends thereon; and (B) the sum of (1) 96% of the difference between (I) the Unit Market Price as of the applicable Valuation Date and (II) the cost to the Corporation of purchasing a Preferred Share in the market for cancellation at any time after the applicable Valuation Date and prior to the applicable Retraction Payment Date and (2) any accrued and unpaid dividends thereon. For the purposes of the calculation noted above, the cost to the Corporation of purchasing a Preferred Share in the market for cancellation may include the purchase price of such Preferred Share, commissions and such other costs, if any, related to the liquidation of any part of the Portfolio to fund such purchase; and the NAV per Unit shall be the NAV per Unit unless warrants of the Corporation are outstanding on the applicable Valuation Date and the NAV per Unit as of the applicable Valuation Date exceeds the Dilution Threshold, in which case the NAV per Unit shall be the Diluted NAV per Unit as of the applicable Valuation Date;”;

- (c) by adding the following new subparagraph immediately prior to current subparagraph (g)(vii) of Part D (Interpretation) and renumbering the following subparagraphs in paragraph (g) accordingly:

“ “Preferred Market Price” means the weighted average trading price of the Preferred Shares on the principal stock exchange on which the Preferred Shares are listed (or, if the Preferred Shares are not listed on any stock exchange, on the principal market on which the Preferred Shares are quoted for trading) for the 10 trading days immediately preceding the applicable Valuation Date;”;

- (d) by deleting current subparagraph (g)(viii) of Part D (Interpretation) and substituting the following:

“ “Preferred Share Retraction Price” means an amount per Preferred Share equal to the lesser of: (A) the sum of (1) 96% of the lesser of (I) NAV per Unit as of the applicable Valuation Date less the cost to the Corporation of purchasing a Class A Share in the market for cancellation at any time after the applicable Valuation Date and prior to the applicable Retraction Payment Date and (II) \$15.00 and (2) any accrued and unpaid dividends thereon; and (B) the sum of (1) 96% of the lesser of (I) the Unit Market Price

as of the applicable Valuation Date less the cost to the Corporation of purchasing a Class A Share in the market for cancellation at any time after the applicable Valuation Date and prior to the applicable Retraction Payment Date and (II) \$15.00 and (2) any accrued and unpaid dividends thereon. For the purposes of the calculation noted above, the cost to the Corporation of purchasing a Class A Share in the market for cancellation may include the purchase price of such Class A Share, commissions and such other costs, if any, related to the liquidation of any part of the Portfolio to fund such purchase; and the NAV per Unit shall be the NAV per Unit unless warrants of the Corporation are outstanding on the applicable Valuation Date and the NAV per Unit as of the applicable Valuation Date exceeds the Dilution Threshold, in which case the NAV per Unit shall be the Diluted NAV per Unit as of the applicable Valuation Date;”;

- (e) by adding the following new subparagraph immediately prior to current subparagraph (g)(xiii) of Part D (Interpretation) and renumbering the following subparagraphs in paragraph (g) accordingly:

“ “Unit Market Price” means the sum of the Class A Market Price and the Preferred Market Price;”;

Calculation of NAV and NAV per Unit

- (a) by adding the following at the end of Section 13 of Part B (the Class A Share provisions) and at the end of Section 13 of Part A (the Preferred Share provisions):

“For the purposes hereof, the NAV per Unit shall be the NAV per Unit unless warrants of the Corporation are outstanding on the applicable October Valuation Date and the NAV per Unit as of the applicable October Valuation Date exceeds the Dilution Threshold, in which case the NAV per Unit shall be the Diluted NAV per Unit as of the applicable October Valuation Date.”;

- (b) by adding the following new subparagraphs immediately prior to current subparagraph (g)(iv) of Part D (Interpretation) and renumbering the following subparagraphs in paragraph (g) accordingly:

“ “Diluted NAV per Unit” means, on a particular date, if warrants of the Corporation are outstanding on such date and the NAV per Unit on such date is greater than the Dilution Threshold, the fraction equal to (A) the NAV on such date plus the product of (1) the number of Units issuable upon the exercise of the warrants then outstanding and (2) the Dilution Threshold over (B) the number of Units outstanding on such date plus the number of Units issuable upon the exercise of such warrants;

“Dilution Threshold” means, if warrants of the Corporation are outstanding, the subscription price payable on the exercise of one such warrant less the warrant exercise fee, if any, for such warrant;”;

- (c) by deleting current subparagraph (g)(vii) of Part D (Interpretation) and substituting the following:

“ “Preferred Share Redemption Price” means an amount per Preferred Share equal to the sum of (A) the lesser of (1) \$15.00 and (2) the NAV per Unit and (B) all accrued and unpaid dividends thereon;”;

Authorized Capital

- (a) to increase the authorized capital of the Corporation in creating the following additional classes of shares:
- “An unlimited number of shares to be designated as Class C Shares, issuable in series, an unlimited number of shares to be designated as Class D Shares, issuable in series, an unlimited number of shares to be designated Class E Shares, issuable in series, an unlimited number of shares to be designated as Class C Preferred Shares, issuable in series, an unlimited number of shares to be designated as Class D Preferred Shares, issuable in series and an unlimited number of shares to be designated as Class E Preferred Shares, issuable in series.”;
- (b) by deleting current Section 14 of Part B (the Class A Share provisions) and substituting the following:
- “Subject to the prior rights of the holders of Preferred Shares and any other shares of the Corporation ranking senior to the Class A Shares, in the event of the liquidation, dissolution or winding-up of the Corporation, or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, whether voluntary or involuntary, the holders of Class A Shares shall be entitled to receive from the assets of the Corporation for each Class A Share a sum equal to the Class A Share Redemption Price calculated as though the Redemption Date was the date fixed for such distribution. In the case of any payment under this Section, the holders of Class A Shares shall be entitled to receive such amounts before any amount shall be paid by the Corporation or any assets of the Corporation shall be distributed to holders of Class B Shares or any other shares of any class of the Corporation ranking as to capital junior to the Class A Shares. After payment to the holders of Class A Shares of the amounts so payable to them, they shall not be entitled to share in any further distribution of the assets of the Corporation.”;
- (c) by adding the following new subparagraph immediately prior to current subparagraph (g)(i) of Part D (Interpretation) and renumbering the following subparagraphs in paragraph (g) accordingly:
- “ “Capital Share” means a Class A Share of any series, a Class C Share of any series, a Class D Share of any series or a Class E Share of any series;”;
- (d) by deleting current subparagraph (g)(xii) of Part D (Interpretation) and substituting the following:
- “ “Unit” means a notional unit consisting of a Capital Share of any class or series and a preferred share of any class or series. The number of Units outstanding at any time shall be equal to the sum of the number of outstanding Capital Shares of any class and series and the number of outstanding preferred shares of any class and series divided by two;”;
- (e) to provide that the Class C Shares and the Class C Preferred Shares shall have attached thereto as a class the rights, privileges, restrictions and conditions set out in Schedule A hereto;

- (f) to provide that the Class D Shares and the Class D Preferred Shares shall have attached thereto as a class the rights, privileges, restrictions and conditions set out in Schedule B hereto; and
 - (g) to provide that the Class E Shares and the Class E Preferred Shares shall have attached thereto as a class the rights, privileges, restrictions and conditions set out in Schedule C hereto.
2. The Corporation is hereby authorized to make all filings necessary for the issuance of a Certificate of Amendment under the *Business Corporations Act* (Ontario) (the “Act”) to give effect to this Special Resolution.
 3. The directors and officers of the Corporation are hereby authorized and directed to take such action and to execute and deliver such documentation as may be necessary or desirable for the implementation of this Special Resolution.
 4. Notwithstanding the provisions hereof, the directors of the Corporation may revoke this Special Resolution at any time prior to the issuance of a Certificate of Amendment under the Act giving effect hereto without further approval of the shareholders of the Corporation.

SCHEDULE A

E. CLASS C SHARES

1. The Class C Shares may be issued at any time or from time to time in one or more series, each series to consist of such number of Class C Shares as shall, before the issuance thereof, be fixed by the Board of Directors; each series of the Class C Shares shall be appropriately designated by some distinguishing number, letter or title.
2. With respect to each series, the Board of Directors of the Corporation shall determine (subject to the provisions hereof), before the issuance of the Class C Shares of such series, the designation, rights, privileges, restrictions, conditions and other provisions to be attached to the Class C Shares of such series, including, but without in any way limiting the generality of the foregoing, the rate, amount or method of calculation of dividends, the nature and extent of the preferences over the Class B Shares and any other shares ranking junior to the Class C Shares with respect to the payment of dividends and with respect to the distribution of assets of the Corporation in the event of the liquidation, dissolution or winding-up of the Corporation whether voluntary or involuntary or in the event of any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs (a "Liquidation Distribution"), the consideration for which the Class C Shares of such series are to be issued and the voting rights, if any, to be attached to the Class C Shares of such series.
3. The Class C Shares of each series shall rank on a parity with the Class C Shares of every other series with respect to priority in the payment of dividends, if or to the extent that they are cumulative, and with respect to priority in the event of a Liquidation Distribution.

F. CLASS C PREFERRED SHARES

1. The Class C Preferred Shares may be issued at any time or from time to time in one or more series, each series to consist of such number of Class C Preferred Shares as shall, before the issuance thereof, be fixed by the Board of Directors; each series of the Class C Preferred Shares shall be appropriately designated by some distinguishing number, letter or title.
2. With respect to each series, the Board of Directors of the Corporation shall determine (subject to the provisions hereof), before the issuance of the Class C Preferred Shares of such series, the designation, rights, privileges, restrictions, conditions and other provisions to be attached to the Class C Preferred Shares of such series, including, but without in any way limiting the generality of the foregoing, the rate, amount or method of calculation of dividends, the nature and extent of the preferences over the Class B Shares and any other shares ranking junior to the Class C Preferred Shares with respect to the payment of dividends and with respect to the distribution of assets of the Corporation in the event of a Liquidation Distribution, the consideration for which the Class C Preferred Shares of such series are to be issued and the voting rights, if any, to be attached to the Class C Preferred Shares of such series.
3. The Class C Preferred Shares of each series shall rank on a parity with the Class C Preferred Shares of every other series with respect to priority in the payment of dividends, if or to the extent that they are cumulative, and with respect to priority in the event of a Liquidation Distribution.

SCHEDULE B

G. CLASS D SHARES

1. The Class D Shares may be issued at any time or from time to time in one or more series, each series to consist of such number of Class D Shares as shall, before the issuance thereof, be fixed by the Board of Directors; each series of the Class D Shares shall be appropriately designated by some distinguishing number, letter or title.
2. With respect to each series, the Board of Directors of the Corporation shall determine (subject to the provisions hereof), before the issuance of the Class D Shares of such series, the designation, rights, privileges, restrictions, conditions and other provisions to be attached to the Class D Shares of such series, including, but without in any way limiting the generality of the foregoing, the rate, amount or method of calculation of dividends, the nature and extent of the preferences over the Class B Shares and any other shares ranking junior to the Class D Shares with respect to the payment of dividends and with respect to the distribution of assets of the Corporation in the event of a Liquidation Distribution, the consideration for which the Class D Shares of such series are to be issued and the voting rights, if any, to be attached to the Class D Shares of such series.
3. The Class D Shares of each series shall rank on a parity with the Class D Shares of every other series with respect to priority in the payment of dividends, if or to the extent that they are cumulative, and with respect to priority in the event of a Liquidation Distribution.

H. CLASS D PREFERRED SHARES

1. The Class D Preferred Shares may be issued at any time or from time to time in one or more series, each series to consist of such number of Class D Preferred Shares as shall, before the issuance thereof, be fixed by the Board of Directors; each series of the Class D Preferred Shares shall be appropriately designated by some distinguishing number, letter or title.
2. With respect to each series, the Board of Directors of the Corporation shall determine (subject to the provisions hereof), before the issuance of the Class D Preferred Shares of such series, the designation, rights, privileges, restrictions, conditions and other provisions to be attached to the Class D Preferred Shares of such series, including, but without in any way limiting the generality of the foregoing, the rate, amount or method of calculation of dividends, the nature and extent of the preferences over the Class B Shares and any other shares ranking junior to the Class D Preferred Shares with respect to the payment of dividends and with respect to the distribution of assets of the Corporation in the event of a Liquidation Distribution, the consideration for which the Class D Preferred Shares of such series are to be issued and the voting rights, if any, to be attached to the Class D Preferred Shares of such series.
3. The Class D Preferred Shares of each series shall rank on a parity with the Class D Preferred Shares of every other series with respect to priority in the payment of dividends, if or to the extent that they are cumulative, and with respect to priority in the event of a Liquidation Distribution.

SCHEDULE C

I. CLASS E SHARES

1. The Class E Shares may be issued at any time or from time to time in one or more series, each series to consist of such number of Class E Shares as shall, before the issuance thereof, be fixed by the Board of Directors; each series of the Class E Shares shall be appropriately designated by some distinguishing number, letter or title.
2. With respect to each series, the Board of Directors of the Corporation shall determine (subject to the provisions hereof), before the issuance of the Class E Shares of such series, the designation, rights, privileges, restrictions, conditions and other provisions to be attached to the Class E Shares of such series, including, but without in any way limiting the generality of the foregoing, the rate, amount or method of calculation of dividends, the nature and extent of the preferences over the Class B Shares and any other shares ranking junior to the Class E Shares with respect to the payment of dividends and with respect to the distribution of assets of the Corporation in the event of a Liquidation Distribution, the consideration for which the Class E Shares of such series are to be issued and the voting rights, if any, to be attached to the Class E Shares of such series.
3. The Class E Shares of each series shall rank on a parity with the Class E Shares of every other series with respect to priority in the payment of dividends, if or to the extent that they are cumulative, and with respect to priority in the event of a Liquidation Distribution.

J. CLASS E PREFERRED SHARES

1. The Class E Preferred Shares may be issued at any time or from time to time in one or more series, each series to consist of such number of Class E Preferred Shares as shall, before the issuance thereof, be fixed by the Board of Directors; each series of the Class E Preferred Shares shall be appropriately designated by some distinguishing number, letter or title.
2. With respect to each series, the Board of Directors of the Corporation shall determine (subject to the provisions hereof), before the issuance of the Class E Preferred Shares of such series, the designation, rights, privileges, restrictions, conditions and other provisions to be attached to the Class E Preferred Shares of such series, including, but without in any way limiting the generality of the foregoing, the rate, amount or method of calculation of dividends, the nature and extent of the preferences over the Class B Shares and any other shares ranking junior to the Class E Preferred Shares with respect to the payment of dividends and with respect to the distribution of assets of the Corporation in the event of a Liquidation Distribution, the consideration for which the Class E Preferred Shares of such series are to be issued and the voting rights, if any, to be attached to the Class E Preferred Shares of such series.
3. The Class E Preferred Shares of each series shall rank on a parity with the Class E Preferred Shares of every other series with respect to priority in the payment of dividends, if or to the extent that they are cumulative, and with respect to priority in the event of a Liquidation Distribution.

APPENDIX C RIGHTS OF DISSENT

Capitalized terms used but not defined in this Appendix shall have the meanings attributed to them in the Management Information Circular of Premium Income Corporation dated August 20, 2010 (the “Circular”).

Pursuant to the provisions of Section 185 of the *Business Corporations Act* (Ontario) (the “OBCA”), a holder of Class A Shares or Preferred Shares is entitled to dissent and be paid the fair value of such shares if the shareholder objects to the Special Resolution and the Special Resolution becomes effective. A shareholder may dissent only with respect to all of the shares of a class held by the shareholder on behalf of any one beneficial owner and registered in the shareholder’s name. However, a shareholder is not entitled to dissent from the Special Resolution with respect to any Class A Shares or Preferred Shares beneficially owned by one owner if the shareholder votes any such shares beneficially owned by that owner in favour of the Special Resolution.

In order to dissent, a shareholder must send a written objection (an “Objection Notice”) to the Special Resolution to the Fund, c/o the Secretary, 121 King Street West, Standard Life Centre, Suite 2600, Toronto, Ontario, M5H 3T9 on or before the date of the Special Meeting. A vote against the Special Resolution or an abstention in respect thereof does not constitute such an Objection Notice, but a shareholder need not vote his or her shares against the Special Resolution in order to dissent in respect of the Special Resolution. Similarly, the revocation of a proxy conferring authority on the proxy holder to vote in favour of the Special Resolution does not constitute an Objection Notice in respect of the Special Resolution, but any such proxy granted by a shareholder who intends to dissent should be validly revoked (see “General Proxy Information – Revocation of Proxies” in the Circular) in order to prevent the proxy holder from voting such shares in favour of the Special Resolution and thereby disentitling the shareholder from the right to dissent. If the Special Resolution is approved, within 10 days following the date of the Meeting, the Fund will deliver to each shareholder who has filed an Objection Notice in respect of the Special Resolution, at the address specified for such purpose in such shareholder’s Objection Notice, a notice stating that the Special Resolution has been adopted (the “Fund Notice”). A Fund Notice is not required to be sent to any shareholder who voted for the Special Resolution or who has withdrawn an Objection Notice.

Within 20 days after receipt by a shareholder of the Fund Notice or, if no Fund Notice is received by the dissenting shareholder, within 20 days after such shareholder learns that the Special Resolution has been adopted, the dissenting shareholder is required to send a written notice to the Fund, at the address set forth in the preceding paragraph, setting forth the shareholder’s name and address, the number of shares held in respect of which such shareholder dissents and a demand for payment of the fair value of such shares (the “Demand for Payment”). Within 30 days thereafter, the shareholder must send the share certificates representing such shares to the Fund. Such share certificates will be endorsed by the Fund with a notice that the holder is a dissenting shareholder and will be returned to the dissenting shareholder. A shareholder who fails to forward share certificates within the time required loses any right to make a claim for payment of the fair value of such shareholder’s shares.

On sending a Demand for Payment to the Fund, a dissenting shareholder ceases to have any rights as a shareholder except the right to be paid the fair value of his or her shares unless the dissenting shareholder withdraws the Demand for Payment before the Fund sends an Offer to Purchase as described below or the Special Resolution does not become effective, in which case such shareholder’s rights are reinstated as of the date such Demand for Payment was sent. If a shareholder fails to comply with each of the steps required to dissent effectively, the rights, privileges, restrictions and conditions attaching to such shareholder’s shares will be amended in accordance with the Special Resolution.

Not later than seven days after the later of the day on which the action approved under the Special Resolution becomes effective and the date the Fund receives the Demand for Payment, the Fund will send to each dissenting shareholder a written offer (the "Offer to Pay") to pay for the shares that are the subject of the Objection Notice in an amount considered by the Board of Directors of the Fund to be the fair value of such shares as of the close of business on the day before the day on which the action approved by the Special Resolution becomes effective, accompanied by a statement showing how the fair value was determined. Every Offer to Pay for a class of shares shall be on the same terms.

A dissenting shareholder who accepts the Offer to Pay will be paid by the Fund within 10 days of acceptance by the dissenting shareholder of such offer, provided share certificates representing the shares held by such dissenting shareholder have been delivered to the Fund. The Offer to Pay lapses if the Fund does not receive an acceptance of the Offer to Pay within 30 days after the date on which the Offer to Pay was made.

If the Fund fails to make the Offer to Pay or a dissenting shareholder fails to accept the Offer to Pay within the time limit prescribed therefor, the Fund may apply under the OBCA to a court to fix a fair value for the shares within 50 days after the day on which the action approved by the Special Resolution becomes effective or within such further period as the court may allow.

Upon any application to a court by the Fund, the Fund shall notify each affected dissenting shareholder of the date, place and consequences of the application and of such dissenting shareholder's right to appear and be heard in person or by counsel. If the Fund fails to make such application, the dissenting shareholder has the right to so apply within a further period of 20 days or within such further period as a court may allow. All dissenting shareholders whose shares have not been purchased by the Fund will be joined as parties to the application and will be bound by the decision of the court. The court may determine whether any person is a dissenting shareholder who should be joined as a party and the court will fix a fair value for the shares of all dissenting shareholders.

Provided that the Special Resolution becomes effective, a shareholder who complies with each of the steps required to dissent effectively is entitled to be paid the fair value of the shares in respect of which such shareholder has dissented. Such fair value as determined by the court may be more than, less than or equal to the consideration to be received under the Offer to Pay.

The foregoing is a summary only of the rights of dissenting shareholders. Any shareholder desiring to exercise a right to dissent should seek legal advice since failure to comply strictly with the provisions of section 185 of the OBCA may prejudice that right. The right of a shareholder to dissent is not exclusive of any other rights available to shareholders generally, such as rights in respect of corporate directors' duties of good faith and care under the OBCA or otherwise.