SEMI-ANNUAL REPORT 2012

Premium Income Corporation

strathbridge
ASSET MANAGEMENT

Letter to Shareholders

We are pleased to present the 2012 semi-annual report containing the management report of fund performance and the unaudited financial statements for Premium Income Corporation.

During the six months ended April 30, 2012, the Fund paid distributions of $0.43 per Preferred share and $0.41 per Class A share. The net asset value per Unit increased from $20.81 per Unit as at October 31, 2011 to $21.38 per Unit as at April 30, 2012, primarily as a result of an appreciation of investments. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

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

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

The Fund

The Fund is a split share corporation designed to provide Preferred shareholders with cumulative preferential quarterly cash distributions of $0.22 per share, to provide Class A shareholders with quarterly cash distributions of $0.20 per share (on a post-Class A share consolidation basis) and to return the original issue price to holders of both Preferred shares and Class A shares upon windup of the Fund. A Unit of the Fund consists of one Preferred share and one Class A share. Once the net asset value ("NAV") per Unit exceeds $25.00, the Class A share distribution will be based on 8.0 percent per annum of the NAV of the Class A share. The shares are listed on the Toronto Stock Exchange under the ticker symbols PIC.PR.A for the Preferred shares and PIC.A for the Class A shares. To accomplish its objectives the Fund invests primarily in common shares issued by:

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

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

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

Management Report of Fund Performance

Management Report of Fund Performance

This semi-annual management report of fund performance contains the financial highlights for the six months ended April 30, 2012 of Premium Income Corporation (the “Fund”). The unaudited semi-annual financial statements of the Fund are attached.

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

Results of Operations

Distributions

For the six months ended April 30, 2012, cash distributions of $0.41 per Class A share and $0.43 per Preferred share were paid to respective shareholders, unchanged from the same period last year. Since the inception of the Fund in October 1996, the Fund has paid total cash distributions of $19.32 per Class A share and $13.58 per Preferred share.

Revenue and Expenses

The Fund’s total revenue was $0.45 per Unit for the six months ended April 30, 2012, up $0.06 per Unit compared to the corresponding period in the prior fiscal year. The increase in income per Unit was largely due to higher dividends declared by Canadian banks in fiscal 2012. Total expenses during the same period were $0.12 per Unit, down from $0.15 per Unit a year ago, primarily reflecting the lower management and transaction fees in 2012 and the non-recurring costs associated with the warrant offering in 2011. The Fund had a net realized and unrealized gain of $1.07 per Unit in the first half of fiscal 2012 as compared to a net realized and unrealized gain of $1.23 per Unit in the prior year.

Net Asset Value

The net asset value per Unit of the Fund increased 2.7 percent from $20.81 per Unit at October 31, 2011 to $21.38 per Unit at April 30, 2012. The aggregate net asset value of the Fund increased $5.4 million, from $198.1 million at October 31, 2011 to $203.5 million at April 30, 2012, mainly attributable to an increase in net assets

Management Report of Fund Performance

from operations of $13.4 million, partially offset by cash distributions of $8.0 million to Class A and Preferred shareholders.

During the six months ended April 30, 2012, the total return of the Fund was 6.8 percent, primarily reflecting the appreciation of investments held in the portfolio. The S&P/TSX Diversified Banks Index (the “Banks Index”) total return during the same period was 10.5 percent. As a result of the Fund being limited to a specific universe of stocks and utilizing a covered call writing strategy to generate income, comparisons with a market index may not be appropriate. The Banks Index is calculated without the deduction of management fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

Recent Developments

On December 15, 2011, the warrants issued to Class A shareholders of record on May 6, 2011 expired worthless since the net asset value of the Fund of $19.92 was below the subscription price of $23.65.

On January 19, 2012, the Fund filed a Notice of Intention to renew its normal course issuer bid to purchase up to 951,755 Class A shares and Preferred shares representing approximately 10 percent of the public float of 9,517,553 Class A shares and 9,517,553 Preferred shares as of January 10, 2012. The Fund may purchase up to 190,351 of each respective class of shares in any 30 day period which is 2 percent of the 9,517,553 shares issued and outstanding of each respective class as at January 10, 2012.

Future Accounting Policy Changes

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

The changeover plan was prepared to address the requirements and includes disclosures of the qualitative and quantitative impact, if any, of the changeover to IFRS in the 2011 financial statements and the preparation of the 2012 financial statements in accordance with IFRS with comparatives. In January 2011, the Canadian Accounting Standards Board (“AcSB”) approved a two year deferral from IFRS adoption for investment companies applying Accounting

Guideline 18 - Investment Companies ("AcG-18"). Subsequently, in December 2011, AcSB extended the deferral for another year to January 1, 2014. As a result, the Fund will adopt IFRS for its fiscal period beginning November 1, 2014 and will issue its initial financial statements in accordance with IFRS, with comparative information, for the semi-annual period ending April 30, 2015.

As at April 30, 2012, some anticipated changes to financial reporting include:

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

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

Related Party Transactions

On October 3, 2011, Mulvihill Capital Management Inc. ("MCM"), the Manager and Investment Manager of the Fund, announced a name change to Strathbridge.

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

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

Management Report of Fund Performance

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

Independent Review Committee

National Instrument 81-107 - Independent Review Committee for Investment Funds ("NI 81-107") requires all publicly offered investment funds to establish an independent review committee ("IRC") to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions. Members of the IRC are Robert W. Korthals, Michael M. Koerner and Robert G. Bertram.

We confirm the Fund did not rely on any approvals or recommendations of the IRC concerning related party transactions during the period.

Management Report of Fund Performance

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years.

The information for the years ended October 31 is derived from the Fund's audited annual financial statements.

	Six months ended April 30, 2012
THE FUND'S NET ASSETS PER UNIT	
Net Assets, beginning of period (based on bid prices)[1]	**$ 20.79**
INCREASE (DECREASE) FROM OPERATIONS	
Total revenue	**0.45**
Total expenses	**(0.12)**
Realized gain (loss) for the period	**(0.17)**
Unrealized gain (loss) for the period	**1.24**
Total Increase (Decrease) from Operations[2]	**1.40**
DISTRIBUTIONS	
Preferred Share	
From net investment income	**(0.33)**
From capital gains	**–**
Non-taxable distributions	**(0.10)**
Total Preferred Share Distributions	**(0.43)**
Class A Share	
From net investment income	**–**
From capital gains	**–**
Non-taxable distributions	**(0.41)**
Total Class A Share Distributions	**(0.41)**
Total Distributions[3]	**(0.84)**
Net Assets, end of period (based on bid prices)[1]	**$ 21.36**

(1) Net Assets per Unit is the difference between the aggregate value of the assets and the aggregate value of the liabilities excluding the Redeemable Preferred Share liability on that date divided by the number of Units then outstanding.

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

	Six months ended April 30, 2012
RATIOS/SUPPLEMENTAL DATA	
Net Asset Value, excluding the Redeemable Preferred Share liability ($millions)	**$ 203.48**
Net Asset Value ($millions)	**$ 60.72**
Number of Units outstanding	**9,517,553**
Management expense ratio[1]	**1.16%**[4]
Portfolio turnover rate[2]	**18.76%**
Trading expense ratio[3]	**0.03%**[4]
Net Asset Value per Unit[5]	**$ 21.38**
Closing market price – Preferred	**$ 15.20**
Closing market price – Class A	**$ 6.69**

(1) The management expense ratio ("MER") is the sum of all fees and expenses, including federal and provincial sales taxes and capital tax but excluding transaction fees, income taxes and Preferred share distributions, charged to the Fund divided by the average net asset value, excluding the Redeemable Preferred Share liability. The MER for 2011 includes warrant offering costs and special resolution recovery. The MER for 2011 excluding warrant offering costs and special resolution recovery is 1.13%. The MER for 2010 includes the special resolution expense. The MER for 2010 excluding the special resolution expense is 1.10%. The MER, including Preferred share distributions, is 5.27%, 5.02%, 5.60%, 5.81%, 4.99% and 4.26% for 2012, 2011, 2010, 2009, 2008 and 2007 respectively.

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

Management Report of Fund Performance

Information for the period ended April 30, 2012 is derived from the Fund's unaudited semi-annual financial statements.

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

Years ended October 31				
2011	2010	2009	2008	2007
$ 22.53[5]	$ 19.15	$ 19.16	$ 26.16	$ 26.40[4]
0.83	0.87	0.70	0.89	0.95
(0.28)	(0.32)	(0.21)	(0.25)	(0.30)
1.43	0.82	(3.65)	(1.40)	1.78
(2.04)	1.53	3.97	(4.48)	(0.61)
(0.06)	2.90	0.81	(5.24)	1.82
(0.84)	(0.86)	(0.86)	(0.86)	(0.82)
–	–	–	–	(0.05)
(0.02)	–	–	–	–
(0.86)	(0.86)	(0.86)	(0.86)	(0.87)
–	(0.60)	(0.45)	–	–
–	–	–	(0.90)	(1.20)
(0.81)	–	–	–	–
(0.81)	(0.60)	(0.45)	(0.90)	(1.20)
(1.67)	(1.46)	(1.31)	(1.76)	(2.07)
$ 20.79	$ 20.56	$ 19.15	$ 19.16	$ 26.16

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

(4) Net Assets per Unit has been adjusted for the change in accounting policy relating to the calculation of net asset value based on bid prices versus closing prices prior to 2007.

(5) Net Assets per Unit was adjusted for the consolidation of the Class A shares effective the opening of trading on November 1, 2010. Each shareholder received 0.738208641 new Class A shares for each Class A share held. The total value of a shareholder's investment did not change, however; the number of Class A shares reflected in the shareholder's account declined and the Net Assets per Class A share increased proportionately.

Years ended October 31				
2011	2010	2009	2008	2007
$ 198.09	$ 292.34	$ 279.70	$ 352.11	$ 497.18
$ 55.33	$ 79.25	$ 60.95	$ 76.36	$ 211.31
9,517,553	14,206,046	14,575,324	18,345,439	18,995,200
1.15%	1.44%	1.07%	1.08%	1.04%
81.29%	93.32%	74.20%	11.51%	109.89%
0.06%	0.09%	0.08%	0.04%	0.07%
$ 20.81[6]	$ 20.58	$ 19.19	$ 19.19	$ 26.17
$ 14.58	$ 15.00	$ 14.90	$ 12.60	$ 15.25
$ 6.03	$ 5.84	$ 4.57	$ 5.30	$ 10.10

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

(4) Annualized.

(5) Net Asset Value per Unit is the difference between the aggregate value of the assets and the aggregate value of the liabilities excluding the Redeemable Preferred Share liability on that date and including the valuation of securities at closing prices divided by the number of Units then outstanding.

(6) Net Asset Value per Unit was adjusted for the consolidation of the Class A shares effective the opening of trading on November 1, 2010. Each shareholder received 0.738208641 new Class A shares for each Class A share held. The total value of a shareholder's investment did not change, however; the number of Class A shares reflected in the shareholder's account declined and the market value and the Net Asset Value per Class A share increased proportionately.

Management Report of Fund Performance

Management Fees

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

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

Past Performance

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

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

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

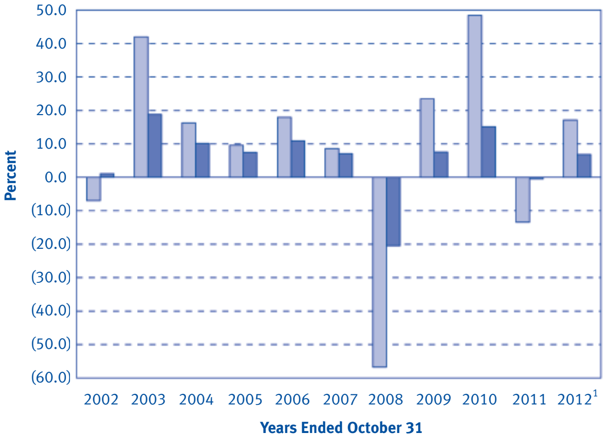
(3) the past performance of the Fund does not necessarily indicate how it will perform in the future.

Year-By-Year Returns

The following bar chart illustrates how the Fund's total return varied from year to year for each of the past ten years and for the six month period ended April 30, 2012. The chart also shows, in percentage terms, how much an investment made on November 1 in each year would have increased or decreased by the end of that fiscal year, or April 30, 2012 for the six months then ended.

Management Report of Fund Performance

Annual Total Return



[1] For the six months ended April 30, 2012

Class A Return
Total Fund Return

Portfolio Manager Report

North American equity markets continued to show signs of improvement for the first four months of 2012 after rallying into 2011 year-end on the back of better economic and employment numbers in the U.S. as well as improved investor sentiment regarding Europe as Greece averted a default crisis in early March 2012 with bondholders taking a write-down on their holdings and accepting new bonds with inferior terms. The Bank of Canada remained on hold during the period due to mixed economic numbers out of Canada along with the U.S. Federal Reserve indicating it will continue to keep its low interest rate policy in place until late 2014. After ending fiscal 2011 on a mixed note, the Canadian banks resumed their strong earnings growth in the first quarter of 2012 on solid retail banking and better-than-expected trading revenues. Capital ratios continued to remain strong even though reported regulatory capital was reduced during the period due to the impact of adhering to IFRS as well as the adoption of new regulatory capital standards of Basel 2.5. Three of the five banks increased their dividends in the first quarter of 2012 by an average of 6 percent. The Royal Bank of Canada (“RBC”) also announced a significant acquisition in the period of the other half of the RBC Dexia joint venture for €838 million (CDN$1.1 billion) in cash.

The total return for the S&P/TSX Diversified Banks Index for the period was 10.5 percent which strongly outperformed the broader S&P/TSX Total Return Composite Index which was up 1.8 percent.

Management Report of Fund Performance

All five banks in the portfolio experienced positive returns during the period with the RBC reversing its underperformance from the previous year and posting the strongest total return of 19.8 percent. The Canadian Imperial Bank of Commerce lagged the group during the period, generating a total return of 1.6 percent due to investor concerns regarding the sale of its broker mortgage unit, FirstLine Mortgages, and the potential loss of market share. The total return of the Fund, including reinvestment of distributions, for the six month period ended April 30, 2012 was 6.8 percent versus an 8.5 percent total return for the five banks on an equal weighted basis. The underperformance was due to some covered call writing in December 2011 as the banks rallied with the market into year-end. The Fund maintained its invested position during the majority of the period and ended the month of April 2012 with a cash position of 0.9 compared to 1.2 percent at the end of fiscal 2011. Due to the decrease in the level of volatility in the Canadian banks during the period, the Fund reduced its selective covered call writing activity and ended the period with none of the portfolio subject to covered calls.

The Canadian banks profitability is likely to grow at a slower pace in 2012 than it had historically due to decelerating loan growth, lower net interest margins and volatile capital markets. However, in the context of low interest rates, the valuations of companies in the portfolio remain at attractive levels when measured by price to earnings ratios and current dividend yields and this should continue to act as major support for the share prices.

Summary of Investment Portfolio

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

Asset Mix

April 30, 2012

	% of Net Asset Value*
Financial Institutions	99%
Cash and Short-Term Investments	1%
	100%

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

Management Report of Fund Performance

Portfolio Holdings

April 30, 2012

	% of Net Asset Value*
The Bank of Nova Scotia	22%
The Toronto-Dominion Bank	21%
Royal Bank of Canada	20%
Bank of Montreal	20%
Canadian Imperial Bank of Commerce	16%
Cash and Short-Term Investments	1%

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

Forward-Looking Statements

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

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

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

Management's Responsibility for Financial Reporting

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

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this semi-annual report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 4 of the annual financial statements for the year ended October 31, 2011.

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

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

John P. Mulvihill	John D. Germain
Director	Director
Strathbridge Asset Management Inc.	Strathbridge Asset Management Inc.

June 4, 2012

Notice to Shareholders

The Fund’s independent auditor has not performed a review of these Semi-Annual Financial Statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

Financial Statements

Statements of Financial Position

As at April 30, 2012 (Unaudited) and October 31, 2011 (Audited)

	2012	2011
ASSETS		
Investments at fair value (cost - $196,724,052; 2011 - $202,600,690)	$ 200,935,484	$ 194,975,346
Short-term investments at fair value (cost - $1,196,544; 2011 - $1,995,707)	1,196,544	1,995,707
Cash	637,705	364,217
Accrued interest	154	988
Dividends receivable	932,700	886,040
Due from brokers - investments	111,008	–
TOTAL ASSETS	$ 203,813,595	$ 198,222,298
LIABILITIES		
Due to brokers - investments	$ 278,978	$ –
Accrued management fees	150,231	151,637
Accrued liabilities	68,089	64,951
Redemptions payable	–	123,629
Redeemable Preferred shares	142,763,295	142,763,295
	143,260,593	143,103,512
EQUITY		
Class A and Class B shares	130,878,706	130,878,706
Deficit	(70,325,704)	(75,759,920)
	60,553,002	55,118,786
TOTAL LIABILITIES AND EQUITY	$ 203,813,595	$ 198,222,298
Number of Units Outstanding	9,517,553	9,517,553
Net Assets per Unit		
Preferred share	$ 15.00	$ 15.00
Class A share - Basic	6.36	5.79
Net Assets per Unit (Note 3)	$ 21.36	$ 20.79
Net Assets per Class A Share - Diluted	n/a	$ 5.79

Statements of Operations and Deficit

Six months ended April 30 (Unaudited)

	2012	2011
REVENUE		
Interest	$ 18,901	$ 41,970
Dividends	4,310,605	3,664,216
TOTAL REVENUE	4,329,506	3,706,186
EXPENSES		
Management fees	904,813	974,649
Administrative and other expenses	68,152	111,760
Transaction fees (Note 4)	25,712	79,670
Custodian fees	20,717	23,704
Audit fees	17,971	17,971
Director fees	10,445	11,390
Independent review committee fees	3,936	4,522
Legal fees	5,162	–
Shareholder reporting costs	29,385	30,915
Harmonized sales tax	95,162	110,390
Subtotal Expenses	1,181,455	1,364,971
Warrant offering costs	–	160,000
TOTAL EXPENSES	1,181,455	1,524,971
Net Investment Income before Special Resolution Recovery and Distributions	3,148,051	2,181,215
Special resolution recovery	–	112,774
Net Investment Income before Distributions	3,148,051	2,293,989
Preferred share distributions	(4,104,445)	(4,107,006)
Net Investment Loss	(956,394)	(1,813,017)
Net realized gain (loss) on investments	(606,558)	8,698,243
Net realized loss on derivatives	(971,865)	(385,423)
Net Gain (Loss) on Sale of Investments	(1,578,423)	8,312,820
Net change in unrealized appreciation/depreciation of investments during the period	11,836,776	3,450,466
Net Gain on Investments	10,258,353	11,763,286
NET INCOME FOR THE PERIOD	$ 9,301,959	$ 9,950,269

Premium Income Corporation

Financial Statements

Statements of Operations and Deficit (continued)

Six months ended April 30 (Unaudited)

	2012	2011
NET INCOME PER CLASS A SHARE (based on the weighted average number of Class A shares outstanding during the period of 9,517,533; 2011 - 9,523,871)	**$ 0.98**	$ 1.04
DEFICIT		
Balance, beginning of period	**$ (75,759,920)**	$ (65,269,714)
Net allocations on retractions of Class A shares	**–**	5,966,463
Net income for the period	**9,301,959**	9,950,269
Distributions on Class A shares	**(3,867,743)**	(3,870,157)
BALANCE, END OF PERIOD	**$ (70,325,704)**	$ (53,223,139)

Statements of Changes in Net Assets

Six months ended April 30 (Unaudited)

	2012	2011
NET ASSETS - CLASS A AND B SHARES, BEGINNING OF PERIOD	**$ 55,118,786**	$ 78,937,973
Net Investment Income before Distributions	**3,148,051**	2,293,989
Net Gain on Investments	**10,258,353**	11,763,286
Class A Share Capital Transactions		
Value for Class A shares redeemed	**–**	(7,280,850)
Distributions		
Preferred Shares		
From net investment income	**(3,137,122)**	(3,986,666)
Non-taxable distributions	**(967,323)**	(120,340)
Class A Shares		
Non-taxable distriubions	**(3,867,743)**	(3,870,157)
	(7,972,188)	(7,977,163)
Change in Net Assets during the Period	**5,434,216**	(1,200,738)
NET ASSETS - CLASS A AND B SHARES, END OF PERIOD	**$ 60,553,002**	$ 77,737,235

Statements of Cash Flows

Six months ended April 30 (Unaudited)

		2012		2011
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF PERIOD	**$**	**2,359,924**	$	25,290,342
Cash Flows Provided by (Used In) Operating Activities				
Net Investment Income before Distributions		**3,148,051**		2,293,989
Adjustments to Reconcile Net Cash Provided by (Used in) Operating Activities				
Purchase of investment securities		**(36,871,874)**		(122,202,176)
Proceeds from disposition of investment securities		**41,170,089**		138,277,746
(Increase)/decrease in accrued interest, dividends receivable and due from brokers - investments		**(156,834)**		41,479,976
Increase/(decrease) in accrued liabilities, accrued management fees and due to brokers - investments		**280,710**		1,254,335
		4,422,091		58,809,881
Cash Flows Provided by (Used In) Financing Activities				
Distributions to Class A shares		**(3,867,743)**		(3,870,157)
Distributions to Preferred shares		**(4,104,445)**		(4,107,006)
Class A share redemptions		**(34,529)**		(7,280,850)
Preferred share redemptions		**(89,100)**		(70,238,295)
		(8,095,817)		(85,496,308)
Net Increase/(Decrease) in Cash and Short-Term Investments During the Period		**(525,675)**		(24,392,438)
CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD	**$**	**1,834,249**	$	897,904
Cash and Short-Term Investments comprised of:				
Cash	**$**	**637,705**	$	897,904
Short-Term Investments		**1,196,544**		–
CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD	**$**	**1,834,249**	$	897,904

Premium Income Corporation

Financial Statements

Statement of Investments

As at April 30, 2012 (Unaudited)

	Par Value/ Number of Shares	Average Cost	Fair Value	% of Net Assets
SHORT-TERM INVESTMENTS				
Bankers' Acceptances				
National Bank of Canada, 1.17% - July 26, 2012	1,200,000	$ 1,196,544	$ 1,196,544	
Accrued Interest			154	
TOTAL SHORT-TERM INVESTMENTS		$ 1,196,544	$ 1,196,698	0.6%
INVESTMENTS				
Canadian Common Shares				
Bank of Montreal	681,000	$ 40,452,583	$ 39,940,650	
Canadian Imperial Bank of Commerce	444,900	34,075,997	33,118,356	
Royal Bank of Canada	714,000	39,242,851	40,740,840	
The Bank of Nova Scotia	801,450	43,801,446	43,911,446	
The Toronto-Dominion Bank	518,400	39,227,961	43,224,192	
Total Canadian Common Shares		$ 196,800,838	$ 200,935,484	98.8%
Adjustment for transaction fees		(76,786)		
TOTAL INVESTMENTS		$ 196,724,052	$ 200,935,484	98.8%
OTHER NET ASSETS			1,184,115	0.6%
TOTAL NET ASSETS, excluding the Redeemable Preferred Share liability			$ 203,316,297	100.0%

Notes to Financial Statements

April 30, 2012

1. Basis of Presentation

The semi-annual financial statements for the Fund have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). However, not all disclosures required by GAAP for annual financial statements have been presented and, accordingly, these semi-annual financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended October 31, 2011.

These semi-annual financial statements follow the same accounting policies and method of application as the most recent audited financial statements for the year ended October 31, 2011.

2. Normal Course Issuer Bid

On January 19, 2012 the Fund filed a Notice of Intention to renew its previous normal course issuer bid to purchase up to 951,755 Class A shares and 951,755 Preferred shares representing approximately 10 percent of the public float of 9,517,553 Class A shares and 9,517,553 Preferred shares as of January 10, 2012. The Fund may purchase up to 190,351 of each respective class of shares in any 30 day period which is 2 percent of the 9,517,553 shares issued and outstanding of each respective class as at January 10, 2012.

The shares may be purchased for cancellation from January 23, 2012 to January 22, 2013 through the facilities of the Toronto Stock Exchange or other eligible alternative market and may only be purchased at a price per share not exceeding the last net asset value per share. As at April 30, 2012, nil Class A shares and Preferred shares had been purchased by the Fund.

3. Net Asset Value

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

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

	April 30, 2012	Oct. 31, 2011
Net Asset Value (for pricing purposes)	**$ 21.3796**	$ 20.8130
Difference	**(0.0147)**	(0.0217)
Net Assets (for financial statement purposes)	**$ 21.3649**	$ 20.7913

Notes to Financial Statements

April 30, 2012

4. Transaction Fees

Total transaction fees for the six month period ended April 30, 2012 in connection with portfolio transactions were $25,712 (April 30, 2011 - $79,670). Of this amount $11,776 (April 30, 2011 - $10,137) was directed to cover payment of research services provided to the Investment Manager.

5. Financial Instruments and Risk Management

The various types of risks associated with financial instruments and the related risk management practices employed by the Fund remain unchanged from the prior year and are described in Note 12 of the annual financial statements for the year ended October 31, 2011.

The following is a summary of the inputs used as of April 30, 2012 in valuing the Fund's investments carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Tem Investments	$ –	$ 1,196,698	$ –	$ 1,196,698
Canadian Common Shares	200,935,484	–	–	$ 200,935,484
Total Investments	$ 200,935,484	$ 1,196,698	$ –	$ 202,132,182

The following is a summary of the inputs used as of October 31, 2011 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Term Investments	$ –	$ 1,996,695	$ –	$ 1,996,695
Canadian Common Shares	196,890,595	–	–	$ 196,890,595
Options	–	(1,915,249)	–	$ (1,915,249)
Total Investments	$ 196,890,595	$ 81,446	$ –	$ 196,972,041

There were no transfers between Level 1 and Level 2 during the six months ended April 30, 2012 and during the year ended October 31, 2011.

Other Price Risk

Approximately 99 percent (October 31, 2011 - 99 percent) of the Fund's net assets, excluding the Redeemable Preferred Share liability, held at April 30, 2012 were publicly traded equities. If equity prices on the exchange increased or decreased by 10 percent as at April 30, 2012, the net assets, excluding the Redeemable Preferred Share liability, of the Fund would have increased or decreased by $20.1M (October 31, 2011 - $19.7M) respectively or 9.9 percent (October 31, 2011 - 9.9 percent) of the net assets, excluding the Redeemable Preferred Share liability, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

Credit Risk

The following are the credit ratings for the counterparties to derivative instruments that the Fund dealt with during the current period based on Standard & Poor's credit ratings as of April 30, 2012:

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

The following are the credit ratings for the counterparties to derivative financial instruments that the Fund dealt with during the prior year based on Standard & Poor's credit ratings as of October 31, 2011:

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

The following is the credit rating for short-term investments held by the Fund based on Standard & Poor’s credit ratings as of April 30, 2012:

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

The following is the credit rating for short-term investments held by the Fund based on Standard & Poor’s credit ratings as of October 31, 2011:

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

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

Notes to Financial Statements

April 30, 2012

6. Future Accounting Policy Changes

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

7. Comparative Figures

Preferred and Class A share distributions for the six month period ended April 30, 2011 of $120,340 and $3,870,157 respectively have been reclassified from net investment income to non-taxable distributions to conform with the presentation in the most recent audited financial statements for the year ended October 31, 2011.

Investment Funds Managed by Strathbridge Asset Management Inc.

UNIT TRUSTS

Canadian Utilities & Telecom Income Fund
Core Canadian Dividend Trust
Gold Participation and Income Fund
Premier Canadian Income Fund
Top 10 Canadian Financial Trust

SPLIT SHARES

Premium Income Corporation
S Split Corp.
Top 10 Split Trust
World Financial Split Corp.

PRINCIPAL PROTECTED FUNDS

Government Strip Bond Trust

Head Office

Strathbridge Asset Management Inc.
121 King Street West, Suite 2600
Toronto, Ontario
M5H 3T9

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

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

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Strathbridge Asset Management Inc.
Investor Relations
121 King Street West, Suite 2600
Toronto, Ontario
M5H 3T9

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

strathbridge
ASSET MANAGEMENT
www.strathbridge.com