Semi-Annual Report 2013

Premium Income Corporation

strathbridge
ASSET MANAGEMENT

Letter to Shareholders

We are pleased to present the 2013 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, 2013, the Fund paid cash distributions of $0.43 per Preferred share and $0.41 per Class A share. The net asset value per Unit decreased slightly from $20.53 per Unit as at October 31, 2012 to $20.33 per Unit as at April 30, 2013, primarily as a result of Class A distributions in excess of net income for the period. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

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

On December 11, 2012, a total of 463,724 rights were exercised and 231,862 Units were issued for gross proceeds of $4.8 million.

We thank all shareholders for their continued support and encourage shareholders to review the more detailed information contained within the 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 $0.215625 per share, to provide Class A shareholders with quarterly cash distributions of $0.20319 per share and to return the original issue price to holders of both Preferred shares and Class A shares upon windup of the Fund. A Unit of the Fund consists of one Preferred share and one Class A share. Once the net asset value (“NAV”) per Unit exceeds $25.00, the Class A share distribution will vary based on 8.0 percent per annum of the NAV of the Class A share. The shares are listed on the Toronto Stock Exchange under the ticker symbols PIC.PR.A for the Preferred shares and PIC.A for the Class A shares. To accomplish its objectives the Fund invests primarily in common shares issued by:

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

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

The SSO strategy is a quantitative, technical based methodology that identifies appropriate times to write and/or close out option positions compared to writing continuously and rolling options every thirty days. This proprietary process has been developed over many years through various market cycles. The Manager believes the primary benefit to investors is to maximize the total return of the 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, 2013 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 and quarterly portfolio disclosure may be obtained by calling 1-800-725-7172 toll free, by writing to the Fund at Investor Relations, 121 King Street West, Suite 2600, Standard Life Centre, P.O. Box 113, Toronto, Ontario, M5H 3T9, or by visiting our website at www.strathbridge.com. You can also request semi-annual or annual reports at no cost by using one of the above methods.

Results of Operations

Distributions

For the six months ended April 30, 2013, cash distributions of $0.43 per Preferred share and $0.41 per Class A 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 $14.44 per Preferred share and $20.13 per Class A share.

Revenue and Expenses

The Fund’s total revenue was $0.44 per Unit for the six months ended April 30, 2013, down $0.01 per Unit compared to a year ago. Total expenses during the same period were $0.15 per Unit, up $0.03 per Unit from last year, primarily reflecting the non-recurring costs associated with the rights offering in November 2012. The Fund had a net realized and unrealized gain of $0.35 per Unit in the first half of fiscal 2013 as compared to a net realized and unrealized gain of $1.07 per Unit in the prior year.

Net Asset Value

The net asset value per Unit of the Fund decreased 0.9 percent from $20.53 per Unit at October 31, 2012 to $20.34 per Unit at April 30, 2013. The aggregate net asset value of the Fund increased $2.9 million, from $195.4 million at October 31, 2012 to $198.3 million at April 30, 2013, largely due to net proceeds from the exercise of rights ($4.8 million), and an increase in net assets from operations ($6.3 million), partially offset by cash distributions

Management Report of Fund Performance

to Preferred and Class A shareholders ($8.2 million) during the period.

For the six months ended April 30, 2013, the total return of the Fund was 3.2 percent mainly reflecting an increase in net assets from operations. The S&P/TSX Diversified Banks Index (the "Banks Index") total return during the same period was 7.0 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, comparison 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 November 5, 2012, the Fund announced it filed a final short form prospectus relating to an offering of rights to holders of Class A shares and Preferred shares. Each shareholder of record on November 13, 2012 received one right for each Class A share or Preferred share held, and two rights entitled the holder to acquire one Class A share and one Preferred share upon payment of the subscription price of $20.88.

On December 11, 2012, a total of 463,724 rights were exercised and 231,862 Units were issued for gross proceeds of $4.8 million.

Future Accounting Policy Changes

Strathbridge Asset Management Inc. ("Strathbridge"), as the Manager of the Fund, has developed a changeover plan to meet the timetable published by the 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 2012 financial statements and the preparation of the 2013 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 year ending October 31, 2015.

As at April 30, 2013, 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

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

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

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

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

Management Report of Fund Performance

Independent Review Committee

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

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

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, 2013
THE FUND'S NET ASSETS PER UNIT	
Net Assets, beginning of period (based on bid prices)[(1)]	**$ 20.53**
INCREASE (DECREASE) FROM OPERATIONS	
Total revenue	**0.44**
Total expenses	**(0.15)**
Realized gain (loss) for the period	**0.02**
Unrealized gain (loss) for the period	**0.33**
Total Increase (Decrease) from Operations[(2)]	**0.64**
DISTRIBUTIONS	
Preferred Share	
From net investment income	**(0.43)**
Non-taxable distributions	**–**
Total Preferred Share Distributions	**(0.43)**
Class A Share	
From capital gains	**–**
From net investment income	**–**
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)]	**$ 20.33**

(1) Net Assets per Unit is the difference between the aggregate value of the assets including the valuation of securities at bid prices and the aggregate value of the liabilities excluding the Redeemable Preferred Share liability, divided by the number of Units then outstanding.
(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, 2013
RATIOS/SUPPLEMENTAL DATA	
Net Asset Value, excluding the Redeemable Preferred Share liability ($millions)	**$ 198.33**
Net Asset Value ($millions)	**$ 52.09**
Number of Units outstanding	**9,749,415**
Management expense ratio[(1)]	**1.37%**[(4)]
Portfolio turnover rate[(2)]	**40.00%**
Trading expense ratio[(3)]	**0.04%**[(4)]
Net Asset Value per Unit[(5)]	**$ 20.34**
Closing market price - Preferred	**$ 15.90**
Closing market price - Class A	**$ 5.77**

(1) The management expense ratio ("MER") is the sum of all fees and expenses for the stated period, including federal and provincial sales taxes and capital tax but excluding transaction fees, income taxes and Preferred share distributions, divided by the average net asset value, excluding the Redeemable Preferred Share liability. The MER for 2013 includes rights offering costs. The MER for 2013 excluding rights offering costs is 1.16%. 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 5.57%, 5.34%, 5.02%, 5.60%, 5.81% and 4.99% for 2013, 2012, 2011, 2010, 2009 and 2008 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, 2013 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				
2012	2011	2010	2009	2008
$ 20.79	$ 22.53[4]	$ 19.15	$ 19.16	$ 26.16
0.91	0.83	0.87	0.70	0.89
(0.25)	(0.28)	(0.32)	(0.21)	(0.25)
(0.47)	1.43	0.82	(3.65)	(1.40)
1.22	(2.04)	1.53	3.97	(4.48)
1.41	(0.06)	2.90	0.81	(5.24)
(0.86)	(0.84)	(0.86)	(0.86)	(0.86)
–	(0.02)	–	–	–
(0.86)	(0.86)	(0.86)	(0.86)	(0.86)
–	–	–	–	(0.90)
–	–	(0.60)	(0.45)	–
(0.81)	(0.81)	–	–	–
(0.81)	(0.81)	(0.60)	(0.45)	(0.90)
(1.67)	(1.67)	(1.46)	(1.31)	(1.76)
$ 20.53	$ 20.79	$ 20.56	$ 19.15	$ 19.16

(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 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				
2012	2011	2010	2009	2008
$ 195.39	$ 198.09	$ 292.34	$ 279.70	$ 352.11
$ 52.63	$ 55.33	$ 79.25	$ 60.95	$ 76.36
9,517,553	9,517,553	14,206,046	14,575,324	18,345,439
1.17%	1.15%	1.44%	1.07%	1.08%
53.70%	81.29%	93.32%	74.20%	11.51%
0.04%	0.06%	0.09%	0.08%	0.04%
$ 20.53	$ 20.81[6]	$ 20.58	$ 19.19	$ 19.19
$ 15.49	$ 14.58	$ 15.00	$ 14.90	$ 12.60
$ 5.85	$ 6.03	$ 5.84	$ 4.57	$ 5.30

(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 including the valuation of securities at closing prices and the aggregate value of the liabilities excluding the Redeemable Preferred Share liability, divided by the number of Units then outstanding.

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

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

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

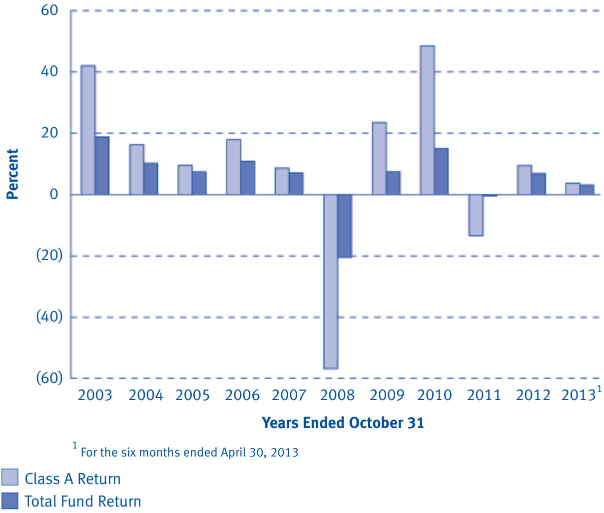
(3) past performance of the Fund does not necessarily indicate how it will perform in the future.

Year-By-Year Returns

The following bar chart illustrates how the Fund's total return varied from year to year for each of the past ten years and for the six months ended April 30, 2013. 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, 2013 for the six months ended.

Management Report of Fund Performance

Annual Total Return



[1] For the six months ended April 30, 2013

Portfolio Manager Report

North American equity markets continued to advance for the semi-annual period ending April 30, 2013 due to the continued improvement of economic numbers in the U.S. as well as continued expectations that central banks around the World would maintain quantitative easing following the Bank of Japan's commitment to roughly double its balance sheet over the next couple of years. Concerns regarding the U.S. budget imbalance at the end of 2012 quickly dissipated and did not result in any market disruption. The Bank of Canada continued to remain on hold during the period due to mixed economic numbers out of Canada along with the U.S. Federal Reserve pushing out its low interest rate policy for another year until 2015. The Canadian banks continued to generate solid earnings in the first quarter of 2013 on better than expected retail banking along with strong capital markets and wealth management revenues. Capital ratios are strong with all the banks above the 8 percent minimum common equity Tier 1 ratio requirement commencing January 1, 2016. Four of the five banks in the portfolio increased their dividends in the second quarter by an average of 4.5 percent. The Toronto-Dominion Bank also announced the acquisition of Target Corporation's U.S. credit card portfolio during the period for an undisclosed amount while the Royal Bank of Canada agreed to buy Ally Financial Inc.'s Canadian automotive finance and deposit business for US$3.7 billion.

Management Report of Fund Performance

The total return for the S&P/TSX Diversified Banks Index for the period was 7.0 percent which strongly outperformed the broader S&P/TSX Total Return Composite Index which was up 1.9 percent. All five banks in the portfolio experienced positive returns during the period with the Bank of Montreal posting the strongest total return of 9.6 percent, while The Toronto-Dominion Bank lagged the group with a total return of 3.6 percent. The total return of the Fund, including reinvestment of distributions, for the six months ended April 30, 2013 was 3.2 percent. The Fund lagged the benchmark during the period due to some covered call writing in November and December 2012 as the banks rallied with the market into year-end. The Fund maintained its invested position during the majority of the period and ended April 2013 with a cash position of 1.0 percent compared to 0.8 percent at the end of fiscal 2012. Although the level of volatility in the Canadian banks declined during the period, the Fund was active in its selective covered call writing activity as volatility picked up heading into the U.S. elections in November 2012. The average percent of the portfolio subject to covered calls during the period was 16.9 percent and the Fund ended the period with 1.7 percent of the portfolio subject to covered calls.

Similar to 2012, the profitability of Canadian banks is likely to grow at a slower pace in 2013 due to decelerating consumer 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, 2013

	% 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, 2013

	% of Net Asset Value*
Bank of Montreal	23%
The Bank of Nova Scotia	23%
The Toronto-Dominion Bank	19%
Royal Bank of Canada	17%
Canadian Imperial Bank of Commerce	17%
Cash and Short-Term Investments	1%

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

Forward-Looking Statements

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

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

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

Management's Responsibility for Financial Reporting

The accompanying financial statements of Premium Income Corporation (the "Fund") and all the information in this 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, 2012.

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

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

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

June 3, 2013

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, 2013 (Unaudited) and October 31, 2012 (Audited)

	2013	2012
ASSETS		
Investments at fair value (cost - $188,289,211; 2012 - $188,643,543)	**$ 195,430,566**	$ 192,607,105
Short-term investments at fair value (cost - $1,595,648; 2012 - $1,196,664)	**1,595,648**	1,196,664
Cash	**466,296**	387,005
Accrued interest	**3,081**	2,150
Dividend receivable	**900,905**	901,440
Due from brokers - investments	**–**	2,669,549
TOTAL ASSETS	**$ 198,396,496**	$ 197,763,913
LIABILITIES		
Accrued management fees	**$ 146,827**	$ 149,073
Accrued liabilities	**44,075**	68,947
Due to brokers - investments	**–**	2,188,028
Redeemable Preferred shares	**146,241,225**	142,763,295
	146,432,127	145,169,343
EQUITY		
Class A and Class B shares	**132,167,859**	130,878,706
Deficit	**(80,203,490)**	(78,284,136)
	51,964,369	52,594,570
TOTAL LIABILITIES AND EQUITY	**$ 198,396,496**	$ 197,763,913
Number of Units Outstanding	**9,749,415**	9,517,553
Net Assets per Unit		
Preferred share	**$ 15.00**	$ 15.00
Class A share	**5.33**	5.53
Net Assets per Unit (Note 3)	**$ 20.33**	$ 20.53

Statements of Operations and Deficit

Six months ended April 30 (Unaudited)

	2013	2012
REVENUE		
Dividends	$ 4,233,722	$ 4,310,605
Interest	35,027	18,901
TOTAL REVENUE	4,268,749	4,329,506
EXPENSES		
Management fees	901,859	904,813
Administrative and other expenses	87,548	68,152
Transaction fees (Note 4)	40,660	25,712
Custodian fees	18,969	20,717
Audit fees	17,872	17,971
Director fees	10,445	10,445
Independent review committee fees	4,224	3,936
Legal fees	3,720	5,162
Shareholder reporting costs	23,808	29,385
Harmonized sales tax	98,005	95,162
Subtotal Expenses	1,207,110	1,181,455
Rights offering costs (Note 2)	212,606	–
TOTAL EXPENSES	1,419,716	1,181,455
Net Investment Income before Distributions	2,849,033	3,148,051
Preferred share distributions	(4,204,435)	(4,104,445)
Net Investment Loss	(1,355,402)	(956,394)
Net realized gain (loss) on investments	2,060,124	(606,558)
Net realized loss on derivatives	(1,839,902)	(971,865)
Net Gain (Loss) on Sale of Investments	220,222	(1,578,423)
Net change in unrealized appreciation/ depreciation of investments during the period	3,177,793	11,836,776
Net Gain on Investments	3,398,015	10,258,353
NET INCOME FOR THE PERIOD	$ 2,042,613	$ 9,301,959
NET INCOME PER CLASS A SHARE		
(based on the weighted average number of Class A shares outstanding during the period of 9,695,613; 2012 - 9,517,533)	$ 0.2107	$ 0.9773
DEFICIT		
Balance, beginning of period	$ (78,284,136)	$ (75,759,920)
Net income for the period	2,042,613	9,301,959
Class A share distributions	(3,961,967)	(3,867,743)
BALANCE, END OF PERIOD	$ (80,203,490)	$ (70,325,704)

Financial Statements

Statements of Changes in Net Assets

Six months ended April 30 (Unaudited)

	2013	2012
NET ASSETS - CLASS A AND B SHARES, BEGINNING OF PERIOD	$ 52,594,570	$ 55,118,786
Net Investment Income before Distributions	2,849,033	3,148,051
Net Gain on Investments	3,398,015	10,258,353
Class A Share Capital Transactions		
Proceeds from issuance of Class A shares, net of rights exercise fees	1,289,153	–
Distributions		
Preferred Shares		
From net investment income	(4,204,435)	(4,104,445)
Class A Shares		
Non-taxable distributions	(3,961,967)	(3,867,743)
	(8,166,402)	(7,972,188)
Change in Net Assets during the Period	(630,201)	5,434,216
NET ASSETS - CLASS A AND B SHARES, END OF PERIOD	$ 51,964,369	$ 60,553,002

Statements of Cash Flows

Six months ended April 30 (Unaudited)

	2013	2012
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF PERIOD	$ 1,583,669	$ 2,359,924
Cash Flows Provided by (Used In) Operating Activities		
Net Investment Income before Distributions	2,849,033	3,148,051
Adjustments to Reconcile Net Cash Provided by (Used in) Operating Activities		
Purchase of investment securities	(77,946,106)	(36,871,874)
Proceeds from disposition of investment securities	78,520,660	41,170,089
(Increase)/decrease in accrued interest, dividends receivable and due from brokers - investments	2,669,153	(156,834)
Increase/(decrease) in accrued liabilities, accrued management fees and due to brokers - investments	(2,215,146)	280,710
	1,028,561	4,422,091
Cash Flows Provided by (Used In) Financing Activities		
Preferred share distributions	(4,204,435)	(4,104,445)
Class A share distributions	(3,961,967)	(3,867,743)
Proceeds from issuance of Units, net of rights exercise fees	4,767,083	–
Preferred share redemptions	–	(89,100)
Class A share redemptions	–	(34,529)
	(3,399,319)	(8,095,817)
Net Increase/(Decrease) in Cash and Short-Term Investments During the Period	478,275	(525,675)
CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD	$ 2,061,944	$ 1,834,249
Cash and Short-Term Investments comprised of:		
Cash	$ 466,296	$ 637,705
Short-Term Investments	1,595,648	1,196,544
CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD	$ 2,061,944	$ 1,834,249

Statement of Investments

As at April 30, 2013 (Unaudited)

	Par Value/ Number of Shares/ Number of Contracts	Average Cost/ Proceeds	Fair Value	% of Net Assets
SHORT-TERM INVESTMENTS				
Bankers' Acceptances				
Bank of Montreal, 1.12% - May 27, 2013	1,600,000	$ 1,595,648	$ 1,595,648	0.8 %
Accrued Interest			3,081	0.0 %
TOTAL SHORT-TERM INVESTMENTS		$ 1,595,648	$ 1,598,729	0.8 %
INVESTMENTS				
Canadian Common Shares				
Financials				
Bank of Montreal	736,000	$ 44,261,464	$ 46,463,680	
Canadian Imperial Bank of Commerce	411,500	31,177,478	33,154,555	
Royal Bank of Canada	565,500	34,251,303	34,371,090	
The Bank of Nova Scotia	767,000	42,956,326	44,524,350	
The Toronto-Dominion Bank	450,100	35,808,821	37,124,248	
Total Financials		188,455,392	195,637,923	98.7 %
Total Canadian Common Shares		$ 188,455,392	$ 195,637,923	98.7 %
Options				
Written Covered Call Options (100 shares per contract)				
Royal Bank of Canada - May 2013 @ $59	(1,410)	$ (95,880)	$ (207,357)	(0.1)%
Adjustment for transaction fees		(70,301)		
TOTAL INVESTMENTS		$ 188,289,211	$ 195,430,566	98.6 %
OTHER NET ASSETS			1,176,299	0.6 %
TOTAL NET ASSETS, excluding the Redeemable Preferred Share liability			$ 198,205,594	100.0 %

Notes to Financial Statements

April 30, 2013

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, 2012.

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, 2012.

2. Rights Offering

The Fund filed a short form prospectus relating to an offering of rights to holders of its Class A shares and Preferred shares. Each shareholder of record on November 13, 2012 received one right for each Class A share or Preferred share held, and two rights entitled the holder to acquire one Class A share and one Preferred share upon payment of the subscription price of $20.88. The costs associated with the rights offering was $212,606.

On December 11, 2012, a total of 463,724 rights were exercised and 231,862 Units were issued for gross proceeds of $4,841,279 and rights exercise fees of $74,196 were charged to Class A shareholders' equity.

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, 2013	Oct. 31, 2012
Net Asset Value per Unit (for pricing purposes)	**$20.3428**	$20.5300
Difference	**(0.0128)**	(0.0039)
Net Assets per Unit (for financial statement purposes)	**$20.3300**	$20.5261

4. Transaction Fees

Total transaction fees for the six months ended April 30, 2013 in connection with portfolio transactions were $40,660 (April 30, 2012 - $25,712). Of this amount $13,898 (April 30, 2012 - $11,776) 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, 2012.

The following is a summary of the inputs used as of April 30, 2013 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Tem Investments	$ –	$ 1,598,729	$ –	$ 1,598,729
Canadian Common Shares	195,637,923	–	–	195,637,923
Options	–	(207,357)	–	(207,357)
Total Investments	$ 195,637,923	$ 1,391,372	$ –	$ 197,029,295

The following is a summary of the inputs used as of October 31, 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-Term Investments	$ –	$ 1,198,814	$ –	$ 1,198,814
Canadian Common Shares	192,607,105	–	–	192,607,105
Total Investments	$ 192,607,105	$ 1,198,814	$ –	$ 193,805,919

There were no transfers between Level 1 and Level 2 during the six months ended April 30, 2013 and during the year ended October 31, 2012.

Other Price Risk

Approximately 99 percent (October 31, 2012 - 99 percent) of the Fund's net assets, excluding the Redeemable Preferred Share liability, held at April 30, 2013 were publicly traded equities. If equity prices on the exchange increased or decreased by 10 percent as at April 30, 2013, the net assets, excluding the Redeemable Preferred Share liability, of the Fund would have increased or decreased by $19.6M (October 31, 2012 - $19.3M) respectively or 9.9 percent (October 31, 2012 - 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 financial instruments that were authorized for trading

Notes to Financial Statements

April 30, 2013

with the Fund during the current period based on Standard & Poor's credit ratings as of April 30, 2013:

Dealer	Long-Term Local Currency Rating	Short-Term Local Currency Rating
Bank of Montreal	A+	A-1
Canadian Imperial Bank of Commerce	A+	A-1
Deutsche Bank	A+	A-1
National Bank of Canada	A-	A-2
Royal Bank of Canada	AA-	A-1+
The Bank of Nova Scotia	A+	A-1
The Toronto-Dominion Bank	AA-	A-1+
UBS AG	A	A-1

The following are the credit ratings for the counterparties to derivative financial instruments that were authorized for trading with the Fund during the prior year based on Standard & Poor's credit ratings as of October 31, 2012:

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

The following is the credit rating for short-term investments held by the Fund based on Standard & Poor’s credit ratings as of April 30, 2013:

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, 2012:

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.

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 information, for the year ending October 31, 2015.

7. Comparative Figures

Preferred share distributions for the six months ended April 30, 2012 of $967,323 have been reclassified from non-taxable distributions to net investment income to conform with the presentation in the most recent audited financial statements for the year ended October 31, 2012.

This page is intentionally left blank.

This page is intentionally left blank.

Investment Funds Managed by Strathbridge Asset Management Inc.

UNIT TRUSTS

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

SPLIT SHARES

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

Head Office

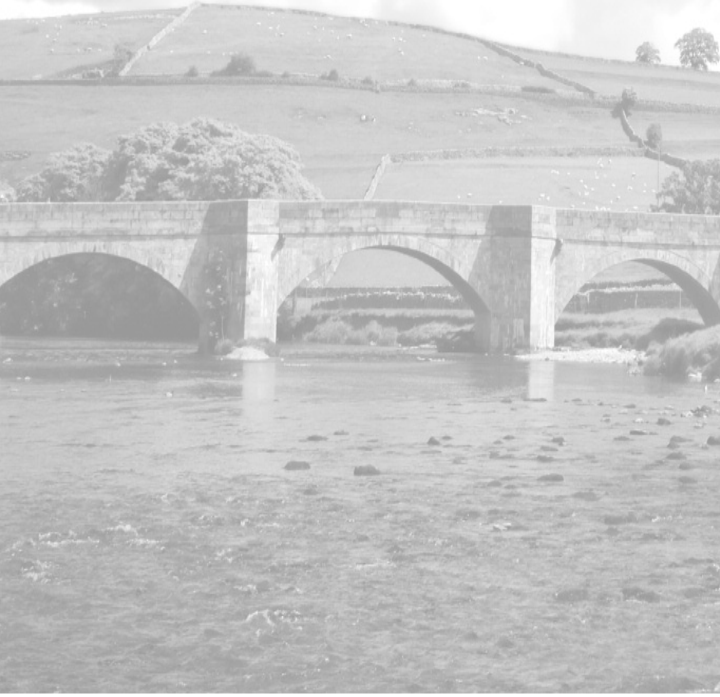
Strathbridge Asset Management Inc.
121 King Street West, Suite 2600
Standard Life Centre, P.O. Box 113
Toronto, Ontario
M5H 3T9

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

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

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

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



www.strathbridge.com