SEMI-ANNUAL REPORT

2016

PREMIUM INCOME CORPORATION

strathbridge
ASSET MANAGEMENT

Letter to Shareholders

We are pleased to present the 2016 semi-annual report containing the management report of fund performance and the unaudited financial statements for Premium Income Corporation (the "Fund").

After generating one of the weakest returns among global equity markets in 2015, the S&P/TSX Composite Index continued its descent in the first few months of 2016 before advancing to finish the semi-annual period ending April 30, 2016 with a positive total return of 4.8 percent. The S&P/TSX Diversified Banks Index outperformed the broader market during the period with a total return of 7.1 percent, as concerns related to credit exposures to energy companies subsided somewhat after West Texas Intermediate Cushing Crude Prices bottomed at US$26.21 per barrel on February 11, 2016 and subsequently rose to US$45.92 per barrel on April 30, 2016. Each of the Canadian banks generated positive returns during the period with the Bank of Montreal posting the strongest total return of 9.8 percent while the Canadian Imperial Bank of Commerce 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, 2016 was 4.2 percent. The Fund paid cash distributions of $0.43 per Preferred share and $0.41 per Class A share during the period. The net asset value of the Fund increased from $20.79 per Unit as at October 31, 2015 to $20.80 per Unit as at April 30, 2016. The net realized gain on options attributable to Strathbridge Selective Overwriting strategy (see "The Fund") amounted to $0.25 per Unit for the period compared to a net realized gain on options of $0.16 per Unit for the same period last year. 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 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 at least 75 percent of its net asset value in common shares of the Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank (collectively, the "Banks") and may invest up to 25 percent of its net asset value in common shares of National Bank of Canada. In addition, the Fund may purchase securities other than common shares of the Banks and National Bank of Canada or public investment funds (including exchange-traded funds and other Strathbridge Funds) that provide exposure to such common shares.

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

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

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, 2016 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, P.O. Box 113, Toronto, Ontario, M5H 3T9, by email at info@strathbridge.com 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, 2016, 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 $17.03 per Preferred share and $22.57 per Class A share.

Revenue and Expenses

The Fund’s total revenue was $0.42 per Unit for the six months ended April 30, 2016, down $0.01 per Unit compared to a year ago. Total expenses, excluding special resolution costs, of $0.13 per Unit remained unchanged from the same period last year. The Fund had a net realized and unrealized gain of $0.55 per Unit in the first half of fiscal 2016 as compared to a net realized and unrealized loss of $0.72 per Unit in the prior year.

Net Asset Value

The net asset value of the Fund increased from $20.79 per Unit at October 31, 2015 to $20.80 per Unit at April 30, 2016. The aggregate net asset value of the Fund increased $0.1 million, from $221.4 million at October 31, 2015 to $221.5 at April 30, 2016, reflecting an operating profit of $9.0 million which was largely offset by cash distributions of $8.9 million to Preferred and Class A shareholders during the period.

Recent Developments

There were no recent developments pertaining to the Fund during the semi-annual period ending April 30, 2016.

International Financial Reporting Standards Accounting Policies

The Fund has adopted International Financial Reporting Standards ("IFRS") accounting policies for the year beginning November 1, 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Note 5 to the annual financial statements for the year ended October 31, 2015 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended October 31, 2014 prepared under Canadian GAAP.

Related Party Transactions

Strathbridge Asset Management Inc. ("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.

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.

Information for the period ended April 30, 2016 is derived from the Fund's unaudited semi-annual financial statements.

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

	Six months ended April 30, 2016
NET ASSETS PER UNIT	
Net Assets, beginning of period[1]	**$ 20.79**
INCREASE (DECREASE) FROM OPERATIONS	
Total revenue	**0.42**
Total expenses	**(0.13)**
Realized gain (loss) for the period	**(0.10)**
Unrealized gain (loss) for the period	**0.66**
Total Increase (Decrease) from Operations[2]	**0.85**
DISTRIBUTIONS	
Preferred Share	
From net investment income	**(0.41)**
Non-taxable distributions	**(0.02)**
Total Preferred Share Distributions	**(0.43)**
Class A Share	
Non-taxable distributions	**(0.41)**
Total Class A Share Distributions	**(0.41)**
Total Distributions[3]	**(0.84)**
Net Assets, end of period[1]	**$ 20.80**

(1) All per Unit figures presented in 2016, 2015 and 2014 are referenced to net assets determined in accordance with IFRS which are derived from the Fund's unaudited financial statements for the six months ended April 30, 2016 and audited financial statements for the year ended October 31, 2015. Net assets per Unit for all other prior years were derived from the Fund's audited annual financial statements that were prepared in accordance with Canadian GAAP. Net assets per Unit is the difference between the aggregate value of the assets (including the valuation of securities at closing prices for the years beginning on or after November 1, 2013 and for all other prior years 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

	Six months ended April 30, 2016
RATIOS/SUPPLEMENTAL DATA	
Net Asset Value, excluding the Redeemable Preferred Share liability ($millions)	**$ 221.49**
Net Asset Value ($millions)	**$ 61.75**
Number of Units outstanding	**10,648,942**
Management expense ratio[1]	**1.18%**[4]
Portfolio turnover rate[2]	**81.54%**
Trading expense ratio[3]	**0.14%**[4]
Net Asset Value per Unit[5]	**$ 20.80**
Closing market price - Preferred	**$ 14.88**
Closing market price - Class A	**$ 5.90**

(1) The management expense ratio ("MER") is the sum of all fees and expenses for the stated period, including harmonized sales taxes but excluding transaction fees and Preferred share distributions, divided by the average net asset value, excluding the Redeemable Preferred Share liability. Generally, the MER increases when the Fund becomes smaller in size due to redemptions. The MER for 2015 includes the special resolution expense. The MER for 2015 excluding the special resolution expense is 1.18%. The MER for 2013 includes rights offering costs. The MER for 2013 excluding rights offering costs is 1.19%. The MER for 2011 includes warrant offering costs and special resolution recovery. The MER for 2011 excluding warrant offering costs and special resolution recovery is 1.13%. The MER, including Preferred share distributions, is 5.48%, 5.19%, 4.92%, 5.50%, 5.34% and 5.02% for 2016, 2015, 2014, 2013, 2012 and 2011 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.

As a result of the adoption of IFRS, for April 30, 2016, October 31, 2015 and 2014, the net assets per Unit presented in the financial statements and the net asset value per Unit calculated weekly are both valued at closing prices. For all other prior years ended October 31, 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				
2015	2014	2013	2012	2011
$ 23.60	$ 21.95	$ 20.53	$ 20.79	$ 22.53[4]
0.87	0.92	0.87	0.91	0.83
(0.28)	(0.28)	(0.27)	(0.25)	(0.28)
0.44	2.40	0.33	(0.47)	1.43
(2.14)	0.29	2.18	1.22	(2.04)
(1.11)	3.33	3.11	1.41	(0.06)
(0.86)	(0.86)	(0.86)	(0.86)	(0.84)
–	–	–	–	(0.02)
(0.86)	(0.86)	(0.86)	(0.86)	(0.86)
(0.81)	(0.81)	(0.81)	(0.81)	(0.81)
(0.81)	(0.81)	(0.81)	(0.81)	(0.81)
(1.67)	(1.67)	(1.67)	(1.67)	(1.67)
$ 20.79	$ 23.60	$ 21.94	$ 20.53	$ 20.79

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.

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

(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				
2015	2014	2013	2012	2011
$ 221.40	$ 230.08	$ 213.95	$ 195.39	$ 198.09
$ 61.67	$ 83.84	$ 67.71	$ 52.63	$ 55.33
10,648,942	9,749,268	9,749,268	9,517,553	9,517,553
1.22%	1.16%	1.30%	1.17%	1.15%
86.47%	83.84%	76.34%	53.70%	81.29%
0.05%	0.04%	0.05%	0.04%	0.06%
$ 20.79	$ 23.60	$ 21.95	$ 20.53	$ 20.81[6]
$ 15.14	$ 15.60	$ 15.20	$ 15.49	$ 14.58
$ 6.13	$ 8.31	$ 6.57	$ 5.85	$ 6.03

(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 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,

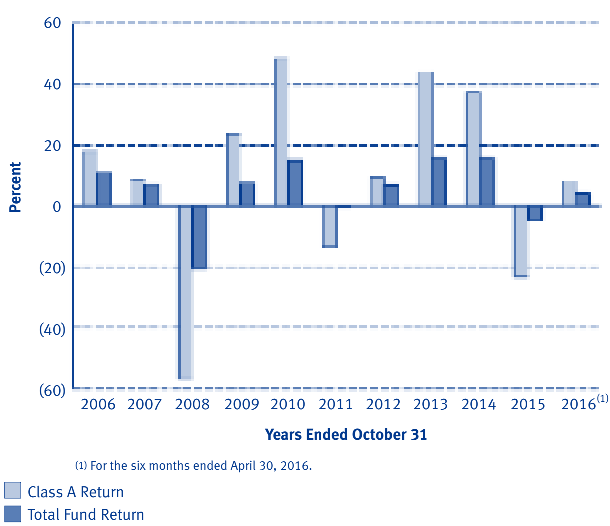
(2) information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

(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, 2016. 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, 2016 for the six months ended.

Annual Total Return



(1) For the six months ended April 30, 2016.

Portfolio Manager Report

After generating one of the weakest returns among global equity markets in 2015, the S&P/TSX Composite Index continued its descent in the first few months of 2016 before advancing to finish the semi-annual period ending April 30, 2016 with a positive total return of 4.8 percent. The Materials sector was by far the strongest performing sector over the period with a total return of 38.0 percent, while the Health Care sector lagged behind, down 56.3 percent over the same period. The Health Care sector was dragged down by Valeant Pharmaceuticals International, Inc. which declined 65.7 percent during the period due to questionable accounting practices. After hitting a low of $0.68 per U.S. dollar on January 20, 2016, the Canadian dollar strengthened along with commodity prices to end the period at approximately $0.80 per U.S. dollar.

The S&P/TSX Diversified Banks Index outperformed the broader market during the period with a total return of 7.1 percent, as concerns related to credit exposures to energy companies subsided somewhat after West Texas Intermediate Cushing Crude Prices bottomed at US$26.21 per barrel on February 11, 2016 and subsequently rose to US$45.92 per barrel on April 30, 2016. Each of the Canadian banks generated positive returns during the period with the Bank of Montreal posting the strongest total return of 9.8 percent while the Canadian Imperial Bank of Commerce 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, 2016 was 4.2 percent while the Class A share's total return was 8.1 percent.

Volatility for the Canadian banks was mostly subdued for the period except for the brief spike in late January and early February as global equity markets corrected significantly due to concerns about global growth and how aggressively the U.S. Federal Reserve would raise interest rates in 2016. The Fund did selectively write covered call options from time to time due to the higher volatility and the net realized gain on options attributable to the SSO strategy was $0.25 per Unit for the six month period. The Fund ended April 2016 with an average of 10.2 percent of the portfolio subject to covered calls.

After reporting better-than-expected fourth quarter earnings which were aided by one-time items, Canadian banks surprised to the upside by reporting better-than-expected first quarter earnings that were helped by higher trading revenues and strong fee income. Higher impaired loan formations were reported across most of the group however amounts remained modest. Each of the Canadian banks increased its common dividend by an average of 4.2 percent, led again by The Toronto-Dominion Bank which raised its dividend by 7.8 percent during the period.

Management Report of Fund Performance

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, 2016

	% of Net Asset Value*
Financial Institutions	96.4%
Cash and Short-Term Investments	2.8%
Other Assets (Liabilities)	0.8%
	100.0%

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

Portfolio Holdings

April 30, 2016

	% of Net Asset Value*
The Bank of Nova Scotia	21.2%
Canadian Imperial Bank of Commerce	20.4%
Bank of Montreal	18.7%
The Toronto-Dominion Bank	15.0%
Royal Bank of Canada	11.9%
National Bank of Canada	9.2%
Cash and Short-Term Investments	2.8%

*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 condensed 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 condensed financial statements have been prepared by management in accordance with International Financial Reporting Standards 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 condensed financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 of the annual financial statements for the year ended October 31, 2015.

The Manager is also responsible for maintaining a system of internal controls designed to provide reasonable assurance that assets are safe guarded 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 matters, and to review the annual report, the financial statements and the independent auditor's report. Deloitte LLP, the Fund's independent auditor, has full and unrestricted access to the Audit Committee and the Board.

John P. Mulvihill
Director
Strathbridge Asset Management Inc.

John D. Germain
Director
Strathbridge Asset Management Inc.

June 1, 2016

Notice to Shareholders

The accompanying unaudited Condensed Financial Statements for the six months ended April 30, 2016 have been prepared by management and have not been reviewed by the independent auditor of the Fund.

Statements of Financial Position

As at April 30, 2016 (Unaudited) and October 31, 2015 (Audited)

	Note	April 30, 2016	Oct. 31, 2015
ASSETS			
Financial assets at fair value through profit or loss	2	**$ 213,543,722**	$ 208,751,628
Derivative assets	2	**1,037,166**	–
Due from brokers - investments		**3,601,026**	–
Dividends receivable		**811,587**	729,584
Interest receivable		**2,376**	4,557
Short-term investments	2	**4,490,910**	7,491,300
Cash		**1,712,500**	6,858,690
TOTAL ASSETS		**225,199,287**	223,835,759
LIABILITIES			
Accrued liabilities		**91,462**	95,269
Accrued management fees	5	**163,525**	169,386
Due to brokers - investments		**3,455,952**	2,041,296
Derivative liabilities	2	**–**	117,047
Redemptions payable		**–**	6,778
Redeemable Preferred shares		**159,734,130**	159,734,130
Class B shares		**1,000**	1,000
TOTAL LIABILITIES		**163,446,069**	162,164,906
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES		**$ 61,753,218**	$ 61,670,853
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE		**$ 5.7990**	$ 5.7913

The notes are an integral part of the Condensed Financial Statements.

Condensed Financial Statements

Statements of Comprehensive Income

For the six months ended April 30 (Unaudited)

	Note	2016	2015
INCOME			
Dividend income		$ 4,486,643	$ 4,581,864
Interest income		36,585	8,494
Net realized gain/(loss) on investments at fair value through profit or loss	3	(3,765,038)	3,859,017
Net realized gain on options at fair value through profit or loss	3	2,660,168	1,649,185
Net change in unrealized gain/loss on investments at fair value through profit or loss	3	6,986,174	(13,116,914)
TOTAL INCOME/(LOSS), NET		10,404,532	(3,018,354)
EXPENSES			
Management fees	5	966,273	1,067,551
Administrative and other expenses		100,179	114,070
Transaction fees	6	147,451	51,939
Custodian fees		24,831	22,695
Audit fees		17,971	17,872
Director fees	5	9,900	10,800
Independent review committee fees	5	3,409	3,509
Legal fees		1,372	2,503
Shareholder reporting costs		23,562	24,755
Harmonized sales tax		107,346	118,639
Subtotal Expenses		1,402,294	1,434,333
Special resolution expense		–	146,379
TOTAL EXPENSES		1,402,294	1,580,712
OPERATING PROFIT/(LOSS)		9,002,238	(4,599,066)
Preferred share distributions		(4,592,356)	(4,592,497)
INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES	7	$ 4,409,882	$ (9,191,563)
INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE	7	$ 0.4141	$ (0.8668)

The notes are an integral part of the Condensed Financial Statements.

Statements of Changes in Net Assets Attributable to Holders of Class A Shares

For the six months ended April 30 (Unaudited)

	2016	2015
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, BEGINNING OF PERIOD	**$ 61,670,853**	$ 83,842,553
Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares	**4,409,882**	(9,191,563)
Class A Share Capital Transactions		
Proceeds from issuance of Class A shares, net of issue costs	**–**	7,483,481
Class A Share Distributions		
Non-taxable distributions	**(4,327,517)**	(4,327,649)
Changes in Net Assets Attributable to Holders of Class A Shares during the Period	**82,365**	(6,035,731)
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, END OF PERIOD	**$ 61,753,218**	$ 77,806,822

The notes are an integral part of the Condensed Financial Statements.

Condensed Financial Statements

Statements of Cash Flows

For the six months ended April 30 (Unaudited)

	2016	2015
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 14,349,990	$ 1,869,725
Cash Flows Provided by (Used In) Operating Activities		
Operating Profit/(Loss)	9,002,238	(4,599,066)
Adjustments to Reconcile Net Cash Provided by (Used In) Operating Activities		
Net realized (gain)/loss on investments at fair value through profit or loss	3,765,038	(3,859,017)
Net realized gain on options at fair value through profit or loss	(2,660,168)	(1,649,185)
Net change in unrealized gain/loss on investments at fair value through profit or loss	(6,986,174)	13,116,914
(Increase)/decrease in interest receivable, dividends receivable and due from brokers - investments	(3,680,848)	(25,066,201)
Increase/(decrease) in accrued liabilities, accrued management fees and due to brokers - investments	1,404,988	9,887,114
Purchase of investment securities	(163,081,195)	(89,475,522)
Proceeds from disposition of investment securities	163,016,192	99,604,389
	(8,222,167)	2,558,492
Cash Flows Provided by (Used) In Financing Activities		
Preferred share distributions	(4,592,356)	(4,592,497)
Class A share distributions	(4,327,517)	(4,327,649)
Preferred share redemptions	(4,890)	–
Class A share redemptions	(1,888)	–
Proceeds from issuance of Units, net of issue costs	–	20,983,481
	(8,926,651)	12,063,335
Net Increase/(Decrease) in Cash and Cash Equivalents During the Period	(8,146,580)	10,022,761
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 6,203,410	$ 11,892,486

Dividends received	$ 4,404,640	$ 4,612,471
Interest received	$ 38,766	$ 10,093

The notes are an integral part of the Condensed Financial Statements.

Schedule of Investments

As at April 30, 2016 (Unaudited)

	Par Value/ Number of Shares or Contracts	Average Cost	Fair Value	% of Net Assets Attributable to Holders of Class A Shares
SHORT-TERM INVESTMENTS				
Bankers' Acceptances				
The Bank of Nova Scotia, 0.84% - July 5, 2016	4,500,000	$ 4,490,910	$ 4,490,910	
Accrued Interest			2,376	
TOTAL SHORT-TERM INVESTMENTS		$ 4,490,910	$ 4,493,286	2.0 %
INVESTMENTS				
Canadian Common Shares				
Financials				
Bank of Montreal	508,000	$ 39,816,153	$ 41,523,920	
Canadian Imperial Bank of Commerce	447,375	42,083,577	45,336,982	
National Bank of Canada	452,000	19,136,053	20,267,680	
Royal Bank of Canada	337,000	25,568,797	26,259,040	
The Bank of Nova Scotia	714,000	43,425,526	46,981,200	
The Toronto-Dominion Bank	594,000	31,314,544	33,174,900	
Total Financials		201,344,650	213,543,722	96.4 %
Total Canadian Common Shares		$ 201,344,650	$ 213,543,722	96.4 %
Options				
Purchased Call Options (100 shares per contract)				
Royal Bank of Canada - May 2016 @ $77	4,400	$ 521,576	$ 729,000	
The Toronto-Dominion Bank - May 2016 @ $56	6,439	553,754	308,166	
Total Purchased Call Options		$ 1,075,330	$ 1,037,166	0.5 %
Adjustment for transaction fees		(69,469)		
TOTAL INVESTMENTS		$ 202,350,511	$ 214,580,888	96.9 %
OTHER NET ASSETS			2,413,174	1.1 %
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, excluding the Redeemable Preferred Share liability			$ 221,487,348	100.0 %

The notes are an integral part of the Condensed Financial Statements.

Notes to Condensed Financial Statements

April 30, 2016

1. Basis of Presentation

The condensed semi-annual financial statements for the Premium Income Corporation (the "Fund") have been prepared in compliance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standard ("IAS") 34 Interim Financial Reporting. However, not all disclosures required by IFRS for annual financial statements have been presented and, accordingly, these condensed semi-annual financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended October 31, 2015.

These condensed 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, 2015.

These condensed financial statements were approved by the Board of Directors on June 1, 2016.

2. Risks Associated with Financial Instruments

The various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests remain unchanged from the prior year and are described in Note 7 of the audited financial statements for the year ended October 31, 2015.

Credit Risk

The analysis below summarizes the credit quality of the Fund's short-term investments as at April 30, 2016 and October 31, 2015.

	Percentage of Short-Term Investments	
Credit Rating	April 30, 2016	Oct. 31, 2015
A-1	100.0%	–
A-1+	–	100.0%

During the periods ended April 30, 2016 and October 31, 2015, the counterparties to the Fund's derivative financial instruments had a credit rating of A-1 or higher by Standard & Poor's Ratings Services.

Liquidity Risk

The amounts in the table are the contractual undiscounted cash flows:

As at April 30, 2016 Financial Liabilities	On Demand	< 3 months	Total
Accrued liabilities	$ –	$ 91,462	$ 91,462
Accrued management fees	–	163,525	163,525
Due to brokers - investments	–	3,455,952	3,455,952
Redeemable Preferred shares	159,734,130	–	159,734,130
Class B shares	1,000	–	1,000
	$ 159,735,130	$ 3,710,939	$ 163,446,069

As at October 31, 2015 Financial Liabilities	On Demand	< 3 months	Total
Redemptions payable	$ –	$ 6,778	$ 6,778
Accrued liabilities	–	95,269	95,269
Derivative liabilities	–	117,047	117,047
Accrued management fees	–	169,386	169,386
Due to brokers - investments	–	2,041,296	2,041,296
Redeemable Preferred shares	159,734,130	–	159,734,130
Class B shares	1,000	–	1,000
	$ 159,735,130	$ 2,429,776	$ 162,164,906

Market Risk

(a) Price Risk

Approximately 96 percent (October 31, 2015 - 94 percent) of the Fund's net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, held at April 30, 2016 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at April 30, 2016, the net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, would have increased or decreased by $10.7 million (October 31, 2015 - $10.4 million) respectively or 4.8 percent (October 31, 2015 - 4.7 percent) of the net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, with all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

Concentration Risk

Concentration risk arises as a result of the concentration of exposures with the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

	April 30, 2016	Oct. 31, 2015
Financials	100.0%	100.0%

Fair Value Measurement

The following table illustrates the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at April 30, 2016 and October 31, 2015.

As at April 30, 2016	Level 1	Level 2	Level 3	Total
Short-Term Investments	$ –	$ 4,493,286	$ –	$ 4,493,286
Canadian Common Shares	213,543,722	–	–	213,543,722
Options	–	1,037,166	–	1,037,166
	$ 213,543,722	$ 5,530,452	$ –	$ 219,074,174

As at October 31, 2015	Level 1	Level 2	Level 3	Total
Short-Term Investments	$ –	$ 7,495,857	$ –	$ 7,495,857
Canadian Common Shares	206,540,628	–	–	206,540,628
Exchange-Traded Funds	2,211,000	–	–	2,211,000
Options	(75,960)	(41,087)	–	(117,047)
	$ 208,675,668	$ 7,454,770	$ –	$ 216,130,438

Notes to Condensed Financial Statements

April 30, 2016

There were no transfers between Level 1 and Level 2 and the Fund did not hold any financial instruments within Level 3 of the fair value hierarchy during the six months ended April 30, 2016 and during the year ended October 31, 2015.

3. Financial Instruments by Category

The following tables present the carrying amounts of the Fund's financial instruments by category as at April 30, 2016 and October 31, 2015.

As at April 30, 2016

	Financial Instruments at FVTPL		Financial Instruments	
	Designated at Inception	Held for Trading	at Amortized Cost	Total
Assets				
Non-derivative financial assets	$ 213,543,722	$ –	$ –	$ 213,543,722
Derivative assets	–	1,037,166	–	1,037,166
Short-term investments	–	–	4,493,286	4,493,286
Due from brokers - investments	–	–	3,601,026	3,601,026
Dividends receivable	–	–	811,587	811,587
Cash	–	–	1,712,500	1,712,500
	$ 213,543,722	$ 1,037,166	$ 10,618,399	$ 225,199,287
Liabilities				
Accrued liabilities	$ –	$ –	$ 91,462	$ 91,462
Accrued management fees	–	–	163,525	163,525
Due to brokers - investments	–	–	3,455,952	3,455,952
Redeemable Preferred shares	–	–	159,734,130	159,734,130
Class B shares	–	–	1,000	1,000
	$ –	$ –	$ 163,446,069	$ 163,446,069

As at October 31, 2015

	Financial Instruments at FVTPL		Financial Instruments	
	Designated at Inception	Held for Trading	at Amortized Cost	Total
Assets				
Non-derivative financial assets	$ 208,751,628	$ –	$ –	$ 208,751,628
Short-term investments	–	–	7,495,857	7,495,857
Dividends receivable	–	–	729,584	729,584
Cash	–	–	6,858,690	6,858,690
	$ 208,751,628	$ –	$ 15,084,131	$ 223,835,759
Liabilities				
Redemptions payable	$ –	$ –	$ 6,778	$ 6,778
Derivative liabilities	–	117,047	–	117,047
Accrued liabilities	–	–	95,269	95,269
Accrued management fees	–	–	169,386	169,386
Due to brokers - investments	–	–	2,041,296	2,041,296
Redeemable Preferred shares	–	–	159,734,130	159,734,130
Class B shares	–	–	1,000	1,000
	$ –	$ 117,047	$ 162,047,859	$ 162,164,906

The following table presents the net gain/(loss) on financial instruments at FVTPL by category for the six months ended April 30, 2016 and 2015.

	April 30, 2016	April 30, 2015
Net Realized Gain/(Loss) on Financial Instruments at FVTPL		
Designated at Inception	$ (3,765,038)	$ 3,859,017
Held for Trading	2,660,168	1,649,185
	(1,104,870)	5,508,202
Net Change in Unrealized Gain/Loss on Financial Instruments at FVTPL		
Designated at Inception	7,069,378	(13,121,356)
Held for Trading	(83,204)	4,442
	6,986,174	(13,116,914)
Net Gain/(Loss) on Financial Instruments at FVTPL	$ 5,881,304	$ (7,608,712)

4. Shares

For the six months ended April 30, 2016, cash distributions paid to Preferred shareholders were $4,592,356 (April 30, 2015 - $4,592,497) representing a payment of $0.43 (April 30, 2015 - $0.43) per Preferred share and cash distributions paid to Class A shareholders were $4,327,517 (April 30, 2015 - $4,327,649) representing a payment of $0.41 (April 30, 2015 - $0.41) per Class A share.

During the six months ended April 30, 2016 and 2015, nil Preferred shares and Class A shares were redeemed.

During the six months ended April 30, 2016 and the year ended October 31, 2015, share transactions are as follows:

	April 30, 2016	Oct. 31, 2015
Redeemable Preferred Shares		
Shares outstanding, beginning of period	10,648,942	9,749,268
Shares issued	–	900,000
Shares redeemed	–	(326)
Shares outstanding, end of period	10,648,942	10,648,942
Class A Shares		
Shares outstanding, beginning of period	10,648,942	9,749,268
Shares issued	–	900,000
Shares redeemed	–	(326)
Shares outstanding, end of period	10,648,942	10,648,942
Class B Shares		
Shares outstanding, beginning and end of period	1,000	1,000

On October 17, 2014, the Fund filed a Notice of Intention to make a normal course issuer bid to purchase up to 974,926 Class A shares and 974,926 Preferred shares representing approximately 10 percent of the public float of 9,749,268 Class A shares and 9,749,268 Preferred shares, as of September 30, 2014. The normal course issuer bid remained in effect until October 21, 2015 and at such time nil Units had been purchased by the Fund.

Notes to Condensed Financial Statements

April 30, 2016

5. Related Party Transactions

(a) Management Fees

Total management fees for the six months ended April 30, 2016 were $966,273 (April 30, 2015 - $1,067,551).

(b) Director Fees

Total director fees paid to the external members of the Board of Directors for the six months ended April 30, 2016 were $9,900 (April 30, 2015 - $10,800).

(c) Independent Review Committee Fees

Total remuneration paid to the external members of the Independent Review Committee for the six months ended April 30, 2016 were $3,409 (April 30, 2015 - $3,509).

6. Brokerage Commissions and Soft Dollars

The ascertainable soft dollar value received as a percentage of total transaction fees paid during the six months ended April 30, 2016 and 2015 is disclosed below:

	April 30, 2016	April 30, 2015
Soft Dollars	$ 79,896	$ 22,664
Percentage of Total Transaction Fees	54.2%	43.6%

7. Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares per Class A Share

The Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares per Class A Share for the six months ended April 30, 2016 and 2015 is calculated as follows:

	April 30, 2016	April 30, 2015
Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares	$ 4,409,882	$ (9,191,563)
Weighted Average Number of Class A Shares Outstanding during the Period	10,648,942	10,604,517
Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares per Class A Share	$ 0.4141	$ (0.8668)

8. Future Accounting Policy Changes

IFRS 9: Financial Instruments (“IFRS 9”), which will replace IAS 39, Financial Instruments: Recognition and Measurement, sets forth new requirements for financial instrument classification and measurement, impairment and hedge accounting. The mandatory effective date of IFRS 9 has been tentatively set for January 1, 2018. Although entities may still choose to apply IFRS 9 immediately, the Fund has chosen not to early adopt IFRS 9. Based on the Manager’s current understanding and analysis of IFRS 9, the transition to IFRS 9 will change the manner in which investments are disclosed with no impact to value.

In December 2014, Disclosure Initiative was issued, which amends IAS 1, Presentation of Financial Statements. The amendments are designed to encourage entities to use professional judgment to determine what information to disclose in the financial statements and accompanying notes by clarifying the guidance on materiality, presentation, and note structure. These amendments are effective for annual periods beginning on or after January 1, 2016. The Fund will amend disclosures, if required, in the financial statements for the semi-annual period ended April 30, 2017 and for the year ended October 31, 2017.

Investment Funds Managed by Strathbridge Asset Management Inc.

UNIT TRUSTS

Canadian Utilities & Telecom Income Fund (UTE.UN)
Core Canadian Dividend Trust (CDD.UN)
Low Volatility U.S. Equity Income Fund (LVU.UN)
NDX Growth & Income Fund (NGI.UN)
U.S. Financials Income Fund (USF.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)

MUTUAL FUND

U.S. Tactical Allocation Fund

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