Premium Income Corporation

Semi-Annual Report 2019

strathbridge
ASSET MANAGEMENT

Letter to Shareholders

We are pleased to present the 2019 semi-annual report containing the management report of fund performance and the unaudited financial statements for Premium Income Corporation (the "Fund").

After a dreadful end to 2018, North American equity markets staged an impressive recovery in the first four months of 2019. As fears of a trade war between the U.S. and China subsided and central banks changed their tune to a more accommodative stance on forward looking interest rate moves, risk assets rallied strongly. Even with some economic indicators painting a picture of slowing global growth and certain parts of the yield curve inverting, which has historically been associated with a potential recession, it did not deter investors from moving equity prices higher. In the end, the bulls ultimately prevailed as the S&P/TSX Composite Index advanced to finish the semi-annual period ending April 30, 2019 with a total return of 12.1 percent.

The total return of the Fund and Class A shares, including reinvestment of distributions, for the six months ended April 30, 2019 were 6.2 percent and 14.8 percent respectively. 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 2.1 percent from $20.81 per Unit at October 31, 2018 to $21.25 per Unit at April 30, 2019. The net realized gain on options attributable to Strathbridge Selective Overwriting strategy (see "The Fund") amounted to $0.17 per Unit for the period compared to a net realized gain on options of $0.15 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. 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 NAV 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 also invest up to 25 percent of its NAV in common shares of National Bank of Canada. In addition, the Fund may purchase public investment funds including exchange-traded funds and other Strathbridge Funds (provided that no more than 15 percent of the NAV of the Fund may be invested in securities of 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, 2019 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, 2019, cash distributions of $0.43 per Preferred share and $0.41 per Class A share were paid to respective shareholders, both unchanged from the same period last year.

Since the inception of the Fund in October 1996, the Fund has paid total cash distributions of $19.62 per Preferred share and $25.01 per Class A share.

Revenue and Expenses

The Fund’s total revenue was $0.42 per Unit for the six months ended April 30, 2019, down from $0.43 per Unit a year ago. Total expenses decreased $0.02 per Unit from the same period last year to $0.13 per Unit due to an increased average number of Units outstanding during the current period. The Fund had a net realized and unrealized gain of $1.05 per Unit in the first half of fiscal 2019 as compared to a net realized and unrealized loss of $0.87 per Unit in the prior year.

Net Asset Value

The net asset value of the Fund increased 2.1 percent from $20.81 per Unit at October 31, 2018 to $21.25 per Unit at April 30, 2019. The aggregate net asset value of the Fund increased $35.96 million, from $208.04 million at October 31, 2018 to $244.00 million at April 30, 2019, reflecting an operating profit of $14.94 million, cash distributions of $9.33 million to Preferred and Class A shareholders and proceeds from issuance of Units, net of issue costs of $30.35 million during the period.

Recent Developments

On November 2, 2018, the Fund announced that it had completed a treasury offering of 795,000 Preferred shares and 795,000 Class A shares for gross proceeds of approximately $17.2 million. The Preferred shares offering price was $15.00 per Preferred share to yield 5.75 percent and the Class A shares offering price was $6.60 per Class A share to yield 12.3 percent.

On January 15, 2019, the Fund announced it had completed another treasury offering of 694,000 Preferred shares and 694,000 Class A shares for gross proceeds of approximately $14.6 million. The Preferred shares offering price was $14.60 per Preferred share for a yield-to-maturity of 6.27 percent and the Class A shares offering price was $6.40 per Class A share to yield 12.7 percent.

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, 2019 is derived from the Fund's unaudited semi-annual financial statements.

		Six months ended April 30, 2019
NET ASSETS PER UNIT		
Net Assets, beginning of period[(1)]	$	20.81
INCREASE (DECREASE) FROM OPERATIONS		
Total revenue		0.42
Total expenses		(0.13)
Realized gain (loss) for the period		0.32
Unrealized gain (loss) for the period		0.73
Total Increase (Decrease) from Operations[(2)]		1.34
DISTRIBUTIONS		
Preferred Share		
From net investment income		(0.38)
Non-taxable distributions		(0.05)
Total Preferred Share Distributions		(0.43)
Class A Share		
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[(1)]	$	21.25

(1) All per Unit figures are derived from the Fund's unaudited financial statements for the six months ended April 30, 2019 and audited financial statements for the years ended October 31. 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, divided by the number of Units then outstanding.

		Six months ended April 30, 2019
RATIOS/SUPPLEMENTAL DATA		
Net Asset Value, excluding the Redeemable Preferred Share liability ($millions)	$	244.00
Net Asset Value ($millions)	$	71.74
Number of Units outstanding		11,484,191
Management expense ratio[(1)]		1.19%[(4)]
Portfolio turnover rate[(2)]		24.69%
Trading expense ratio[(3)]		0.09%[(4)]
Net Asset Value per Unit[(5)]	$	21.25
Closing market price - Preferred	$	14.69
Closing market price - Class A	$	6.84

(1) The management expense ratio ("MER") is the sum of all fees and expenses for the stated period, including harmonized sales tax 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, including Preferred share distributions, is 5.35%, 5.04%, 5.07%, 5.43%, 5.19% and 4.92% for 2019, 2018, 2017, 2016, 2015 and 2014 respectively. The MER for 2015 includes the special resolution expense. The MER for 2015 excluding the special resolution expense is 1.18%.

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

Years ended October 31				
2018	2017	2016	2015	2014
$ 23.18	$ 21.00	$ 20.79	$ 23.60	$ 21.95
0.87	0.86	0.86	0.87	0.92
(0.29)	(0.28)	(0.26)	(0.28)	(0.28)
1.90	1.56	0.27	0.44	2.40
(3.17)	1.71	1.02	(2.14)	0.29
(0.69)	3.85	1.89	(1.11)	3.33
(0.86)	(0.86)	(0.82)	(0.86)	(0.86)
–	–	(0.04)	–	–
(0.86)	(0.86)	(0.86)	(0.86)	(0.86)
–	(0.01)	–	–	–
(0.81)	(0.80)	(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)
$ 20.81	$ 23.18	$ 21.00	$ 20.79	$ 23.60

(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.

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

Years ended October 31				
2018	2017	2016	2015	2014
$ 208.04	$ 246.78	$ 223.58	$ 221.40	$ 230.08
$ 58.12	$ 87.12	$ 63.92	$ 61.67	$ 83.84
9,995,191	10,644,266	10,644,266	10,648,942	9,749,268
1.21%	1.19%	1.19%	1.22%	1.16%
79.97%	81.74%	144.19%	86.47%	83.84%
0.09%	0.06%	0.11%	0.05%	0.04%
$ 20.81	$ 23.18	$ 21.00	$ 20.79	$ 23.60
$ 15.00	$ 15.20	$ 15.13	$ 15.14	$ 15.60
$ 6.35	$ 7.73	$ 5.81	$ 6.13	$ 8.31

(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.

(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.

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

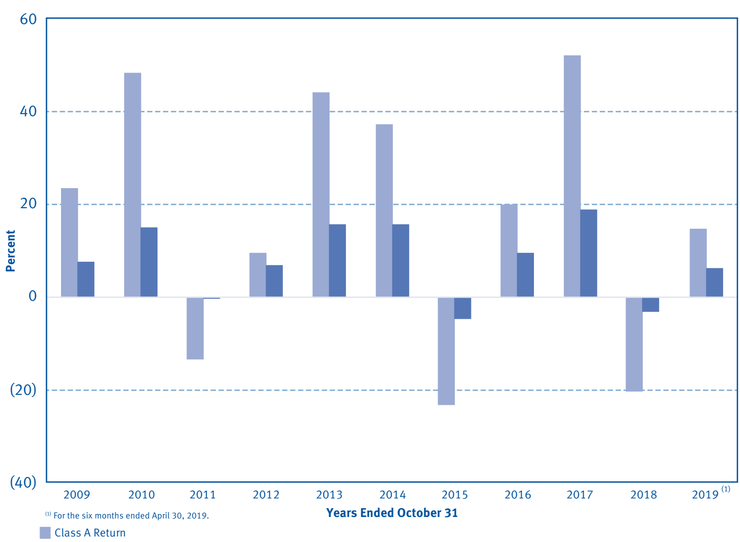
The following chart sets out the Fund's year-by-year past performance. It is important to note that the:

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, 2019. 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, 2019 for the six months ended.

Total Return



Portfolio Manager Report

After a dreadful end to 2018, North American equity markets staged an impressive recovery in the first four months of 2019. As fears of a trade war between the U.S. and China subsided and central banks changed their tune to a more accommodative stance on forward looking interest rate moves, risk assets rallied strongly. Even with some economic indicators painting a picture of slowing global growth and certain parts of the yield curve inverting, which has historically been associated with a potential recession, it did not deter investors from moving equity prices higher. In the end, the bulls ultimately prevailed as the S&P/TSX Composite Index advanced to finish the semi-annual period ending April 30, 2019 with a total return of 12.1 percent.

The S&P/TSX Diversified Banks Index lagged the broader market during the period with a total return of 8.7 percent. The Canadian banks generated positive returns during the period with the Royal Bank of Canada leading with a total return of 13.5 percent while the Canadian Imperial Bank of Commerce lagged with a total return of 1.9 percent.

The Canadian banks on average generated consensus like earnings during the period, reflecting slowing loan growth, marginal net interest margin expansion, slightly higher loan loss provisions as well as moderating operating leverage. Profitability and capital levels remain healthy for the banks with the Return on Equity for the group declining from 16.9 percent the previous year to 15.5 percent while the Common Equity Tier 1 Capital Ratio increased to 11.4 percent from 11.0 percent the previous year, allowing the group to increase their dividends during the period by an average of 7.7 percent.

The net asset value of the Fund at April 30, 2019 was $21.25 per Unit compared to $20.81 per Unit at October 31, 2018. Preferred shareholders received cash distributions of $0.43125 per share during the period while Class A shareholders received cash distributions of $0.40638 per share. The total return of the Fund, including reinvestment of distributions, for the six months ended April 30, 2019 was 6.2 percent, while the Class A shares total return was 14.8 percent. This compares to an average return of 7.8 percent for the five banks that make up the universe.

The Fund had a higher than normal average cash position during the period of 8.2 percent compared to an average of 2.1 percent the previous year. This is partly due to the two treasury offerings the Fund completed during the period that closed on November 2, 2018 and January 22, 2019 for gross proceeds of $17.2 million and $14.6 million respectively. Volatility for the Canadian banks increased in the last few months of 2018 as markets sold off but has been in decline so far in 2019 as markets have recovered significantly. As a result, the call writing activity picked up as the Fund on average had 14.8 percent of the portfolio written during the period versus 7.8 percent for the same period in the previous year. Cash covered puts were also written during the period to take advantage of the higher volatility, with a maximum notional value of 6.0 percent in early January 2019. The Fund generated a net realized gain on options attributable to the Strathbridge Selective Overwriting ("SSO") strategy of $0.17 per Unit for the six month 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, 2019

	% of Net Asset Value*
Financial Institutions	90.7 %
Cash and Short-Term Investments	9.8 %
Other Assets (Liabilities)	(0.5)%
	100.0 %

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

Portfolio Holdings

April 30, 2019

	% of Net Asset Value*
The Toronto-Dominion Bank	20.5 %
Bank of Montreal	20.3 %
Royal Bank of Canada	19.1 %
The Bank of Nova Scotia	14.3 %
Canadian Imperial Bank of Commerce	14.1 %
Cash and Short-Term Investments	9.8 %
National Bank of Canada	2.4 %

*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, 2018.

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.
June 4, 2019

John D. Germain
Director
Strathbridge Asset Management Inc.

Notice to Shareholders

The accompanying unaudited Condensed Financial Statements for the six months ended April 30, 2019 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, 2019 (Unaudited) and October 31, 2018 (Audited)

	Note	April 30, 2019	Oct. 31, 2018
ASSETS			
Financial assets at fair value through profit or loss	2	**$ 221,349,388**	$ 192,227,113
Dividends receivable		**1,033,850**	853,060
Due from brokers - investments		**–**	1,963,655
Short-term investments	2	**21,853,110**	14,176,736
Cash		**2,028,115**	1,009,090
TOTAL ASSETS		**246,264,463**	210,229,654
LIABILITIES			
Accrued liabilities		**52,419**	71,333
Issue expense payable		**93,133**	–
Accrued management fees	4	**180,641**	163,499
Due to brokers - investments		**491,498**	1,948,837
Derivative liabilities	2	**1,445,157**	–
Redeemable Preferred shares		**172,262,865**	149,927,865
Class B shares		**1,000**	1,000
TOTAL LIABILITIES		**174,526,713**	152,112,534
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES		**$ 71,737,750**	$ 58,117,120
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE		**$ 6.2467**	$ 5.8146

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

Condensed Financial Statements

Statements of Comprehensive Income

Six months ended April 30 (Unaudited)

	Note		**2019**		2018
INCOME					
Dividend income		**$**	**4,413,967**	$	4,297,759
Interest Income			**218,503**		21,799
Net realized gain on investments at fair value through profit or loss			**1,704,258**		11,620,731
Net realized gain on options at fair value through profit or loss			**1,911,078**		1,452,860
Net change in unrealized gain/loss on investments at fair value through profit or loss			**8,176,353**		(21,760,103)
TOTAL INCOME/(LOSS), NET			**16,424,159**		(4,366,954)
EXPENSES					
Management fees	4		**1,038,856**		1,015,836
Administrative and other expenses			**129,518**		106,428
Transaction fees	5		**107,007**		123,893
Custodian fees			**28,447**		26,983
Audit fees			**19,182**		19,182
Director fees	4		**10,200**		10,200
Independent review committee fees	4		**3,750**		3,750
Legal fees			**6,597**		8,414
Shareholder reporting costs			**22,538**		21,377
Harmonized sales tax			**121,880**		116,493
TOTAL EXPENSES			**1,487,975**		1,452,556
OPERATING PROFIT/(LOSS)			**14,936,184**		(5,819,510)
Preferred share distributions			**(4,802,913)**		(4,310,426)
INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES	6	**$**	**10,133,271**	$	(10,129,936)
INCREASE/(DECREASE) IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE	6	**$**	**0.9082**	$	(1.0135)

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

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

Six months ended April 30 (Unaudited)

		2019		2018
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, BEGINNING OF PERIOD	**$**	**58,117,120**	$	87,119,101
Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares		**10,133,271**		(10,129,936)
Class A Share Capital Transactions				
Proceeds from issuance of Class A shares, net of issue costs		**8,013,291**		–
Value for Class A shares redeemed		**–**		(5,285,677)
		8,013,291		(5,285,677)
Class A Share Distributions				
From net investment income		**–**		(16,584)
Non-taxable distributions		**(4,525,932)**		(4,045,262)
		(4,525,932)		(4,061,846)
Changes in Net Assets Attributable to Holders of Class A Shares during the Period		**13,620,630**		(19,477,459)
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, END OF PERIOD	**$**	**71,737,750**	$	67,641,642

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

Condensed Financial Statements

Statements of Cash Flows

Six months ended April 30 (Unaudited)

		2019		2018
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$	**15,185,826**	$	385,880
Cash Flows Provided by (Used In) Operating Activities				
Operating Profit/(Loss)		**14,936,184**		(5,819,510)
Adjustments to Reconcile Net Cash Provided by (Used in) Operating Activities				
Net realized gain on investments at fair value through profit or loss		**(1,704,258)**		(11,620,731)
Net realized gain on options at fair value through profit or loss		**(1,911,078)**		(1,452,860)
Net change in unrealized gain/loss on investments at fair value through profit or loss		**(8,176,353)**		21,760,103
Decrease in dividends receivable and due from brokers - investments		**1,782,865**		1,797,617
Decrease in accrued liabilities, accrued management fees and due to brokers - investments		**(1,365,978)**		(18,664)
Purchase of investment securities		**(66,764,754)**		(78,919,991)
Proceeds from disposition of investment securities		**50,879,325**		107,004,599
		(27,260,231)		38,550,073
Cash Flows Used In Financing Activities				
Preferred share distributions		**(4,802,913)**		(4,310,426)
Class A share distributions		**(4,525,932)**		(4,061,846)
Proceeds from issuance of Units, net of issue costs		**30,348,291**		–
Preferred share redemptions		**–**		(9,736,125)
Class A share redemptions		**–**		(5,285,677)
		21,019,446		(23,394,074)
Net Increase in Cash and Equivalents during the Period		**8,695,399**		9,336,489
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**23,881,225**	$	9,722,369
Cash and Cash Equivalents are comprised of:				
Cash	**$**	**2,028,115**	$	9,722,369
Short-Term Investments		**21,853,110**		–
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**23,881,225**	$	9,722,369
Dividends received	**$**	**4,233,177**	$	4,308,807
Interest received	**$**	**180,112**	$	21,799

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

Schedule of Investments

As at April 30, 2019 (Unaudited)

	Par Value/ Number of Shares/ (Contracts)	Average Cost/ (Proceeds)	Fair Value	% of Net Assets Attributable to Holders of Class A Shares and Redeemable Preferred Shares
SHORT-TERM INVESTMENTS				
Bankers' Acceptances				
National Bank of Canada, 1.85% - June 21, 2019	5,400,000	$ 5,374,944	$ 5,386,110	
The Bank of Nova Scotia, 1.83% - June 10, 2019	16,500,000	16,439,775	16,467,000	
Total Banker's Acceptances		21,814,719	21,853,110	9.0 %
TOTAL SHORT-TERM INVESTMENTS		$ 21,814,719	$ 21,853,110	9.0 %
INVESTMENTS				
Canadian Common Shares				
Financials				
Bank of Montreal	468,000	$ 46,075,655	$ 49,523,760	
Canadian Imperial Bank of Commerce	305,100	34,923,083	34,418,331	
National Bank of Canada	90,209	5,628,366	5,757,138	
Royal Bank of Canada	437,500	42,009,169	46,711,875	
The Bank of Nova Scotia	472,800	34,529,881	34,883,184	
The Toronto-Dominion Bank	655,000	46,307,552	50,055,100	
Total Financials		209,473,706	221,349,388	90.7 %
Total Canadian Common Shares		$ 209,473,706	$ 221,349,388	90.7 %
Options				
Written Covered Call Options (100 shares per contract)				
Bank of Montreal - May 2019 @ $102	(1,639)	$ (132,759)	$ (607,505)	
Canadian Imperial Bank of Commerce - May 2019 @ $108	(1,015)	(125,860)	(489,582)	
Royal Bank of Canada - May 2019 @ $102	(750)	(66,000)	(348,070)	
Total Written Covered Call Options		$ (324,619)	$ (1,445,157)	(0.6)%
Adjustment for transaction fees		(76,484)		
TOTAL INVESTMENTS		$ 209,072,603	$ 219,904,231	90.1 %
OTHER NET ASSETS			2,243,274	0.9 %
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES AND REDEEMABLE PREFERRED SHARES			$ 244,000,615	100.0 %

Notes to Condensed Financial Statements

April 30, 2019 (Unaudited)

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, 2018.

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, 2018 with the exception of the adoption of IFRS 9 (2014): Financial Instruments ("IFRS 9 (2014)").

Standards, Amendments and Interpretations Effective for the Current Year

The Fund has adopted IFRS 9 (2014) for the first time for the period beginning on November 1, 2018.

The adoption of IFRS 9 (2014) has been applied retrospectively with the Fund utilizing the provisions allowed in the standard to not restate prior period comparative information. IFRS 9 (2014) requires assets to be carried at amortized cost or fair value, with changes in fair value recognized in profit and loss or other comprehensive income, based on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Upon adoption of IFRS 9 (2014), the Fund's financial assets and liabilities previously classified as at fair value through profit or loss ("FVTPL") and amortized cost under IAS 39 "Financial Instruments: Recognition and Measurement", continued to be classified at FVTPL and amortized cost.

Financial Assets and Financial Liabilities at Fair Value Through Profit or Loss

Classification

Financial Assets

The Fund classifies its investments in equity securities based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

These financial assets are managed and their performance is evaluated on a fair value basis. The Fund also manages these financial assets with the objective of realizing cash flows through sales. Further, an option to irrevocably designate any equity securities at fair value through other comprehensive income ("FVOCI") has not been taken.

Consequently, these financial assets are mandatorily measured at FVTPL

Held for Trading

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purpose of selling or repurchasing in the near future or on initial recognition they are a part of a portfolio of identified financial instruments that the Fund manages together and has a recent actual pattern of short term profit-taking.

All derivatives are included in this category and mandatorily measured at FVTPL.

The Fund does not apply general hedge accounting to any of its derivatives positions.

Financial Assets and Financial Liabilities at Amortized Cost

The financial assets and liabilities measured at amortized cost may include cash, dividends receivable, due from brokers - investments, due to brokers - investments, accrued liabilities, accrued management fees, redemptions payable, Redeemable Preferred shares, Class B shares and the Fund's obligation for net assets attributable to holders of Class A shares.

IFRS 9 (2014) replaced the incurred loss model in IAS 39 with the expected credit loss model ("ECL"), as the new impairment model for financial assets carried at amortized cost. At each reporting date, the Fund measures the loss allowance on cash collateral held, amounts due from broker, accrued income and other short-term receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund measures the loss allowance at an amount equal to the 12 month expected credit losses. Given the short-term nature of the receivables and high credit quality, the Fund has determined that the expected credit loss allowances are not material.

These condensed financial statements were approved by the Board of Directors on June 4, 2019.

2. Risks Associated with Financial Instruments

The various types of risks that are associated with its investment strategies, financial instruments and markets in which the Fund invests remain unchanged from the prior year and are described in Note 6 of the audited financial statements for the year ended October 31, 2018.

Credit Risk

The Fund measures credit risk and lifetime ECLs related to the receivables using historical analysis and forward-looking information in determining the ECL.

During the periods ended April 30, 2019 and October 31, 2018, the counterparties to the Fund's derivative financial instruments had a credit rating of A-1 or higher by Standard & Poor's Ratings Services.

The analysis below summarizes the credit quality of the Fund's short-term investments as at April 30, 2019 and October 31, 2018.

	Percentage of Short-Term Investments	
Credit Rating	April 30, 2019	Oct. 31, 2018
A-1	100.0%	100.0%

Notes to Condensed Financial Statements

April 30, 2019 (Unaudited)

Liquidity Risk

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

As at April 30, 2019	Financial Liabilities On Demand	‹ 3 months	Total
Accrued liabilities	$ –	$ 52,419	$ 52,419
Issue expense payable	–	93,133	93,133
Accrued management fees	–	180,641	180,641
Due to brokers - investments	–	491,498	491,498
Derivative liabilities	–	1,445,157	1,445,157
Redeemable Preferred shares	172,262,865	–	172,262,865
Class B shares	1,000	–	1,000
Class A shares	71,737,750	–	71,737,750
	$ 244,001,615	$ 2,262,848	$ 246,264,463

As at October 31, 2018	Financial Liabilities On Demand	‹ 3 months	Total
Accrued liabilities	$ –	$ 71,333	$ 71,333
Accrued management fees	–	163,499	163,499
Due to brokers - investments	–	1,948,837	1,948,837
Redeemable Preferred shares	149,927,865	–	149,927,865
Class B shares	1,000	–	1,000
Class A shares	58,117,120	–	58,117,120
	$ 208,045,985	$ 2,183,669	210,229,654

Market Risk

a) Price Risk

Approximately 91 percent (October 31, 2018 - 92 percent) of the Fund's net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, held at April 30, 2019 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at April 30, 2019, the net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, would have increased or decreased by $11.1 million (October 31, 2018 - $9.6 million) respectively or 4.5 percent (October 31, 2018 - 4.6 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, 2019	Oct. 31, 2018
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, 2019 and October 31, 2018.

As at April 30, 2019

	Level 1	Level 2	Level 3	Total
Short-Term Investments	$ –	$ 21,853,110	$ –	$ 21,853,110
Canadian Common Shares	221,349,388	–	–	221,349,388
Options	–	(1,445,157)	–	(1,445,157)
	$ 221,349,388	$ 20,407,953	$ –	$ 241,757,341

As at October 31, 2018

	Level 1	Level 2	Level 3	Total
Short-Term Investments	$ –	$ 14,176,736	$ –	$ 14,176,736
Canadian Common Shares	192,227,113	–	–	192,227,113
	$ 192,227,113	$ 14,176,736	$ –	$ 206,403,849

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, 2019 and during the year ended October 31, 2018.

3. Shares

For the six months ended April 30, 2019, cash distributions paid to Preferred shareholders were $4,802,913 (April 30, 2018 - $4,310,426) representing a payment of $0.43 (April 30, 2018 - $0.43) per Preferred share and cash distributions paid to Class A shareholders were $4,525,932 (April 30, 2018 - $4,061,846) representing a payment of $0.41 (April 30, 2018 - $0.41) per Class A share.

During the six months ended April 30, 2019, nil (April 30, 2018 - 649,075) Units were redeemed with a total retraction value of nil (April 30, 2018 - $15,021,802) and 1,489,000 (April 30, 2018 - nil) Units were issued for proceeds, net of issue costs in the amount of $30,348,291 (April 30, 2018 - nil).

During the six months ended April 30, 2019 and the year ended October 31, 2018, share transactions are as follows:

	April 30, 2019	Oct. 31, 2018
Redeemable Preferred Shares		
Shares outstanding, beginning of period	9,995,191	10,644,266
Shares issued	1,489,000	–
Shares redeemed	–	(649,075)
Shares outstanding, end of period	11,484,191	9,995,191
Class A Shares		
Shares outstanding, beginning of period	9,995,191	10,644,266
Shares issued	1,489,000	–
Shares redeemed	–	(649,075)
Shares outstanding, end of period	11,484,191	9,995,191
Class B Shares		
Shares outstanding, beginning and end of period	1,000	1,000

Notes to Condensed Financial Statements

April 30, 2019 (Unaudited)

4. Related Party Transactions

a) Management Fees

Total management fees for the six months ended April 30, 2019 were $1,038,856 (April 30, 2018 - $1,015,836) of which $180,641 (April 30, 2018 - $161,073) was unpaid.

b) Director Fees

Total director fees paid to the external members of the Board of Directors for the six months ended April 30, 2019 were $10,200 (April 30, 2018 - $10,200).

c) Independent Review Committee Fees

Total remuneration paid to the external members of the Independent Review Committee for the six months ended April 30, 2019 were $3,750 (April 30, 2018 - $3,750).

5. 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, 2019 and 2018 is disclosed below:

		April 30, 2019		April 30, 2018
Soft Dollars	$	43,338	$	37,474
Percentage of Total Transaction Fees		40.5%		30.2%

6. 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, 2019 and 2018 is calculated as follows:

		April 30, 2019		April 30, 2018
Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares	$	10,133,271	$	(10,129,936)
Weighted Average Number of Class A Shares Outstanding during the Period		11,157,721		9,995,191
Increase/(Decrease) in Net Assets Attributable to Holders of Class A Shares per Class A Share	$	0.9082	$	(1.0135)

7. Subsequent Event

On June 4, 2019, the Fund announced a successful overnight treasury offering of 625,000 Preferred shares and 625,000 Class A shares and gross proceeds are expected to be approximately $13.25 million. The offering is expected to close on or about June 11, 2019 and is subject to certain conditions including approval by the Toronto Stock Exchange. The Preferred shares were offered at a price of $14.75 per Preferred share and the Class A shares were offered at a price of $6.45 per Class A share.

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)

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