Mulvihill Structured Products

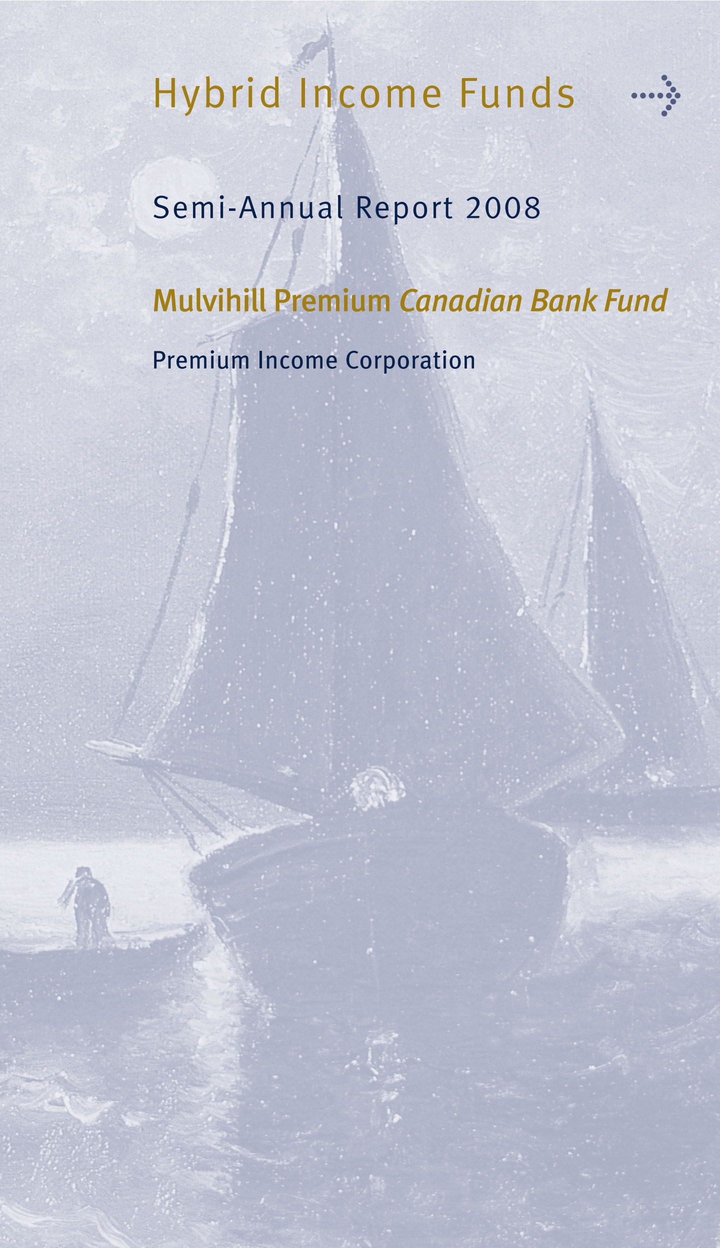
Mulvihill

# Hybrid Income Funds

## Semi-Annual Report 2008

### Mulvihill Premium *Canadian Bank Fund*

Premium Income Corporation



## Message to Shareholders

We are pleased to present the semi-annual financial results of Premium Income Corporation, which operates as Mulvihill Premium Canadian Bank Fund (the “Fund”).

The following is a brief summary of the financial highlights and results of operations of the Fund. This is intended to provide you with a quick overview of the performance and is not intended to replace the more detailed financial information contained in the semi-annual report.

The Fund was launched in 1996 with the objectives to:

(1) pay out a yield of 5.75 percent to Preferred shareholders and 8.00 percent to Class A shareholders; and

(2) return the original issue price to shareholders upon termination of the Fund on November 1, 2010.

To accomplish these objectives the Fund invests only in common shares issued by the Bank of Montreal, Canadian Imperial Bank of Commerce, Royal Bank of Canada, The Bank of Nova Scotia and The Toronto-Dominion Bank, and, from time to time, may write covered call options against these securities. Accordingly, the distributions paid out by the Fund are funded from the dividend income earned on the portfolio, realized capital gains from the sale of securities and option premiums from the sale of covered call options. During the six-month period ended April 30, 2008, the Fund earned a total return of negative 11.6 percent. Distributions amounting to $0.931250 per unit were paid during the six-month period, resulting in an overall decline in the net asset value from $26.17 per unit as at October 31, 2007 to $22.21 per unit as at April 30, 2008.

The longer-term financial highlights of the Fund are as follows:

| | | Years ended October 31 | | | | |
|---|---|---|---|---|---|---|
| | April 30, 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
| **Total Fund Return** | (11.63)% | 7.08% | 10.91% | 7.45% | 10.18% | 18.80% |
| **Preferred Share Distribution Paid (annual target of $0.86250 per share)** | $ 0.431250 | $ 0.865319 | $ 0.875210 | $ 0.877731 | $ 0.889263 | $ 0.892795 |
| **Class A Share Distribution Paid (annual target of $0.80 per share)** | $ 0.50 | $ 1.20 | $ 1.20 | $ 1.20 | $ 1.20 | $ 1.20 |
| **Ending Net Asset Value per Unit (initial issue price was $25.00 per Unit)** | $ 22.21 | $ 26.17 | $ 26.41 | $ 25.75 | $ 25.96 | $ 25.55 |

We would like to 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 & President,
Mulvihill Capital Management Inc.

## Management Report on Fund Performance

This report, prepared in accordance with National Instrument 81-106 (Investment Fund Continuous Disclosure), contains the financial highlights for the six months ended April 30, 2008 of Premium Income Corporation which operates as Mulvihill Premium Canadian Bank Fund (the "Fund"). The April 30, 2008 unaudited semi-annual financial statements of the Fund are attached.

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

## Summary of Investment Portfolio

The composition of the portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly update will be available on our website at www.mulvihill.com.

### Asset Mix

April 30, 2008

| | % of Net Asset Value* |
|---|---|
| Financial Institutions | 86 % |
| Cash and Short-Term Investments | 20 % |
| Other Assets (Liabilities) | (6)% |
| | 100 % |

*The Net Asset Value excludes the Preferred share liability.

### Portfolio Holdings

April 30, 2008

| | % of Net Asset Value* |
|---|---|
| Cash and Short-Term Investments | 20 % |
| The Bank of Nova Scotia | 19 % |
| Royal Bank of Canada | 18 % |
| The Toronto-Dominion Bank | 18 % |
| Canadian Imperial Bank of Commerce | 16 % |
| Bank of Montreal | 15 % |
| | 106 % |

*The Net Asset Value excludes the Preferred share liability.

## Management Report on Fund Performance

### Results of Operations

For the six-month period ended April 30, 2008, the net asset value of the Fund for pricing purposes based on closing prices was $22.21 per unit (see Note 3 to the financial statements) compared to $26.17 per unit on October 31, 2007. The Fund's Preferred shares, listed on the Toronto Stock Exchange as PIC.PR.A, closed on April 30, 2008, at $14.94 per share. The Fund's Class A shares, listed on the Toronto Stock Exchange as PIC.A, closed on April 30, 2008 at $6.70 per share. Each unit consists of one Preferred share and one Class A share together.

Distributions totalling $0.431250 per share were made to the Preferred shareholders and distributions totalling $0.50 per share were made to Class A shareholders comprised of $0.40 in regular distributions and $0.10 in special distributions beyond the target level during the six-month period ended April 30, 2008. Volatility increased during the period due to increased credit and liquidity risks brought on by the U.S. sub-prime mortgage crisis. Due to the high volatility over the period, the Fund reduced its investment position and protective put option purchases while increasing the amount of call option writing to take advantage of the higher volatility.

The S&P/TSX Diversified Banks Index declined 12.3 percent during the period and under performed the broader S&P/TSX Composite Index, which was down 3.4 percent during the six-month period ended April 30, 2008. The equal weighted total return of the 5 banks that make up the Fund was negative 14.2 percent. All of the 5 banks experienced negative total returns during the period with The Toronto-Dominion Bank generating the highest return of negative 5.7 percent while the Canadian Imperial Bank of Commerce generated the lowest return of negative 25.4 percent. The main reason for the weak performance was the difficult operating environment for the banks during the period due to decreased liquidity and increasing credit spreads caused by the global credit crunch. This has resulted in write downs to assets held both on and off the balance sheet, lower net interest margins due to the higher cost of funding, higher loan loss provisioning and a very difficult capital markets environment for the brokerage divisions. This is being offset somewhat by strong retail banking performance driven by volume growth in the current low interest rate environment and controlled expenses.

## Management Report on Fund Performance

The six-month period ended total compound return for the Fund, including reinvestment of distributions, was negative 11.6 percent. This performance reflects the overweight allocation to The Toronto-Dominion Bank and The Bank of Nova Scotia shares in the Fund's portfolio, as well as the cash position and the premiums generated from call option writing in a down market. The six-month total compound return for Class A shares, including reinvestment of distributions, was negative 31.2 percent.

For more detailed information on the investment returns, please see the Annual Total Return bar graph on page 7.

## Management Report on 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.

Information for the period ended April 30, 2008 is derived from the Fund's unaudited semi-annual financial statements.

| | Six months ended April 2008 |
|---|---|
| **THE FUND'S NET ASSETS PER UNIT** | |
| **Net Assets, beginning of period (based on bid prices)(1)** | **$ 26.16** |
| INCREASE (DECREASE) FROM OPERATIONS | |
| Total revenue | **0.47** |
| Total expenses | **(0.12)** |
| Realized gains (losses) for the period | **0.11** |
| Unrealized gains (losses) for the period | **(3.47)** |
| **Total Increase (Decrease) from Operations(2)** | **(3.01)** |
| DISTRIBUTIONS | |
| **Preferred Share** | |
| From net investment income | **(0.41)** |
| From taxable income | **(0.02)** |
| From capital gains | **–** |
| **Total Preferred Share Distributions** | **(0.43)** |
| **Class A Share** | |
| From capital gains | **(0.50)** |
| From net investment income | **–** |
| **Total Class A Share Distributions** | **(0.50)** |
| **Total Distributions(3)** | **(0.93)** |
| **Net Assets, end of period (based on bid prices)(1)** | **$ 22.21** |

(1) Net Assets per unit is the difference between the aggregate value of the assets of the Fund and the aggregate value of the liabilities excluding the liability for the Redeemable Preferred shares of the Fund on that date divided by the number of units then outstanding. For years prior to 2007, securities were valued at closing prices. The change to the use of bid prices is due to new accounting standards set out by the Canadian Institute of Chartered Accountants relating to Financial Instruments. Refer to Note 4 to the annual financial statements for further discussion.
(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized

**RATIOS/SUPPLEMENTAL DATA**

| | Six months ended April 2008 |
|---|---|
| Net Asset Value, excluding Preferred share liability ($millions) | **$ 421.76** |
| Net Asset Value ($millions) | **$ 136.96** |
| Number of units outstanding | **18,986,343** |
| Management expense ratio(1) | **1.03%(4)** |
| Portfolio turnover rate(2) | **4.44%** |
| Trading expense ratio(3) | **0.03%(4)** |
| Net Asset Value per Unit(5) | **$ 22.21** |
| Closing market price – Preferred | **$ 14.94** |
| Closing market price – Class A | **$ 6.70** |

(1) Management expense ratio is the ratio of all fees and expenses, including goods and services taxes and capital taxes but excluding income taxes and transaction fees and Preferred share distributions, charged to the Fund to average net asset value, excluding the liability for the Redeemable Preferred shares. Management expense ratio for 2003 includes the special resolution expense. The management expense ratio for 2003 excluding the special resolution expense is 1.17%.
(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

## Management Report on Fund Performance

For April 30, 2008 and October 31, 2007, the Net Assets included in the Fund's Net Assets per Unit table is from the Fund's financial statements and calculated using bid prices while the Net Asset Value included in the Ratios/Supplemental Data table is for Fund pricing purposes and calculated using closing prices. All other calculations for the purposes of this MRFP are made using Net Asset Value.

| Years ended October 31 | | | | |
|---|---|---|---|---|
| 2007 | 2006 | 2005 | 2004 | 2003 |
| $ 26.40[4] | $ 25.75 | $ 25.96 | $ 25.55 | $ 23.38 |
| 0.95 | 0.86 | 0.81 | 0.80 | 0.76 |
| (0.30) | (0.28) | (0.27) | (0.31) | (0.65) |
| 1.78 | 1.72 | 1.73 | 1.39 | 1.22 |
| (0.61) | 0.44 | (0.41) | 0.87 | 3.26 |
| **1.82** | **2.74** | **1.86** | **2.75** | **4.59** |
| (0.82) | (0.68) | (0.64) | (0.48) | (0.59) |
| (0.82) | (0.68) | (0.64) | (0.48) | (0.59) |
| (0.05) | (0.20) | (0.24) | (0.41) | (0.30) |
| **(0.87)** | **(0.88)** | **(0.88)** | **(0.89)** | **(0.89)** |
| (1.20) | (1.20) | (1.20) | (1.20) | (1.14) |
| – | – | – | – | (0.06) |
| **(1.20)** | **(1.20)** | **(1.20)** | **(1.20)** | **(1.20)** |
| **(2.07)** | **(2.08)** | **(2.08)** | **(2.09)** | **(2.09)** |
| **$ 26.16** | **$ 26.41** | **$ 25.75** | **$ 25.96** | **$ 25.55** |

and unrealized gains (losses), 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 and were paid in cash.

(4) Net Assets per unit has been adjusted for the Transition Adjustment - New Accounting Standards.

| Years ended October 31 | | | | |
|---|---|---|---|---|
| 2007 | 2006 | 2005 | 2004 | 2003 |
| $ 497.18 | $ 503.69 | $ 491.14 | $ 496.60 | $ 322.93 |
| $ 208.94 | $ 216.32 | $ 203.44 | $ 207.79 | $ 132.18 |
| 18,995,200 | 19,073,063 | 19,074,439 | 19,126,246 | 12,638,400 |
| 1.04% | 1.08% | 1.05% | 1.20% | 2.62% |
| 109.89% | 148.47% | 171.56% | 157.22% | 105.14% |
| 0.07% | 0.07% | 0.10% | 0.12% | 0.19% |
| $ 26.17 | $ 26.41 | $ 25.75 | $ 25.96 | $ 25.55 |
| $ 15.25 | $ 16.01 | $ 16.30 | $ 16.12 | $ 16.09 |
| $ 10.10 | $ 10.24 | $ 10.50 | $ 12.40 | $ 11.40 |

virtue of option exercises,when compared to a conventional equity mutual fund.

(3) Trading expense ratio represents total commissions expressed as an annualized 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 of the Fund and the aggregate value of the liabilities excluding Preferred shares of the Fund on that date and including the valuation of securities at closing prices divided by the number of units then outstanding.

## Management Report on Fund Performance

### Management Fees

Mulvihill Capital Management ("MCM") 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, excluding the liability for Redeemable Preferred shares and the unamortized premium on the issue of Preferred shares. Services received under the Investment Management Agreement include the making of all investment decisions and the writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. MCM also makes all decisions as to the purchase and sale of securities in the Fund's portfolio and the execution of all portfolio and other transactions.

Mulvihill Fund Services 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, excluding the liability for Redeemable Preferred shares and the unamortized premium on the issue of Preferred shares. Services received under the Management Agreement include providing or arranging for required administrative services to the Fund.

### Recent Developments

The Canadian banks continue to demonstrate good fundamentals relative to the U.S. and Global banks in terms of profitability, strong capital positions, and high returns on equity. The Canadian banks' fiscal first quarter operating earnings were down 2 percent year-over-year with a return on equity of 21.9 percent. However, if the large write down's in the first quarter (specifically at Canadian Imperial Bank of Commerce and the Bank of Montreal) are included, the reported earnings were down 57 percent year over year with and return on equity of 10.2 percent. The 4.1 percent dividend yield on the Big 5 Banks relative to the 10-year Government of Canada bond yield at 3.6 percent along with the Bank of Canada continuing to ease monetary policy due to credit and liquidity concerns, continues to lend yield support for the group, in addition, the price earnings multiple of the banks relative to the broad market is still attractive.

The outlook for bank earnings growth continues to decline due to more expected write downs from increasing credit spreads and reduced liquidity, higher loan loss provisioning going forward as credit continues to deteriorate, weaker capital market related revenues and the negative effect from a strong Canadian dollar on international earnings. This however, may be partially offset by strong domestic retail earnings, net interest margins stabilizing and continued expense control. The banks are also likely to continue to raise their dividends going forward but at a slower rate than they have grown over the last 5 years.

Going forward we continue to view Canadian bank fundamentals as resilient with strong profitability demonstrated by high return on

## Management Report on Fund Performance

equity, good asset quality and strong capital ratios providing the ability to make further acquisitions (like Royal Bank of Canada's opportunistic acquisition of Canadian investment counselor Philips, Hager and North) and continue to return some of their excess capital to shareholders in the form of increased dividends and share repurchases.

### Past Performance

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

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

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

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

### Year-By-Year Returns

The bar chart below illustrates how the Fund's total return for each of the past ten years including the six month period ended April 30, 2008 has varied from period to period. 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, 2008 for the six months then ended.

### Annual Total Return

## Related Party Transactions

Mulvihill Capital Management Inc. (“MCM”) manages the Fund’s investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and MCM dated October 17, 1996.

Mulvihill Fund Services Inc. (“Mulvihill”) is the Manager of the Fund pursuant to a Management Agreement made between the Fund and Mulvihill dated October 17, 1996, and, as such, is responsible for providing or arranging for required administrative services to the Fund. Mulvihill is a wholly-owned subsidiary of MCM. These parties are paid the fees described under the Management Fees section of this report.

## Independent Review Committee

On September 19, 2006, the Canadian Securities Administrators approved the final version of National Instrument 81-107 - Independent Review Committee for Investment Funds (“NI 81-107”). NI 81-107 requires all publicly offered investment funds to establish an independent review committee (“IRC”) to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions.

In accordance with NI 81-107, the IRC became operational on November 1, 2007. Members of the IRC are Robert W. Korthals, C. Edward Medland, and Michael M. Koerner.

### 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 (operating as Mulvihill Premium Canadian Bank Fund) (the "Fund") and all the information in this semi-annual report are the responsibility of the management of Mulvihill Fund Services Inc., (the "Manager"), and have been approved by the 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 2 of the annual financial statements for the year ended October 31, 2007.

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 external auditors 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 external auditors' report. Deloitte & Touche LLP, the Fund's independent auditors, has full and unrestricted access to the Audit Committee and the Board.

The Fund's independent auditors have not performed a review of these Interim Financial Statements in accordance with standards established by Canadian Institute of Chartered Accountants.

| | |
|---|---|
| John P. Mulvihill | Sheila S. Szela |
| Director | Director |
| Mulvihill Fund Services Inc. | Mulvihill Fund Services Inc. |

June 2008

# Financial Statements

## Statements of Financial Position

April 30, 2008 (Unaudited) and October 31, 2007 (Audited)

| | 2008 | 2007 |
|---|---|---|
| ASSETS | | |
| Investments at fair value (cost - $414,645,928; 2007 - $463,525,113) | **$ 357,993,776** | $ 472,900,913 |
| Short-term investments at fair value (cost - $85,725,503; 2007 - $24,172,079) | **85,735,439** | 24,120,829 |
| Cash | **–** | 776 |
| Interest and dividends receivable | **2,070,601** | 2.245,339 |
| TOTAL ASSETS | **$ 445,799,816** | **$ 499,267,857** |
| LIABILITIES | | |
| Due to brokers - investments | **$ 23,019,367** | $ – |
| Due to brokers - derivatives | **744,500** | – |
| Accrued liabilities | **341,046** | 457,969 |
| Redemptions payable | **–** | 1,914,024 |
| | **24,104,913** | **2,371,993** |
| Redeemable preferred shares | **284,795,145** | 284,928,000 |
| Unamortized premium on issue of preferred shares | **782,792** | 940,495 |
| | **309,682,850** | **288,240,488** |
| EQUITY | | |
| Class A and Class B shares | **192,724,833** | 192,814,726 |
| Retained earnings/deficit | **(56,607,867)** | 18,212,643 |
| | **136,116,966** | **211,027,369** |
| TOTAL LIABILITIES AND EQUITY | **$ 445,799,816** | **$ 499,267,857** |
| **Number of Units Outstanding** | **18,986,343** | **18,995,200** |
| **Net Assets per Unit** | | |
| Preferred share | **$ 15.00** | $ 15.00 |
| Class A share | **7.21** | 11.16 |
| | **$ 22.21** | **$ 26.16** |

## Statements of Operations and Retained Earnings/Deficit

For the six months ended April 30 (Unaudited)

| | 2008 | 2007 |
|---|---|---|
| REVENUE | | |
| Interest | $ 1,198,025 | $ 856,010 |
| Dividends | 7,688,345 | 7,491,539 |
| | 8,886,370 | 8,347,549 |
| Net realized gains (losses) on investments | (7,580,414) | 29,015,168 |
| Net realized losses on short-term investments | (65,650) | – |
| Net realized gains (losses) on derivatives | 9,746,697 | (5,132,870) |
| **Total Net Realized Gains** | 2,100,633 | 23,882,298 |
| TOTAL REVENUE | 10,987,003 | 32,229,847 |
| EXPENSES | | |
| Management fees | 1,973,796 | 2,321,742 |
| Administrative and other expenses | 74,375 | 69,540 |
| Transaction fees | 75,474 | 272,965 |
| Custodian fees | 34,495 | 37,664 |
| Audit fees | – | 33,390 |
| Director fees | 10,363 | 10,363 |
| Independent review committee fees | 1,707 | – |
| Legal fees | 2,005 | 902 |
| Shareholder reporting costs | 46,737 | 47,908 |
| Goods and services tax | 115,369 | 150,379 |
| TOTAL EXPENSES | 2,334,321 | 2,944,853 |
| **Net Realized Income before Preferred Share Transactions** | 8,652,682 | 29,284,994 |
| Preferred share distributions | (8,189,770) | (8,279,025) |
| **Net Realized Income** | 462,912 | 21,005,969 |
| Net change in unrealized appreciation/depreciation of investments during the period | (66,027,958) | 352,263 |
| Net change in unrealized appreciation/depreciation of short-term investments during the period | 61,186 | 4,143 |
| **Total Net Change in Unrealized Appreciation/Depreciation of Investments** | (65,966,772) | 356,406 |
| Amortization of premium on issue of preferred shares | 156,749 | 158,426 |
| Gain on retraction of preferred shares | 954 | – |
| NET INCOME (LOSS) FOR THE PERIOD | $ (65,346,157) | $ 21,520,801 |

## Financial Statements

### Statements of Operations and Retained Earnings/Deficit (continued)

For the six months ended April 30 (Unaudited)

| | 2008 | 2007 |
|---|---|---|
| NET INCOME (LOSS) PER CLASS A SHARE (based on the weighted average number of Class A shares outstanding during the period of 18,991,247; 2007 - 19,073,063) | $ (3.44) | $ 1.12 |
| RETAINED EARNINGS/DEFICIT | | |
| Balance, beginning of period | $ 18,212,643 | $ 22,718,017 |
| Transition Adjustment - New Accounting Standards | – | (126,477) |
| Net allocations on retractions | 21,476 | – |
| Net income (loss) for the period | (65,346,157) | 21,520,801 |
| Distributions on Class A shares | (9,495,829) | (11,443,838) |
| BALANCE, END OF PERIOD | $ (56,607,867) | $ 32,668,503 |

### Statements of Changes in Net Assets

For the six months ended April 30 (Unaudited)

| | 2008 | 2007 |
|---|---|---|
| NET ASSETS - CLASS A AND B SHARES, BEGINNING OF PERIOD | $211,027,369 | $ 216,323,006 |
| **Transition Adjustment - New Accounting Standards** | – | (126,477) |
| **Net Realized Income before Preferred Share Transactions** | 8,652,682 | 29,284,994 |
| **Class A Share Capital Transactions** | | |
| Amounts paid for shares redeemed | (68,417) | – |
| **Amortization of Premium on Issue of Preferred Shares** | 156,749 | 158,426 |
| **Gain on Retraction of Preferred Shares** | 954 | – |
| **Distributions** | | |
| **Preferred Shares** | | |
| From net investment income | (7,877,235) | – |
| From capital gains | – | (844,499) |
| From taxable income | (312,535) | (7,434,526) |
| **Class A Shares** | | |
| From taxable income | – | (155,450) |
| From capital gains | (9,495,829) | (11,288,388) |
| | (17,685,599) | (19,722,863) |
| **Total Net Change in Unrealized Appreciation/ Depreciation of Investments** | (65,966,772) | 356,406 |
| | (74,910,403) | 9,950,486 |
| NET ASSETS - CLASS A AND B SHARES, END OF PERIOD | $136,116,966 | $ 226,273,492 |

The statement of changes in net assets excludes cash flows pertaining to proceeds and redemptions of Preferred shares. During the period, amounts paid for the redemption of 8,857 Preferred shares (2007 - nil) totalled $132,855 (2007 - nil). Proceeds from Preferred shares issued, net of issue costs, were nil (2007 - nil).

## Statements of Changes in Investments

For the six months ended April 30 (Unaudited)

| | **2008** | 2007 |
|---|---|---|
| INVESTMENTS AT FAIR VALUE, BEGINNING OF PERIOD | **$ 472,900,913** | $ 425,082,153 |
| Transition Adjustment - New Accounting Standards | **–** | (126,477) |
| Unrealized appreciation of investments, beginning of period | **(9,375,800)** | (20,901,802) |
| **Investments at Cost, Beginning of Period** | **463,525,113** | **404,053,874** |
| **Cost of Investments Purchased during the Period** | **16,872,422** | **432,122,336** |
| **Cost of Investments Sold during the Period** | | |
| Proceeds from sales | **67,917,890** | 394,168,045 |
| Net realized gains on sales | **2,166,283** | 23,882,298 |
| | **65,751,607** | **370,285,747** |
| **Investments at Cost, End of Period** | **414,645,928** | **465,890,463** |
| Unrealized Appreciation/Depreciation of Investments, End of Period | **(56,652,152)** | 21,254,086 |
| INVESTMENTS AT FAIR VALUE, END OF PERIOD | **$ 357,993,776** | **$ 487,144,549** |

# Financial Statements

## Statement of Investments

April 30, 2008 (Unaudited)

| | Par Value/ Number of Shares | Average Cost | Fair Value | % of Portfolio |
|---|---|---|---|---|
| SHORT-TERM INVESTMENTS | | | | |
| **Treasury Bills** | | | | |
| Government of Canada, 3.28% - May 1, 2008 | 25,420,000 | $ 25,287,004 | **$ 25,287,004** | |
| Government of Canada, 3.26% - May 29, 2008 | 12,950,000 | 12,827,235 | **12,827,235** | |
| Government of Canada, 2.69% - July 10, 2008 | 5,325,000 | 5,276,010 | **5,276,010** | |
| Government of Canada, 2.47% - July 24, 2008 | 21,355,000 | 21,161,470 | **21,161,470** | |
| **Total Treasury Bills** | | **64,551,719** | **64,551,719** | 74.9% |
| **Bankers' Acceptances** | | | | |
| Canadian Imperial Bank of Commerce, 3.61% - June 12, 2008 | 6,500,000 | **6,442,020** | **6,442,020** | 7.5% |
| **Bearer Deposit Notes** | | | | |
| Royal Bank of Canada, 3.50% - May 28, 2008 | 10,000,000 | **9,938,100** | **9,938,100** | 11.5% |
| **Bonds** | | | | |
| Government of Canada, 3.750% - June 1, 2008 | 4,800,000 | **4,793,664** | **4,803,600** | 5.6% |
| | | **85,725,503** | **85,735,439** | **99.5%** |
| **Accrued Interest** | | | **460,491** | **0.5%** |
| TOTAL SHORT-TERM INVESTMENTS | | **$ 85,725,503** | **$ 86,195,930** | **100.0%** |
| INVESTMENTS | | | | |
| **Canadian Common Shares** | | | | |
| Bank of Montreal | 1,259,300 | $ 85,552,199 | **$ 63,090,930** | |
| Canadian Imperial Bank of Commerce | 896,200 | 84,930,392 | **66,471,154** | |
| Royal Bank of Canada | 1,617,900 | 84,586,517 | **77,675,379** | |
| The Bank of Nova Scotia | 1,701,800 | 85,024,617 | **81,346,040** | |
| The Toronto-Dominion Bank | 1,124,600 | 76,932,169 | **74,336,060** | |
| **Total Canadian Common Shares** | | **$ 417,025,894** | **$362,919,563** | **101.4%** |

## Statement of Investments (continued)

April 30, 2008 (Unaudited)

| | Number of Contracts | Proceeds | Fair Value | % of Portfolio |
|---|---|---|---|---|
| INVESTMENTS (continued) | | | | |
| OPTIONS | | | | |
| **Written Covered Call Options** (100 shares per contract) | | | | |
| Bank of Montreal - May 2008 @ $47 | (1,730) | (202,410) | **(620,894)** | |
| Bank of Montreal - May 2008 @ $48 | (1,730) | (187,705) | **(532,404)** | |
| Bank of Montreal - May 2008 @ $49 | (1,730) | (128,020) | **(383,380)** | |
| Canadian Imperial Bank of Commerce - May 2008 @ $68 | (2,050) | (358,750) | **(1,331,684)** | |
| Royal Bank of Canada - May 2008 @ $48 | (2,010) | (196,980) | **(148,075)** | |
| Royal Bank of Canada - May 2008 @ $50 | (3,350) | (167,500) | **(256,540)** | |
| The Bank of Nova Scotia - May 2008 @ $47 | (4,000) | (450,000) | **(670,396)** | |
| The Toronto-Dominion Bank - May 2008 @ $65 | (1,690) | (224,770) | **(364,286)** | |
| The Toronto-Dominion Bank - June 2008 @ $66 | (2,555) | (360,255) | **(618,128)** | |
| **Total Written Covered Call Options** | | **(2,276,390)** | **(4,925,787)** | (1.4)% |
| TOTAL OPTIONS | | **$ (2,276,390)** | **$ (4,925,787)** | **(1.4)%** |
| Adjustment for transaction fees | | **(103,576)** | | |
| TOTAL INVESTMENTS | | **$ 414,645,928** | **$ 357,993,776** | **100.0%** |

## Notes to Financial Statements

April 30, 2008

### 1. Basis of Presentation

The interim financial statements for the Fund have been prepared in accordance with Canadian generally accepted accounting standards ("GAAP"). However, not all disclosures required by GAAP for annual financial statements have been presented and, accordingly, these interim financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended October 31, 2007.

These interim financial statements follow the same accounting policies and method of application as the most recent financial statements for the year ended October 31, 2007, with the exception of Note 2 below.

### 2. Summary of Significant Accounting Policies

Commencing November 1, 2007, the Fund adopted CICA Handbook Section 3862 "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation". The new standards replace Section 3861 "Financial Instruments - Disclosure and Presentation". The new disclosure standards increase the emphasis on the disclosure of risks associated with financial instruments and how those risks are managed. The previous requirements related to presentation of financial instruments have been carried forward relatively unchanged. Adoption of the new standards does not impact the net asset value for pricing purposes, nor the calculation of net assets.

### 3. Net Asset Value and Net Assets

For financial statement reporting purposes, the Fund applies Canadian generally accepted accounting principles requiring the Fund to value its securities using bid price. However, pursuant to a temporary exemption provided by the Canadian securities regulatory authorities, the Fund can calculate its net asset value using last sale price.

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

| | **2008** | 2007 |
|---|---|---|
| Net Asset Value (for pricing purposes) | **$ 22.21** | $ 26.95 |
| Difference | **(0.00)** | (0.03) |
| Net Assets (for financial statement purposes) | **$ 22.21** | $ 26.92 |

## 4. Financial Instruments and Risk Management

The Fund's financial instruments consist of cash, investments and certain derivative contracts. As a result, the Fund is exposed to various types of risks that are associated with its investment strategies, financial instruments and markets in which it invests. The most important risks include liquidity risk, interest rate risk, and other price risk.

These risks and related risk management practices employed by the Fund are discussed below:

### Other Price Risk

The Fund's equity, debt securities and trading derivatives are susceptible to market price risk arising from uncertainties about future prices of the instruments. The Portfolio consists only of securities of the major Canadian banks. Net Asset Value ("NAV") per Unit varies as the value of the securities in the Portfolio varies. The Fund has no control over the factors that affect the value of the securities in the Portfolio, including factors that affect all of the companies in the financial services industry. The Fund's market risk is managed by taking a long-term perspective and utilizing an option writing program.

Approximately 86 percent of the Fund's net assets held at April 30, 2008 were publicly traded securities. If equity prices on the exchange increased or decreased by 10 percent as at April 30, 2008, the net assets of the Fund would have increased or decreased by $36.3M respectively or 8.6 percent of the net asset value, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

The Fund may from time to time write covered call options in respect of all or part of the common shares in the Portfolio. In addition, the Fund may write cash covered put options in respect of securities in which the Fund is permitted to invest. The Fund is subject to the full risk of its investment position in securities that are subject to outstanding call options and those securities underlying put options written by the Fund, should the market price of such securities decline. In addition, the Fund will not participate in any gain on the securities that are subject to outstanding call options above the strike price of such options. To mitigate risk due to market declines the Fund writes options to expire at varied points in time to reduce the risk associated with all options expiring on the same date.

## Notes to Financial Statements

April 30, 2008

### Liquidity Risk

Preferred and Class A shares may be surrendered for retraction on a monthly basis. Shareholders must surrender shares at least 5 business days prior to the last day of the month and receive payment on or before the fifth business day following the month end valuation date. Therefore the Fund has a maximum of 10 business days to generate sufficient cash to fund redemptions mitigating any liquidity issues.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. The financial instruments which potentially expose the Fund to interest rate risk are the short term fixed income securities. Effective durations, a commonly used measure of interest rate risk, incorporates a security's yield, coupon, final maturity, call features and other embedded options into one number expressed in years that indicates how price-sensitive a security or portfolio of securities is to changes in interest rates. The effective duration of a security or portfolio of securities indicates the approximate percentage change in fair value expected for a one percent change in interest rates. The longer the duration, the more sensitive the security or portfolio is to changes in interest rates.  The Fund has minimal sensitivity to change in rates since they are usually held to maturity and short-term in nature.

### Short-Term Investments Credit Rating

The following are credit ratings for short-term investments held by the Fund as at April 30, 2008:

| Type of Short-Term Investment | Rating | % of Short-Term Investments |
|---|---|---|
| Treasury Bills | AAA | 75.3% |
| Bankers' Acceptances | R1 High | 7.5% |
| Bearer Deposit Notes | R1 High | 11.6% |
| Bonds | AAA | 5.6% |
| **Total** | | **100.0%** |

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

### Credit Risk

In purchasing call or put options, the Fund is subject to the credit risk that its counterparty (whether a clearing corporation, in the case of exchange traded instruments, or other third party, in the case of over-the-counter instruments) may be unable to meet its obligations. The Fund manages these risks through the use of various risk limits and trading strategies.

## Notes to Financial Statements

April 30, 2008

The following are credit ratings for the counterparties to derivative instruments the Fund deals with during the period, based on Standard & Poor's credit rating as of April 30, 2008:

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

## Hybrid Income Funds
## Managed by Mulvihill Structured Products

### Mulvihill Platinum

Mulvihill *Government Strip Bond Fund*
Mulvihill Pro-AMS *U.S. Fund*
Mulvihill Pro-AMS *100 Plus (Cdn $) Fund*
Mulvihill Pro-AMS *100 Plus (U.S. $) Fund*
Mulvihill Pro-AMS *RSP Split Share Fund*

### Mulvihill Premium

Mulvihill *Core Canadian Dividend Fund*
Mulvihill Premium *Canadian Fund*
Mulvihill Premium *60 Plus Fund*
Mulvihill Premium *Canadian Bank Fund*
Mulvihill Premium *Global Plus Fund*
Mulvihill Premium *Split Share Fund*
Mulvihill Premium *Global Telecom Fund*
Mulvihill *S Split Fund*
Mulvihill *Top 10 Canadian Financial Fund*
Mulvihill *Top 10 Split Fund*
Mulvihill *World Financial Split Fund*

## Mutual Funds Managed by
## Mulvihill Capital Management

Mulvihill Canadian *Money Market Fund*
Mulvihill Canadian *Bond Fund*
Mulvihill Global *Equity Fund*
Mulvihill *Total Return Fund*

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Mulvihill

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