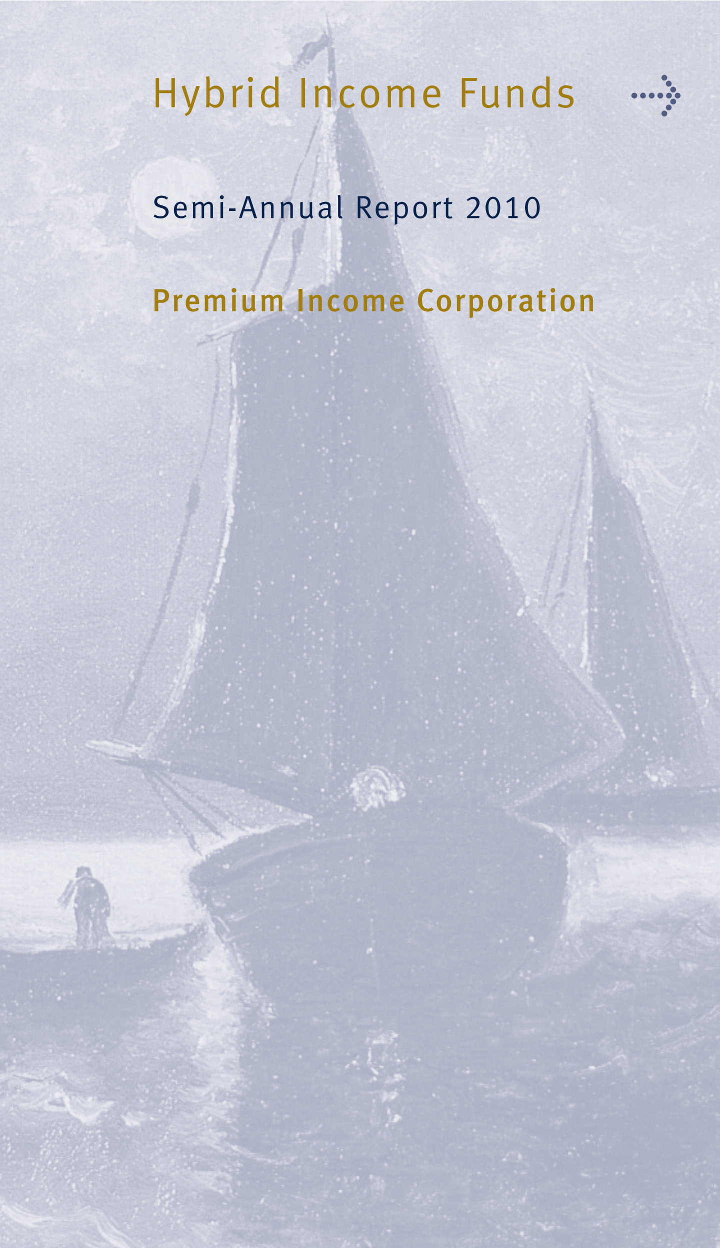
Mulvihill Structured Products

Mulvihill



Hybrid Income Funds

Semi-Annual Report 2010

Premium Income Corporation

Message to Shareholders

We are pleased to present the semi-annual financial results of Premium Income Corporation (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, 2010, the Fund’s total return was 19.26 percent. Distributions amounting to $0.731250 per unit were paid during the six-month period. The net asset value increased from $19.19 per unit as at October 31, 2009 to $22.10 per unit as at April 30, 2010.

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

		Years ended October 31				
	April 30, 2010	2009	2008	2007	2006	2005
Total Fund Return	19.26%	7.52%	(20.46)%	7.08%	10.91%	7.45%
Preferred Share Distribution Paid (annual target of $0.86250 per share)	$0.431250	$0.862500	$ 0.862500	$ 0.865319	$ 0.875210	$ 0.877731
Class A Share Distribution Paid (annual target of $0.80 per share)	$ 0.30	$ 0.45	$ 0.90	$ 1.20	$ 1.20	$ 1.20
Ending Net Asset Value per Unit (initial issue price was $25.00 per Unit)	$ 22.10	$ 19.19	$ 19.19	$ 26.17	$ 26.41	$ 25.75

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

John P. Mulvihill
Chairman & 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, 2010 of Premium Income Corporation (the "Fund"). The April 30, 2010 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, 2010

	% of Net Asset Value*
Financial Institutions	97 %
Cash and Short-Term Investments	4 %
Other Assets (Liabilities)	(1)%
	100 %

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

Portfolio Holdings

April 30, 2010

	% of Net Asset Value*
The Toronto-Dominion Bank	23 %
Bank of Montreal	21 %
Royal Bank of Canada	20 %
Canadian Imperial Bank of Commerce	17 %
The Bank of Nova Scotia	16 %
Cash and Short-Term Investments	4 %
	101 %

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

Premium Income Corporation

Management Report on Fund Performance

Results of Operations

For the six-month period ended April 30, 2010, the net asset value of the Fund for pricing purposes based on closing prices was $22.10 per unit (see Note 2 to the financial statements) compared to $19.19 per unit on October 31, 2009. The Fund's Preferred shares, listed on the Toronto Stock Exchange as PIC.PR.A, closed on April 30, 2010, at $15.12 per share. The Fund's Class A shares, listed on the Toronto Stock Exchange as PIC.A, closed on April 30, 2010 at $6.38 per share. Each unit consists of one Preferred share and one Class A share.

Distributions totalling $0.431250 per share were made to the Preferred shareholders and regular distributions totalling $0.30 per share were made to Class A shareholders during the period.

Volatility continued to decline during the period as North American equity markets rallied to new 52-week highs and the global economy remained on its gradual recovery. Due to the low volatility over the period, the Fund maintained its aggressive investment position with a low cash balance while being opportunistic in terms of covered call writing.

The S&P/TSX Diversified Banks Index was up 19.8 percent during the period and outperformed the broader S&P/TSX Composite Index, which increased 13.5 percent during the six-month period ended April 30, 2010. The equal weighted total return of the 5 banks that make up the Fund was 21.9 percent. All five banks experienced strong positive total returns during the period with the Bank of Montreal generating the highest total return of 30.9 percent while the Royal Bank of Canada lagged its peers with a total return of 14.4 percent. The main reasons for the strong performance of the banks were the continued rally in global equity

Management Report on Fund Performance

and credit markets which helped produce record trading revenues, low interest rates and a steep yield curve which have led to improving net interest margins and a general improvement in credit as the economy continues on its path of a gradual recovery.

The six-month period ended total compound return for the Fund, including reinvestment of distributions, was 19.3 percent. This performance reflects the increased invested position of the Fund along with limited call writing during the period as volatility levels continued to decline.

For more detailed information on the investment returns, please see the Annual Total Return bar chart on page 8.

Premium Income Corporation

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, 2010 is derived from the Fund's unaudited semi-annual financial statements.

	Six months ended April 2010
THE FUND'S NET ASSETS PER UNIT	
Net Assets, beginning of period (based on bid prices)(1)	**$ 19.15**
INCREASE (DECREASE) FROM OPERATIONS	
Total revenue	**0.46**
Total expenses	**(0.13)**
Realized gain (loss) for the period	**0.53**
Unrealized gain (loss) for the period	**2.77**
Total Increase (Decrease) from Operations(2)	**3.63**
DISTRIBUTIONS	
Preferred Share	
From net investment income	**(0.43)**
From capital gains	**–**
Total Preferred Share Distributions	**(0.43)**
Class A Share	
From net investment income	**(0.30)**
From capital gains	**–**
Total Class A Share Distributions	**(0.30)**
Total Distributions(3)	**(0.73)**
Net Assets, end of period (based on bid prices)(1)	**$ 22.06**

(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 Redeemable Preferred share liability 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 accounting standards set out by the Canadian Institute of Chartered Accountants adopted Novermber 1, 2006 relating to Financial Instruments.
(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized

	Six months ended April 2010
RATIOS/SUPPLEMENTAL DATA	
Net Asset Value, excluding the Redeemable Preferred share liability ($millions)	**$ 313.97**
Net Asset Value ($millions)	**$ 100.78**
Number of units outstanding	**14,208,646**
Management expense ratio(1)	**1.11%(4)**
Portfolio turnover rate(2)	**42.36%**
Trading expense ratio(3)	**0.13%(4)**
Net Asset Value per Unit(5)	**$ 22.10**
Closing market price – Preferred	**$ 15.12**
Closing market price – Class A	**$ 6.38**

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

Management Report on Fund Performance

For April 30, 2010, October 31, 2009, October 31, 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 Management Report on Fund Performance are made using Net Asset Value.

Years ended October 31				
2009	**2008**	**2007**	**2006**	**2005**
$ 19.16	**$ 26.16**	**$ 26.40**(4)	**$ 25.75**	**$ 25.96**
0.70	0.89	0.95	0.86	0.81
(0.21)	(0.25)	(0.30)	(0.28)	(0.27)
(3.65)	(1.40)	1.78	1.72	1.73
3.97	(4.48)	(0.61)	0.44	(0.41)
0.81	**(5.24)**	**1.82**	**2.74**	**1.86**
(0.86)	(0.86)	(0.82)	(0.68)	(0.64)
–	–	(0.05)	(0.20)	(0.24)
(0.86)	**(0.86)**	**(0.87)**	**(0.88)**	**(0.88)**
(0.45)	–	–	–	–
–	(0.90)	(1.20)	(1.20)	(1.20)
(0.45)	**(0.90)**	**(1.20)**	**(1.20)**	**(1.20)**
(1.31)	**(1.76)**	**(2.07)**	**(2.08)**	**(2.08)**
$ 19.15	**$ 19.16**	**$ 26.16**	**$ 26.41**	**$ 25.75**

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.

Years ended October 31				
2009	**2008**	**2007**	**2006**	**2005**
$ 279.70	$ 352.11	$ 497.18	$ 503.69	$ 491.14
$ 60.95	$ 76.36	$ 211.31	$ 216.32	$ 203.44
14,575,324	18,345,439	18,995,200	19,073,063	19,074,439
1.07%	1.08%	1.04%	1.08%	1.05%
74.20%	11.51%	109.89%	148.47%	171.56%
0.08%	0.04%	0.07%	0.07%	0.10%
$ 19.19	$ 19.19	$ 26.17	$ 26.41	$ 25.75
$ 14.90	$ 12.60	$ 15.25	$ 16.01	$ 16.30
$ 4.57	$ 5.30	$ 10.10	$ 10.24	$ 10.50

(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 Inc. ("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 Redeemable Preferred share liability 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 Inc. 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 Redeemable Preferred share liability 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 strong fundamentals and profitability. In the fiscal first quarter of 2010, the median earnings growth for the Canadian banks was up 5 percent versus the previous year and the median return on equity was 17 percent. Tier 1 ratios have risen to record levels providing significant capital positions to deal with elevated loan loss provisions and potential changes to the calculation of regulatory capital brought forth by the Basel Committee in December 2009. The 3.7 percent dividend yield on the Big 5 Banks relative to the 10-year Government of Canada bond yield at 3.6 percent continues to lend yield support and the price/earnings multiple of the banks relative to the broad market is still attractive.

The outlook for earnings growth and profitability is positive as the Canadian banks have exited the financial crisis with stronger revenues than they had entering it. Although tepid loan growth, potential credit risks and higher regulatory capital requirements are a headwind facing the banks over the next year, they should still be able to generate high profitability and capital on improving fundamentals, good expense control and leverage to an economic recovery.

Although Canadian bank balance sheets should continue to improve as the economy stabilizes and credit losses start to decline, bank management teams are likely to remain very cautious with regards to capital deployment due to economic and regulatory uncertainties. However, once economic conditions improve and regulatory requirements become better known, Canadian banks will look to utilize their excess capital positions to make acquisitions or return capital to shareholders in the form of increased dividends and share repurchases.

Future Accounting Policy Changes

The Manager has developed a changeover plan to meet the timetable published by the Canadian Institute of Chartered Accountants ("CICA") for changeover to International Financial Reporting Standards ("IFRS").

The changeover plan was prepared to address the requirements and includes disclosures of the qualitative impact of the changeover to IFRS in the 2010 annual financial statements, the disclosure of the quantitative impact, if any, in the 2011 financial statements and the preparation of the 2012 financial statements in accordance with IFRS with comparatives. However, the Accounting Standards Board is proposing that Canadian investment companies have a one year delay in their adoption of IFRS in order to allow time for the International Accounting Standards Board to finalize its proposed changes to investment company accounting which will be incorporated into a new consolidation standard.

The key elements of the changeover plan deal with the requirements for financial reporting, net asset value per unit calculations, systems and processes, and training. The plan also sets out the timeline for implementation of the changes and the required technical training or support required for a smooth transition.

As at April 30, 2010, some anticipated changes to financial reporting include:

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

Due to anticipated changes in IFRS prior to the transition to IFRS, the Manager cannot conclusively determine the impact of the Fund's financial results at this time. Based on the Manager's current understanding and analysis of IFRS to the current accounting policies under Canadian GAAP, the Manager does not anticipate the transition to IFRS will have a material impact on the Fund's net assets per unit, systems and processes, and it is expected that it will mainly result in additional note disclosure in the financial statements.

Management Report on Fund Performance

Implementation of the changeover plan is progressing as scheduled. The Manager will continue to monitor ongoing changes to IFRS and adjust their changeover plan accordingly.

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, 2010 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, 2010 for the six months then ended.

Annual Total Return

Management Report on Fund Performance

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, Michael M. Koerner and Robert G. Bertram.

Forward-Looking Statements

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

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

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

Management's Responsibility for Financial Reporting

The accompanying financial statements of Premium Income Corporation (the "Fund") and all the information in this semi-annual report are the responsibility of the management of 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, 2009.

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.

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

June 2010

Notice to Shareholders

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

Premium Income Corporation

Financial Statements

Statements of Financial Position

April 30, 2010 (Unaudited) and October 31, 2009 (Audited)

	2010	2009
ASSETS		
Investments at fair value (cost - $273,607,911; 2009 - $288,565,927)	**$ 303,652,604**	$ 278,579,966
Short-term investments at fair value (cost - $11,694,955; 2009 - $10,242,944)	**11,694,955**	10,242,944
Cash	**464,539**	713,207
Interest and dividends receivable	**1,288,457**	692,341
Due from brokers - investments	**15,428,242**	–
TOTAL ASSETS	**$ 332,528,797**	**$ 290,228,458**
LIABILITIES		
Due to brokers - investments	**$ 17,784,950**	$ –
Redemptions payable	**984,055**	10,866,911
Accrued management fees	**233,159**	222,286
Accrued liabilities	**58,350**	60,923
	19,060,514	**11,150,120**
Redeemable preferred shares	**213,129,690**	218,629,860
Unamortized premium on issue of preferred shares	**53,669**	123,132
	232,243,873	**229,903,112**
EQUITY		
Class A and Class B shares	**144,234,075**	147,955,637
Deficit	**(43,949,151)**	(87,630,291)
	100,284,924	**60,325,346**
TOTAL LIABILITIES AND EQUITY	**$ 332,528,797**	**$ 290,228,458**
Number of Units Outstanding	**14,208,646**	**14,575,324**
Net Assets per Unit		
Preferred share	**$ 15.00**	$ 15.00
Class A share	**7.06**	4.15
	$ 22.06	**$ 19.15**

Statements of Operations and Deficit

For the six months ended April 30 (Unaudited)

	2010	2009
REVENUE		
Interest	$ 27,047	$ 828,431
Dividends	6,681,272	5,717,773
	6,708,319	6,546,204
Net realized gain (loss) on investments	8,351,993	(61,169,045)
Net realized loss on short-term investments	–	(76,086)
Net realized gain (loss) on derivatives	(665,555)	10,197,267
Total Net Realized Gain (Loss)	7,686,438	(51,047,864)
TOTAL REVENUE	14,394,757	(44,501,660)
EXPENSES		
Management fees	1,346,646	1,298,391
Administrative and other expenses	127,726	70,771
Transaction fees	199,818	102,730
Custodian fees	25,665	28,695
Audit fees	18,276	–
Director fees	10,445	8,232
Independent review committee fees	3,173	2,825
Legal fees	6,996	1,511
Shareholder reporting costs	41,978	48,570
Capital tax	–	2,711
Goods and services tax	74,145	72,802
TOTAL EXPENSES	1,854,868	1,637,238
Net Realized Income (Loss) before Preferred Share Transactions	12,539,889	(46,138,898)
Preferred share distributions	(6,182,808)	(7,376,394)
Net Realized Income (Loss)	6,357,081	(53,515,292)
Net change in unrealized appreciation/ depreciation of investments	40,030,654	17,412,874
Net change in unrealized depreciation of short-term investments	–	45,353
Total Net Change in Unrealized Appreciation/Depreciation of Investments	40,030,654	17,458,227
Amortization of premium on issue of preferred shares	61,566	142,756
Gain on retraction of preferred shares	7,897	140,358
NET INCOME (LOSS) FOR THE PERIOD	$ 46,457,198	$ (35,773,951)

Financial Statements

Statements of Operations and Deficit (continued)

For the six months ended April 30 (Unaudited)

	2010	2009
NET INCOME (LOSS) PER CLASS A SHARE (based on the weighted average number of Class A shares outstanding during the period of 14,428,582; 2009 - 17,618,712)	**$ 3.22**	**$ (2.03)**
DEFICIT		
Balance, beginning of period	**$ (87,630,291)**	$(110,447,117)
Net allocations on retractions	**1,525,026**	19,993,090
Net income (loss) for the period	**46,457,198**	(35,773,951)
Distributions on Class A shares	**(4,301,084)**	(3,420,937)
BALANCE, END OF PERIOD	**$ (43,949,151)**	**$ (129,648,915)**

Statements of Changes in Net Assets

For the six months ended April 30 (Unaudited)

	2010	2009
NET ASSETS - CLASS A AND B SHARES, BEGINNING OF PERIOD	**$ 60,325,346**	**$ 75,772,925**
Net Realized Income (Loss) before Preferred Share Transactions	**12,539,889**	**(46,138,898)**
Class A Share Capital Transactions		
Amounts paid for Class A shares redeemed	**(2,196,536)**	**(2,056,796)**
Amortization of Premium on Issue of Preferred Shares	**61,566**	**142,756**
Gain on Retraction of Preferred Shares	**7,897**	**140,358**
Distributions		
Preferred Shares		
From net investment income	**(6,182,808)**	(7,376,394)
Class A Shares		
From net investment income	**(4,301,084)**	(3,420,937)
	(10,483,892)	**(10,797,331)**
Total Net Change in Unrealized Appreciation/ Depreciation of Investments	**40,030,654**	**17,458,227**
	39,959,578	**(41,251,684)**
NET ASSETS - CLASS A AND B SHARES, END OF PERIOD	**$100,284,924**	**$ 34,521,241**

Statements of Cash Flows

For the six months ended April 30 (Unaudited)

	2010	2009
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF PERIOD	$ 10,956,151	$ 124,607,440
Cash Flows Provided by (Used In) Operating Activities		
Net Realized Income (Loss) before Preferred Share Transactions	**12,539,889**	**(46,138,898)**
Adjustments to Reconcile Net Cash Provided by (Used in) Operating Activities		
Purchase of investment securities	(118,179,221)	(28,639,278)
Proceeds from disposition of investment securities	133,137,237	135,614,388
(Increase)/decrease in interest and dividends receivable and due from brokers - investments	(16,024,358)	(6,367,401)
Increase/(decrease) in accrued liabilities, accrued management fees and due to brokers - investments	17,793,250	(328,446)
Net change in unrealized depreciation of cash and short-term investments	–	45,353
	16,726,908	100,324,616
Cash Flows Provided by (Used In) Financing Activities		
Distributions to Class A shares	(4,301,084)	(3,420,937)
Distributions to Preferred shares	(6,182,808)	(7,376,394)
Class A share redemptions	(4,261,782)	(4,172,860)
Preferred share redemptions	(13,317,780)	(38,490,525)
	(28,063,454)	(53,460,716)
Net Increase/(Decrease) in Cash and Short-Term Investments During the Period	1,203,343	725,002
CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD	$ 12,159,494	$ 125,332,442
Cash and Short-Term Investments comprise of:		
Cash	$ 464,539	$ 14,404
Short-Term Investments	11,694,955	125,318,038
CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD	$ 12,159,494	$ 125,332,442

Financial Statements

Statement of Investments

April 30, 2010 (Unaudited)

	Par Value/ Number of Shares/ Number of Contracts	Average Cost/ Proceeds	Fair Value	% of Portfolio
SHORT-TERM INVESTMENTS				
Bankers' Acceptances				
Bank of Montreal, 0.37% - May 26, 2010	5,000,000	$ 4,997,750	**$ 4,997,750**	
National Bank of Canada, 0.35% - May 13, 2010	2,300,000	2,299,195	**2,299,195**	
The Bank of Nova Scotia, 0.38% - May 25, 2010	4,400,000	4,398,010	**4,398,010**	
Total Bankers' Acceptances		**11,694,955**	**11,694,955**	100.0%
Accrued Interest			**2,407**	0.0%
TOTAL SHORT-TERM INVESTMENTS		**$ 11,694,955**	**$ 11,697,362**	**100.0%**
INVESTMENTS				
Canadian Common Shares				
Bank of Montreal	1,040,000	$ 58,491,301	**$ 65,499,200**	
Canadian Imperial Bank of Commerce	717,000	53,415,517	**53,330,460**	
Royal Bank of Canada	1,005,000	54,104,572	**61,717,050**	
The Bank of Nova Scotia	965,800	45,032,447	**49,970,492**	
The Toronto-Dominion Bank	980,000	63,840,680	**73,970,400**	
Total Canadian Common Shares		**$ 274,884,517**	**$304,487,602**	**100.3%**
OPTIONS				
Written Covered Call Options (100 shares per contract)				
Canadian Imperial Bank of Commerce - June 2010 @ $75	(1,790)	$ (277,450)	**$ (209,523)**	
Royal Bank of Canada - May 2010 @ $62	(2,500)	(270,000)	**(203,280)**	
The Bank of Nova Scotia - May 2010 @ $52	(1,125)	(95,063)	**(88,193)**	
The Bank of Nova Scotia - June 2010 @ $52	(1,125)	(119,250)	**(76,769)**	
The Toronto-Dominion Bank - May 2010 @ $76	(2,450)	(350,350)	**(257,233)**	
Total Written Covered Call Options		**(1,112,113)**	**(834,998)**	(0.3)%
TOTAL OPTIONS		**$ (1,112,113)**	**$ (834,998)**	**(0.3)%**
Adjustment for transaction fees		**(164,493)**		
TOTAL INVESTMENTS		**$ 273,607,911**	**$303,652,604**	**100.0%**

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, 2009.

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, 2009.

2. Net Asset Value

The Net Asset Value of the Fund is calculated using the fair value of investments using the close or last trade price ("Net Asset Value"). The Net Assets per Unit for financial reporting purposes and Net Asset Value per Unit for pricing purposes will not be the same due to the use of different valuation techniques. The Net Asset Value per Unit is as follows:

	April 30, 2010	Oct. 31, 2009
Net Asset Value (for pricing purposes)	**$ 22.10**	$ 19.19

3. Financial Instruments and Risk Management

The Fund's financial instruments consist of cash, investments, receivables, payables and certain derivative contracts. As a result of the amendments to CICA Handbook Section 3862, "Financial Instruments – Disclosures", the Fund uses a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Fund's investments. The hierarchy of inputs is summarized below:

(1) Level 1 - for unadjusted quoted prices in active markets for identical assets or liabilities,

(2) Level 2 - for inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

(3) Level 3 - for inputs that are based on unobservable market data.

The following is a summary of the inputs used as of April 30, 2010 in valuing the Fund's investments and derivatives carried at fair values:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	**Total**
Short-Term Investments	$ –	$ 11,697,362	$ –	**$ 11,697,362**
Canadian Common Shares	304,487,602	–	–	**$ 304,487,602**
Options	–	(834,998)	–	**$ (834,998)**
Total Investments	**$ 304,487,602**	**$ 10,862,364**	**$ –**	**$ 315,349,966**

Notes to Financial Statements

April 30, 2010

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 other price risk, liquidity risk, interest rate risk and credit risk.

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

Other Price Risk

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or segment. The Portfolio consists only of the major Canadian banks. Net Assets 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 the companies in the global financial services industry. The Fund's market risk is managed by taking a long-term perspective and utilizing an option writing program.

Approximately 97 percent (October 31, 2009 - 100 percent) of the Fund's net assets, excluding the Redeemable Preferred share liability, held at April 30, 2010 were publicly traded equities. If equity prices on the exchange increased or decreased by 10 percent as at April 30, 2010, the net assets, excluding the Redeemable Preferred share liability, of the Fund would have increased or decreased by $30.4M (October 31, 2009 - $27.9M) respectively or 9.7 percent (October 31, 2009 - 10.0 percent) of the net assets, excluding the Redeemable Preferred share liability, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

The Fund may from time to time write covered call options in respect of all or part of the common shares in the Fund. 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. The Fund may also purchase put options. The Fund has full downside risk on invested positions which may be partially mitigated by the use of purchased put options. The risk to the Fund with respect to purchased put options is limited to the premiums paid to purchase the put options.

Liquidity Risk

Liquidity risk is the possibility that investments in the Fund cannot be readily converted into cash when required. To manage this risk, the Fund invests the majority of its assets in investments that are traded in an active market and can be easily disposed of. In addition, the Fund aims to retain sufficient cash and short-term investments to maintain liquidity and to meet its obligations when due. Liabilities are paid within one year and the Redeemable Preferred share liability matures on November 1, 2010.

Cash is required to fund redemptions. Shareholders must surrender shares at least 5 business days prior to the last day of the month and receive payment on or before 5 business days following the month end valuation date. Therefore the Fund has a maximum of 10 business days to generate sufficient cash to fund redemptions mitigating liquidity issues.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a financial instrument. The financial instruments which potentially expose the Fund to interest rate risk are the short term fixed income securities. The Fund has minimal sensitivity to change in rates since they are usually held to maturity and short-term in nature.

Credit Risk

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.

The credit risk is mitigated by dealing with counterparties that have a credit rating that is not below the level of approved credit ratings as set out in National Instrument 81-102.

The following are credit ratings for the counterparties to derivative instruments that the Fund dealt with during the period, based on Standard & Poor's credit rating as of April 30, 2010:

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

Notes to Financial Statements

April 30, 2010

The following are credit ratings for the counterparties to derivative instruments that the Fund dealt with during the prior period, based on Standard & Poor's credit rating as of October 31, 2009:

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

The following are credit ratings for short-term investments held by the Fund based on Standard & Poor's credit ratings as of April 30, 2010:

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

The following are credit ratings for short-term investments held by the Fund based on Standard & Poor's credit ratings as of October 31, 2009:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Bankers' Acceptances	A-1	89%
Government of Canada Treasury Bills	AAA	11%
Total		**100%**

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

4. Future Accounting Policy Changes

The Fund is currently required to adopt International Financial Reporting Standards ("IFRS") for the year beginning on November 1, 2011. The IFRS compliant financial statements will be on a comparative basis.

Hybrid Income Funds
Managed by Mulvihill Structured Products

UNIT SHARES

Core Canadian Dividend Trust
First Premium Income Trust
Gold Participation and Income Fund
Premier Canadian Income Fund
Top 10 Canadian Financial Trust

SPLIT SHARES

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

PRINCIPAL PROTECTED FUNDS

Government Strip Bond Trust
Mulvihill Pro-AMS RSP Split Share Corp.
Pro-AMS U.S. Trust

Head Office

Mulvihill Capital Management Inc.
121 King St. W., Suite 2600
Toronto, Ontario
M5H 3T9

Tel: 416 681-3966
1 800 725-7172
Fax: 416 681-3901
e-mail: hybrid@mulvihill.com

Visit our website at www.mulvihill.com for additional information on all Mulvihill Hybrid Income Funds.

Mulvihill

www.mulvihill.com

Mulvihill Structured Products
Investor Relations
121 King St. W., Suite 2600
Toronto, Ontario
M5H 3T9

Tel: 416 681-3966
1 800 725-7172
Fax: 416 681-3901
e-mail: hybrid@mulvihill.com

Mulvihill Capital Management Inc.

Please contact your broker directly for address changes.