SEMI-ANNUAL REPORT 2011

Premium Income Corporation

Letter to Shareholders

We are pleased to present the 2011 semi-annual report containing the management report of fund performance and the unaudited financial statements for Premium Income Corporation.

During the six months ended April 30, 2011, the Fund paid distributions of $0.43 per Preferred share and $0.41 per Class A share. The net asset value per Unit increased by $0.62 per Unit to $23.18 per Unit from $22.56 per Unit (on a post-Class A share consolidation basis) during the same period. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

In connection with the special redemption right approved by shareholders at a special meeting on September 29, 2010, the Class A shares were consolidated on November 1, 2010 on the basis of 0.738208641 new shares for each old share resulting in a higher Class A net asset value per share. This was done in order to maintain an equal number of Preferred and Class A shares outstanding subsequent to the special redemption.

On April 28, 2011, the Fund issued 9,523,493 warrants to Class A shareholders, on the basis of one warrant for each Class A share held. Two warrants entitle the holder to subscribe for one Unit (consisting of one Class A share and one Preferred share) of the Fund at a subscription price of $23.65. The offering was designed to provide the Fund with additional capital that can be used to take advantage of attractive investment opportunities in shares of Canadian banks, increasing the trading liquidity of the Class A shares and the Preferred shares and reducing the ongoing management expense ratio of the Fund.

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

John P. Mulvihill
Chairman & President,
Mulvihill Capital Management Inc.

The Fund

The Fund is a mutual fund corporation designed to provide Preferred shareholders with cumulative preferential quarterly cash distributions of $0.22 per share, to provide Class A shareholders with quarterly cash distributions of $0.20 per share (on a post-Class A share consolidation basis) and to return the original issue price to holders of both Preferred shares and Class A shares upon windup of the Fund. Once the net asset value ("NAV") per Unit exceeds $25.00 the Class A share distribution will be based on 8.0 percent per annum of the NAV of the Class A share. The shares are listed on the Toronto Stock Exchange under the ticker symbols PIC.PR.A for the Preferred shares, PIC.A for the Class A shares and PIC.WT for the warrants. A Unit of the Fund consists of one Preferred share and one Class A share. To accomplish its objectives the Fund invests primarily in common shares issued by:

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

To generate additional returns above the dividend income earned on the Portfolio, the Fund may, from time to time, write covered call options in respect of all or part of the common shares in the Portfolio.

Management Report of Fund Performance

Management Report of Fund Performance

This interim management report of fund performance contains the financial highlights for the six months ended April 30, 2011 of Premium Income Corporation (the "Fund"). The April 30, 2011 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 is available on our website at www.mulvihill.com.

Asset Mix

April 30, 2011

	% of Net Asset Value*
Financial Institutions	99%
Cash and Short-Term Investments	1%
	100%

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

Portfolio Holdings

April 30, 2011

	% of Net Asset Value*
Royal Bank of Canada	24%
Bank of Montreal	22%
Canadian Imperial Bank of Commerce	19%
The Toronto-Dominion Bank	18%
The Bank of Nova Scotia	16%
Cash and Short-Term Investments	1%
	100%

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

Management Report of Fund Performance

Results of Operations

Distributions

For the six months ended April 30, 2011, cash distributions of $0.41 per share were paid to Class A shareholders compared to $0.30 per share (equivalent to $0.41 per share on a post-consolidation basis) a year ago. Cash distributions of $0.43 per share were paid to Preferred shareholders during the same period, unchanged from the same period last year. Since the inception of the Fund in October 1996, the Fund has paid total cash distributions of $18.51 per Class A share and $12.72 per Preferred share.

Revenue and Expenses

The Fund's total revenue was $0.39 per Unit for the six months ended April 30, 2011, down $0.07 per Unit compared to the prior year. The difference in income per Unit was mainly due to the timing for recognizing certain dividend income at the end of fiscal 2010, rather than at the beginning of fiscal 2011. Total expenses were $0.15 per Unit for the first six months of fiscal 2011, up from $0.13 per Unit in 2010, primarily reflecting the unfavourable impact of the harmonized sales tax in Ontario plus the additional costs associated with the warrant offering and the normal course issuer bid. The Fund had a net realized and unrealized gain of $1.23 per Unit in the first half of fiscal 2011 as compared to a net realized and unrealized gain of $3.30 per Unit a year earlier.

Net Asset Value

The net asset value per Unit of the Fund increased 2.7 percent from $22.56 per Unit (on a post-Class A share consolidation basis) at October 31, 2010 to $23.18 per Unit at April 30, 2011. The aggregate net asset value of the Fund decreased $71.6 million, from $292.3 million at October 31, 2010 to $220.7 million at April 30, 2011, largely attributable to the special retraction of Class A and Preferred shares totalling $77.5 million in November 2010.

During the six months ended April 30, 2011, the total return of the Fund was 6.6 percent reflecting the increase in the value of the securities in the portfolio. The S&P/TSX Financials Index (the "Financials Index") total return during the same period was 11.1 percent. As a result of the Fund being limited to a specific universe of stocks and utilizing a covered call writing strategy to generate income, comparisons with market indices may not be appropriate. The Financials Index is calculated without the deduction of management fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

Management Report of Fund Performance

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past five years.

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

Information for the period ended April 30, 2011 is derived from the Fund's unaudited semi-annual financial statements.

	Six months ended April 30, 2011
THE FUND'S NET ASSETS PER UNIT	
Net Assets, beginning of period (based on bid prices)[1]	**$ 22.53[5]**
INCREASE (DECREASE) FROM OPERATIONS	
Total revenue	**0.39**
Total expenses	**(0.15)**
Realized gain (loss) for the period	**0.87**
Unrealized gain (loss) for the period	**0.36**
Total Increase (Decrease) from Operations[2]	**1.47**
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	**(0.41)**
From capital gains	**–**
Total Class A Share Distributions	**(0.41)**
Total Distributions[3]	**(0.84)**
Net Assets, end of period (based on bid prices)[1]	**$ 23.16**

(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.

(2) Total increase (decrease) from operations consists of interest and dividend revenue, realized 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.

	Six months ended April 30, 2011
RATIOS/SUPPLEMENTAL DATA	
Net Asset Value, excluding the Redeemable Preferred share liability ($millions)	**$ 220.71**
Net Asset Value ($millions)	**$ 77.86**
Number of units outstanding	**9,523,493**
Management expense ratio[1]	**1.23%[4]**
Portfolio turnover rate[2]	**58.24%**
Trading expense ratio[3]	**0.07%[4]**
Net Asset Value per Unit[5][6]	**$ 23.18**
Closing market price – Preferred	**$ 15.25**
Closing market price – Class A[6]	**$ 8.31**

(1) The management expense ratio ("MER") is the sum of all fees and expenses, including federal and provincial sales taxes and capital tax but excluding transaction fees and income taxes and Preferred share distributions, charged to the Fund divided by the average net asset value, excluding the Redeemable Preferred share liability. The MER for 2011 includes warrant offering costs and unclaimed solicitation fees. The MER for 2011 excluding warrant offering costs and unclaimed solicitation fees is 1.18%. The MER, including Preferred share distributions, is 5.01%, 5.60%, 5.81%, 4.99%, 4.26% and 4.39% for 2011, 2010, 2009, 2008, 2007 and 2006 respectively. The MER for 2010 excluding the special resolution expense is 1.10%.

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

Management Report of Fund Performance

Since 2007 the net assets per Unit presented in the financial statements differs from the net asset value per Unit calculated weekly, primarily as a result of investments being valued at bid prices for financial statements purposes and at closing prices for weekly net asset value purposes.

Years ended October 31				
2010	**2009**	**2008**	**2007**	**2006**
$ 19.15	**$ 19.16**	**$ 26.16**	**$ 26.40**[(4)]	**$ 25.75**
0.87	0.70	0.89	0.95	0.86
(0.32)	(0.21)	(0.25)	(0.30)	(0.28)
0.82	(3.65)	(1.40)	1.78	1.72
1.53	3.97	(4.48)	(0.61)	0.44
2.90	**0.81**	**(5.24)**	**1.82**	**2.74**
(0.86)	(0.86)	(0.86)	(0.82)	(0.68)
–	–	–	(0.05)	(0.20)
(0.86)	**(0.86)**	**(0.86)**	**(0.87)**	**(0.88)**
(0.60)	(0.45)	–	–	–
–	–	(0.90)	(1.20)	(1.20)
(0.60)	**(0.45)**	**(0.90)**	**(1.20)**	**(1.20)**
(1.46)	**(1.31)**	**(1.76)**	**(2.07)**	**(2.08)**
$ 20.56	**$ 19.15**	**$ 19.16**	**$ 26.16**	**$ 26.41**

(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 change in accounting policy relating to the calculation of net asset value based bid prices versus closing prices prior to 2007.
(5) Net Assets per Unit has been adjusted for the consolidation of the Class A shares effective the opening of trading on November 1, 2010. Each shareholder received 0.738208641 new Class A shares for each Class A share held. The total value of a shareholder's investment did not change, however, the number of Class A shares reflected in the shareholder's account declined and the Net Assets per Class A share increased proportionately.

Years ended October 31				
2010	**2009**	**2008**	**2007**	**2006**
$ 292.34	$ 279.70	$ 352.11	$ 497.18	$ 503.69
$ 79.25	$ 60.95	$ 76.36	$ 211.31	$ 216.32
14,206,046	14,575,324	18,345,439	18,995,200	19,073,063
1.44%	1.07%	1.08%	1.04%	1.08%
93.32%	74.20%	11.51%	109.89%	148.47%
0.09%	0.08%	0.04%	0.07%	0.07%
$ 20.58	$ 19.19	$ 19.19	$ 26.17	$ 26.41
$ 15.00	$ 14.90	$ 12.60	$ 15.25	$ 16.01
$ 5.84	$ 4.57	$ 5.30	$ 10.10	$ 10.24

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

Management Fees

Mulvihill Fund Services Inc. (the “Manager” or “Mulvihill”) amalgamated with Mulvihill Capital Management Inc. (the “Investment Manager” or “MCM”) on September 1, 2010. As successor, MCM became the Manager of the Fund. 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. 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. MCM 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.

MCM, 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.

Recent Developments

On April 28, 2011, the Fund issued 9,523,493 warrants to Class A shareholders, on the basis of one warrant for each Class A share held. Two warrants entitle the holder to subscribe for one Unit (consisting of one Class A share and one Preferred share) of the Fund at a subscription price of $23.65. The offering was designed to provide the Fund with additional capital that can be used to take advantage of attractive investment opportunities in shares of the Canadian Banks, while also increasing the trading liquidity of the Class A and the Preferred shares and reducing the ongoing management expense ratio of the Fund.

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 and quantitative impact, if any, of the changeover to IFRS in the 2011 annual financial statements and the preparation of the 2012 financial statements in accordance with IFRS with comparatives. However, the Canadian Accounting Standards Board approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies (“AcG-18”). As a result, the Fund will adopt IFRS for its fiscal period beginning November 1, 2013 and will issue its initial financial statements in accordance with IFRS, with comparative information, for the interim period ending April 30, 2014.

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, 2011, some anticipated changes to financial reporting include:

- Compliance with the full body of IFRS without industry specific exemptions. Unlike Canadian Generally Accepted Accounting Principles (“Canadian GAAP”) where investment fund accounting was based upon guidance in AcG-18;

Management Report of Fund Performance

- 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.

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,

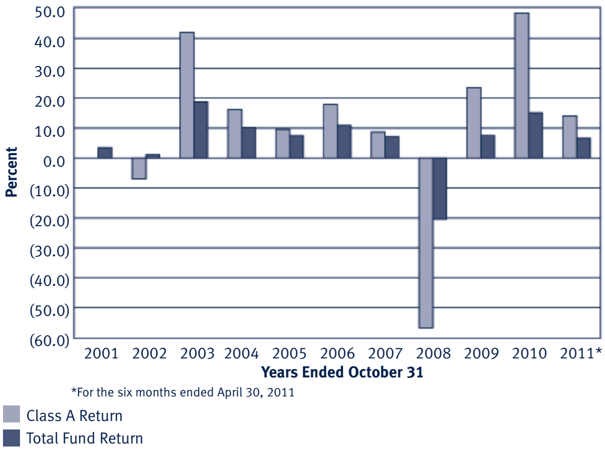
(2) the information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and

(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 varied from year to year for each of the past ten years and for the six month period ended April 30, 2011 . 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, 2011 for the six months then ended.

Annual Total Return



Management Report of Fund Performance

Portfolio Manager Report

The North American financial markets continued to show signs of improvement for the six month period ended April 30, 2011. Although a number of geopolitical concerns occurred during the period such as the horrific earthquake and tsunami in Japan, as well as increased hostilities and violence in Egypt, Libya and Yemen, the equity markets remained resilient. The Canadian economy proved to be more robust than the economies of many of the developed world throughout the recent recession and should continue to be so, given Canada's strong fiscal position. Employment levels in Canada have returned to pre-recession levels although the rate of growth is still below normal levels. After raising the benchmark overnight rate by 25 basis point increments three times in 2010, the Bank of Canada remained on hold during the period due to slower than expected growth and a strong Canadian dollar which increased by 7.3 percent relative to the U.S. dollar. After ending fiscal 2010 on a mixed note, the Canadian banks resumed their strong earnings growth in the first quarter of 2011 on solid retail banking and wealth management earnings along with better than expected trading revenues. Capital ratios continued to remain strong with Tier 1 ratios up slightly from the previous quarter. Following the National Bank of Canada's lead in the fourth quarter of 2010, The Toronto-Dominion Bank and The Bank of Nova Scotia increased their dividends in the first quarter of 2011 by 8.2 percent and 6.1 percent respectively. Both the Bank of Montreal and The Toronto-Dominion Bank also made significant acquisition announcements in December with the Bank of Montreal acquiring a Wisconsin based bank, Marshall & Ilsley Corporation, for US$4.0 billion in shares, and The Toronto-Dominion Bank acquiring Chrysler Financial Corp. for US$6.3 billion in cash.

The S&P/TSX Financials Index enjoyed strong performance during the period with a total return of 11.1 percent. All five banks that make up the portfolio experienced positive returns with The Toronto-Dominion Bank and the Royal Bank of Canada posting the strongest total returns of 13.3 percent and 11.5 percent respectively. The Bank of Montreal lagged the group, generating a total return of 5.6 percent due to investor concerns regarding its US$4.0 billion share acquisition of Marshall & Ilsley Corporation. The total return of the Fund, including reinvestment of distributions, for the six month period ended April 30, 2011 was 6.6 percent. The Fund maintained its invested position during the majority of the period and ended April, 2011 with a cash position of 0.8 percent compared to 23.7 percent at the end of fiscal 2010. The extraordinary high cash position at the end of fiscal 2010 was raised in order to finance the special redemption right offered in conjunction with the term extension. The Fund ended the period with 5.4 percent of the portfolio subject to covered calls.

The Canadian banks are expected to improve profitability and capital ratios for the remainder of 2011 due to improving credit, good expense control and leverage to an economic recovery. Consequently, Canadian banks are expected to resume dividend growth, share buybacks and pursue acquisitions. The valuations of companies in the portfolio remain at attractive levels when measured by price to earnings ratios and current dividend yields and this should continue to act as major support for the share prices.

Management Report of Fund Performance

Related Party Transactions

The manager and investment manager of the Fund is MCM ("Manager "or "Investment Manager"). MCM became the Manager of the Fund on September 1, 2010 as successor by amalgamation with Mulvihill Fund Services Inc.

MCM, as the Investment Manager of the Fund, 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 and amended as of October 8, 2010.

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

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

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 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. Members of the IRC are Robert W. Korthals, Michael M. Koerner and Robert G. Bertram.

On March 2, 2011, MCM presented to the IRC a proposal of the Fund to issue warrants to Class A shareholders to subscribe for additional Units of the Fund. Each Unit consists of one transferable, redeemable Class A share and one transferable, redeemable Preferred share. The exercise of warrants by holders will provide the Fund with additional capital and is also expected to increase trading liquidity and to reduce the management expense ratio of the Fund. The IRC reviewed the proposal and approved the warrant offering as it achieved a fair and reasonable result for the Fund.

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 Capital Management Inc., (the "Manager"), and have been approved by the Fund's Board of Directors (the "Board").

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this semi-annual report is consistent with the financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 2 of the annual financial statements for the year ended October 31, 2010.

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

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

John P. Mulvihill	John D. Germain
Director	Director
Mulvihill Capital Management Inc.	Mulvihill Capital Management Inc.

June 2011

Notice to Shareholders

The Fund's independent auditor has 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

As at April 30, 2011 (Unaudited) and October 31, 2010 (Audited)

	2011	2010
ASSETS		
Investments at fair value (cost - $203,636,293; 2010 - $211,399,043)	**$ 219,013,791**	$ 223,326,075
Short-term investments at fair value (cost - nil; 2010 - $24,668,841)	**–**	24,668,841
Cash	**897,904**	621,501
Interest and dividends receivable	**1,005,000**	1,042,335
Due from brokers - investments	**2,255,262**	43,697,903
TOTAL ASSETS	**$ 223,171,957**	**$ 293,356,655**
LIABILITIES		
Due to brokers - investments	**$ 2,233,058**	$ –
Accrued liabilities	**185,873**	131,503
Accrued management fees	**163,396**	223,648
Special resolution payable	**–**	972,841
Redeemable preferred shares	**142,852,395**	213,090,690
	145,434,722	**214,418,682**
EQUITY		
Class A and Class B shares	**130,960,374**	144,207,687
Deficit	**(53,223,139)**	(65,269,714)
	77,737,235	**78,937,973**
TOTAL LIABILITIES AND EQUITY	**$ 223,171,957**	**$ 293,356,655**
Number of Units Outstanding	**9,523,493**	**14,206,046**
Net Assets per Unit (Note 3)		
Preferred share	**$ 15.00**	$ 15.00
Class A share	**8.16**	5.56
	$ 23.16	**$ 20.56**

Statements of Operations and Deficit

Six months ended April 30 (Unaudited)

	2011	2010
REVENUE		
Interest	$ **41,970**	$ 27,047
Dividends	**3,664,216**	6,681,272
	3,706,186	**6,708,319**
Net realized gain on investments	**8,698,243**	8,351,993
Net realized loss on derivatives	**(385,423)**	(665,555)
Total Net Realized Gain	**8,312,820**	**7,686,438**
TOTAL REVENUE	**12,019,006**	**14,394,757**
EXPENSES		
Management fees	**974,649**	1,346,646
Administrative and other expenses	**111,760**	127,726
Transaction fees (Note 4)	**79,670**	199,818
Custodian fees	**23,704**	25,665
Audit fees	**17,971**	18,276
Director fees	**11,390**	10,445
Independent review committee fees	**4,522**	3,173
Legal fees	**–**	6,996
Shareholder reporting costs	**30,915**	41,978
Federal and provincial sales taxes	**110,390**	74,145
Subtotal Expenses	**1,364,971**	**1,854,868**
Warrant offering costs (Note 2)	**160,000**	–
TOTAL EXPENSES	**1,524,971**	**1,854,868**
Net Realized Income before Unclaimed Solicitation Fee and Preferred Share Transactions	**10,494,035**	**12,539,889**
Unclaimed solicitation fee	**112,774**	–
Net Realized Income before Preferred Share Transactions	**10,606,809**	**12,539,889**
Preferred share distributions	**(4,107,006)**	(6,182,808)
Net Realized Income	**6,499,803**	**6,357,081**
Net change in unrealized appreciation/ depreciation of investments	**3,450,466**	**40,030,654**
Amortization of premium on issue of preferred shares	**–**	**61,566**
Gain on retraction of preferred shares	**–**	**7,897**
NET INCOME FOR THE PERIOD	$ **9,950,269**	$ **46,457,198**

Financial Statements

Statements of Operations and Deficit (continued)

Six months ended April 30 (Unaudited)

	2011	2010
NET INCOME PER CLASS A SHARE (based on the weighted average number of Class A shares outstanding during the period of 9,523,871; 2010 - 14,428,582)	**$ 1.04**	$ 3.22
DEFICIT		
Balance, beginning of period	**$ (65,269,714)**	$ (87,630,291)
Net allocations on retractions	**5,966,463**	1,525,026
Net income for the period	**9,950,269**	46,457,198
Distributions on Class A shares	**(3,870,157)**	(4,301,084)
BALANCE, END OF PERIOD	**$ (53,223,139)**	**$ (43,949,151)**

Statements of Changes in Net Assets

Six months ended April 30 (Unaudited)

	2011	2010
NET ASSETS - CLASS A AND B SHARES, BEGINNING OF PERIOD	**$ 78,937,973**	**$ 60,325,346**
Net Realized Income before Preferred Share Transactions	**10,606,809**	**12,539,889**
Class A Share Capital Transactions		
Value for Class A shares redeemed	**(7,280,850)**	**(2,196,536)**
Amortization of Premium on Issue of Preferred Shares	**–**	**61,566**
Gain on Retraction of Preferred Shares	**–**	**7,897**
Distributions		
Preferred Shares		
From net investment income	**(4,107,006)**	(6,182,808)
Class A Shares		
From net investment income	**(3,870,157)**	(4,301,084)
	(7,977,163)	**(10,483,892)**
Total Net Change in Unrealized Appreciation/ Depreciation of Investments	**3,450,466**	**40,030,654**
	(1,200,738)	**39,959,578**
NET ASSETS - CLASS A AND B SHARES, END OF PERIOD	**$ 77,737,235**	**$ 100,284,924**

Statements of Cash Flows

Six months ended April 30 (Unaudited)

	2011	2010
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF PERIOD	**$ 25,290,342**	$ 10,956,151
Cash Flows Provided by (Used In) Operating Activities		
Net Realized Income before Preferred Share Transactions	**10,606,809**	12,539,889
Adjustments to Reconcile Net Cash Provided by (Used in) Operating Activities		
Purchase of investment securities	**(122,202,176)**	(118,179,221)
Proceeds from disposition of investment securities	**138,277,746**	140,823,675
Net (gain)/loss on sale of investments (including derivatives)	**(8,312,820)**	(7,686,438)
(Increase)/decrease in interest and dividends receivable and due from brokers - investments	**41,479,976**	(16,024,358)
Increase/(decrease) in accrued liabilities, accrued management fees and due to brokers - investments	**1,254,335**	17,793,250
	50,497,061	16,726,908
Cash Flows Provided by (Used In) Financing Activities		
Distributions to Class A shares	**(3,870,157)**	(4,301,084)
Distributions to Preferred shares	**(4,107,006)**	(6,182,808)
Class A share redemptions	**(7,280,850)**	(4,261,782)
Preferred share redemptions	**(70,238,295)**	(13,317,780)
	(85,496,308)	(28,063,454)
Net Increase/(Decrease) in Cash and Short-Term Investments During the Period	**(24,392,438)**	1,203,343
CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD	**$ 897,904**	$ 12,159,494
Cash and Short-Term Investments comprised of:		
Cash	**$ 897,904**	$ 464,539
Short-Term Investments	**–**	11,694,955
CASH AND SHORT-TERM INVESTMENTS, END OF PERIOD	**$ 897,904**	$ 12,159,494

Financial Statements

Statement of Investments

As at April 30, 2011 (Unaudited)

	Number of Shares/ Number of Contracts	Average Cost/ Proceeds	Fair Value	% of Portfolio
INVESTMENTS				
Canadian Common Shares				
Bank of Montreal	780,000	$ 46,302,873	$ **48,422,400**	
Canadian Imperial Bank of Commerce	523,000	40,688,356	**42,776,170**	
Royal Bank of Canada	880,000	49,528,155	**52,439,200**	
The Bank of Nova Scotia	613,000	32,249,219	**35,363,970**	
The Toronto-Dominion Bank	490,000	35,126,673	**40,140,800**	
Total Canadian Common Shares		**$ 203,895,276**	**$ 219,142,540**	**100.1 %**
Options				
Written Covered Call Options (100 shares per contract)				
Bank of Montreal - May 2011 @ $62	(1,950)	**$ (173,550)**	**$ (128,749)**	**(0.1)%**
Total Options		**$ (173,550)**	**$ (128,749)**	**(0.1)%**
Adjustment for transaction fees		**(85,433)**		
TOTAL INVESTMENTS		**$ 203,636,293**	**$ 219,013,791**	**100.0 %**

Notes to Financial Statements

April 30, 2011

1. Basis of Presentation

The interim financial statements for the Fund have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). However, not all disclosures required by GAAP for annual financial statements have been presented and, accordingly, these interim financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended October 31, 2010.

These interim financial statements follow the same accounting policies and method of application as the most recent audited financial statements for the year ended October 31, 2010.

2. Warrants

On April 28, 2011, Premium Income Corporation filed a short form prospectus relating to an offering of warrants to holders of its Class A shares. Each shareholder of record on May 6, 2011 received one warrant for each Class A share held. Two warrants will entitle the holder to acquire one Class A share and one Preferred share upon payment of the subscription price of $23.65. The Toronto Stock Exchange approved the listing of the warrants under the symbol PIC.WT and the Class A shares and the Preferred shares issuable upon the exercise thereof. The warrants commenced trading on May 9, 2011 and will remain trading until the expiry date of December 15, 2011. Warrants may be exercised only on the expiry date.

3. Net Asset Value

The net asset value of the Fund is calculated using the fair value of investments at the close or last trade price. The net assets per Unit is calculated using the fair value of investments at the closing bid price. The net assets per Unit for financial reporting purposes and net asset value per Unit for pricing purposes will not be the same due to the use of different valuation techniques.

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

	April 30, 2011	Oct. 31, 2010
Net Asset Value (for pricing purposes)	**$ 23.1751**	$ 20.5786
Difference	**(0.0124)**	(0.0220)
Net Assets (for financial statement purposes)	**$ 23.1627**	$ 20.5566

4. Transaction Fees

Total transaction fees paid during for the six month period ended April 30, 2011 in connection with portfolio transactions were $79,670 (April 30, 2010 - $199,818). Of this amount $10,137 (April 30, 2010 - $52,774) was directed to cover payment of research services provided to the Investment Manager.

Notes to Financial Statements

April 30, 2011

5. Financial Instruments and Risk Management

The various types of risks associated with financial instruments and the related risk management practices employed by the Fund remain unchanged from the prior year and are described in Note 11 of the annual financial statements for the year ended October 31, 2010.

The following is a summary of the inputs used as of April 30, 2011 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Canadian Common Shares	$ 219,142,540	$ –	$ –	**$ 219,142,540**
Options	–	(128,749)	–	**$ (128,749)**
Total Investments	**$ 219,142,540**	**$ (128,749)**	**$ –**	**$ 219,013,791**

The following is a summary of the inputs used as of October 31, 2010 in valuing the Fund's investments and derivatives carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Short-Term Investments	$ –	$ 24,681,606	$ –	**$ 24,681,606**
Canadian Common Shares	223,640,904	–	–	**$ 223,640,904**
Options	7,535	(322,364)	–	**$ (314,829)**
Total Investments	**$ 223,648,439**	**$ 24,359,242**	**$ –**	**$ 248,007,681**

There were no transfers between Level 1 and Level 2 during the six months ended April 30, 2011 and during the year ended October 31, 2010.

Other Price Risk

Approximately 99 percent (October 31, 2010 - 77 percent) of the Fund's net assets, excluding the Redeemable Preferred share liability, held at April 30, 2011 were publicly traded equities. If equity prices on the exchange increased or decreased by 10 percent as at April 30, 2011, the net assets, excluding the Redeemable Preferred share liability, of the Fund would have increased or decreased by $21.9M (October 31, 2010 - $22.4M) respectively or 9.9 percent (October 31, 2010 - 7.7 percent) of the net assets, excluding the Redeemable Preferred share liability, all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

Credit Risk

The following are credit ratings for the counterparties to derivative instruments that the Fund dealt with during the current period and prior year, based on Standard & Poor's credit rating as of April 30, 2011 and October 31, 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+

The Fund held no short-term investments as of April 30, 2011.

The following are credit ratings for short-term investments held by the Fund based on Standard & Poor's credit ratings as of October 31, 2010:

Type of Short-Term Investment	Rating	% of Short-Term Investments
Government of Canada Treasury Bills	AAA	60%
Province of Ontario Treasury Bills	AA	20%
Bankers' Acceptances	A-1	20%
Total		**100%**

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

6. Future Accounting Policy Changes

The Fund was required to adopt International Reporting Standards ("IFRS") for the year beginning on November 1, 2011. However, the Canadian Accounting Standards Board approved a two year deferral from IFRS adoption for investment companies applying Accounting Guideline 18 - Investment Companies. As a result, the Fund will adopt IFRS for the year beginning on November 1, 2013 and will issue its initial financial statements in accordance with IFRS, with comparative information, for the interim period ending April 30, 2014.

Investment Funds Managed by Mulvihill Capital Management Inc.

UNIT TRUSTS

Canadian Utilities & Telecom Income Fund
Core Canadian Dividend Trust
Gold Participation and Income Fund
Premier Canadian Income Fund
Top 10 Canadian Financial Trust

SPLIT SHARES

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

PRINCIPAL PROTECTED FUNDS

Government Strip Bond Trust

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