



SEMI-ANNUAL  
REPORT

2017

PREMIUM INCOME CORPORATION

  
strathbridge  
ASSET MANAGEMENT

### Letter to Shareholders

We are pleased to present the 2017 semi-annual report containing the management report of fund performance and the unaudited financial statements for Premium Income Corporation (the “Fund”).

After generating one of the highest returns among global equity markets in 2016, the S&P/TSX Composite Index continued to rally in the first few months of 2017 to finish the semi-annual period ending April 30, 2017 with a total return of 6.9 percent. The S&P/TSX Diversified Banks Index outperformed the broader market during the period with a total return of 10.8 percent. Each of the Canadian banks generated positive returns during the period with the Bank of Montreal posting the strongest total return of 15.3 percent while The Bank of Nova Scotia lagged with a still respectable total return of 7.3 percent.

The total return of the Fund, including reinvestment of distributions, for the six months ended April 30, 2017 was 8.4 percent while the Fund’s Class A shares total return was 22.0 percent. The Fund paid cash distributions of \$0.43 per Preferred share and \$0.41 per Class A share during the period. The net asset value of the Fund increased from \$21.00 per Unit at October 31, 2016 to \$21.93 per Unit at April 30, 2017. The net realized gain on options attributable to Strathbridge Selective Overwriting strategy (see “The Fund”) amounted to \$0.06 per Unit for the period compared to a net realized gain on options of \$0.25 per Unit for the same period last year. For a more detailed review of the operations of the Fund, please see the Results of Operations and the Portfolio Manager Report sections.

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



John P. Mulvihill  
Chairman & CEO  
Strathbridge Asset Management Inc.

## The Fund

The Fund is a split share corporation designed to provide Preferred shareholders with cumulative preferential quarterly cash distributions of \$0.215625 per share, to provide Class A shareholders with quarterly cash distributions of \$0.20319 per share and to return the original issue price to holders of both Preferred shares and Class A shares upon windup of the Fund. A Unit of the Fund consists of one Preferred share and one Class A share. Once the net asset value (“NAV”) per Unit exceeds \$25.00, the Class A share distribution will vary based on 8.0 percent per annum of the NAV of the Class A share. The shares are listed on the Toronto Stock Exchange under the ticker symbols PIC.PR.A for the Preferred shares and PIC.A for the Class A shares.

To accomplish its objectives, the Fund invests at least 75 percent of its NAV in common shares of the Bank of Montreal, The Bank of Nova Scotia, Canadian Imperial Bank of Commerce, Royal Bank of Canada and The Toronto-Dominion Bank (collectively, the “Banks”) and may also invest up to 25 percent of its NAV in common shares of National Bank of Canada. In addition, the Fund may purchase public investment funds including exchange-traded funds and other Strathbridge Funds (provided that no more than 15 percent of the NAV of the Fund may be invested in securities of other Strathbridge Funds) that provide exposure to such common shares.

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

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

## Premium Income Corporation

### Management Report of Fund Performance

#### Management Report of Fund Performance

This semi-annual management report of fund performance contains the financial highlights for the six months ended April 30, 2017 of Premium Income Corporation (the "Fund"). The unaudited semi-annual financial statements of the Fund are attached.

Copies of the Fund's proxy voting policies and procedures, proxy voting disclosure record and quarterly portfolio disclosure may be obtained by calling 1-800-725-7172 toll free, by writing to the Fund at Investor Relations, 121 King Street West, Suite 2600, P.O. Box 113, Toronto, Ontario, M5H 3T9, by email at [info@strathbridge.com](mailto:info@strathbridge.com) or by visiting our website at [www.strathbridge.com](http://www.strathbridge.com). You can also request semi-annual or annual reports at no cost by using one of the above methods.

#### Results of Operations

##### Distributions

For the six months ended April 30, 2017, cash distributions of \$0.43 per Preferred share and \$0.41 per Class A share were paid to respective shareholders, both unchanged from the same period last year.

Since the inception of the Fund in October 1996, the Fund has paid total cash distributions of \$17.89 per Preferred share and \$23.38 per Class A share.

##### Revenue and Expenses

The Fund's total revenue was \$0.43 per Unit for the six months ended April 30, 2017, up \$0.01 per Unit compared to a year ago. Total expenses increased \$0.01 per Unit from the same period last year to \$0.14 per Unit mainly due to higher management fees during the period. The Fund had a net realized and unrealized gain of \$1.47 per Unit in the first half of fiscal 2017 as compared to a net realized and unrealized gain of \$0.55 per Unit in the prior year.

##### Net Asset Value

The net asset value of the Fund increased from \$21.00 per Unit at October 31, 2016 to \$21.93 per Unit at April 30, 2017. The aggregate net asset value of the Fund increased \$9.9 million, from \$223.6 million at October 31, 2016 to \$233.5 at April 30, 2017, reflecting an operating profit of \$18.8 million partially offset by cash distributions of \$8.9 million to Preferred and Class A shareholders during the period.

#### Recent Developments

There were no recent developments pertaining to the Fund during the six months ended April 30, 2017.

### Related Party Transactions

Strathbridge Asset Management Inc. (“Strathbridge”), as the Investment Manager of the Fund, manages the investment portfolio in a manner consistent with the investment objectives, strategy and criteria of the Fund pursuant to an Investment Management Agreement made between the Fund and Strathbridge dated October 17, 1996 and amended as of October 8, 2010.

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

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

During the period, no recommendations or approvals were required to be sought from the Independent Review Committee (“IRC”) concerning related party transactions.

### Independent Review Committee

National Instrument 81-107 - Independent Review Committee for Investment Funds (“NI 81-107”) requires all publicly offered investment funds to establish an IRC to whom the Manager must refer conflict of interest matters for review or approval. NI 81-107 also imposes obligations upon the Manager to establish written policies and procedures for dealing with conflict of interest matters, maintaining records in respect of these matters and providing assistance to the IRC in carrying out its functions. The Chief Compliance Officer, designated by the Manager, is in charge of facilitating the fulfillment of these obligations.

The IRC will prepare, for each financial year, a report to securityholders that describes the IRC and its activities during such financial year and includes, if known, a description of each instance when the Manager acted in a conflict of interest matter for which the IRC did not give a positive recommendation or for which a condition, imposed by the IRC, was not met in its recommendation or approval. Members of the IRC are Robert W. Korthals, Michael M. Koerner and Robert G. Bertram.

# Premium Income Corporation

## Management Report of Fund Performance

### Financial Highlights

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

Information for the period ended April 30, 2017 is derived from the Fund's unaudited semi-annual financial statements.

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

	Six months ended April 30, 2017
<b>NET ASSETS PER UNIT</b>	
<b>Net Assets, beginning of period<sup>(1)</sup></b>	<b>\$ 21.00</b>
INCREASE (DECREASE) FROM OPERATIONS	
Total revenue	0.43
Total expenses	(0.14)
Realized gain (loss) for the period	1.01
Unrealized gain (loss) for the period	0.46
<b>Total Increase (Decrease) from Operations<sup>(2)</sup></b>	<b>1.76</b>
DISTRIBUTIONS	
<b>Preferred Share</b>	
From net investment income	(0.42)
Non-taxable distributions	(0.01)
<b>Total Preferred Share Distributions</b>	<b>(0.43)</b>
<b>Class A Share</b>	
Non-taxable distributions	(0.41)
<b>Total Class A Share Distributions</b>	<b>(0.41)</b>
<b>Total Distributions<sup>(3)</sup></b>	<b>(0.84)</b>
<b>Net Assets, end of period<sup>(1)</sup></b>	<b>\$ 21.93</b>

(1) All per Unit figures presented in 2017, 2016, 2015 and 2014 are referenced to net assets determined in accordance with IFRS which are derived from the Fund's unaudited financial statements for the six months ended April 30, 2017 and audited financial statements for the years ended October 31, 2016 and 2015. Net assets per Unit for all other prior years were derived from the Fund's audited annual financial statements that were prepared in accordance with Canadian generally accepted accounting principles. Net assets per Unit is the difference between the aggregate value of the assets (including the valuation of securities at closing prices for the years beginning on or after November 1, 2013 and for all other prior years at bid prices) and the aggregate value of the liabilities, excluding the Redeemable Preferred Share liability, divided by the number of Units then outstanding.

	Six months ended April 30, 2017
<b>RATIOS/SUPPLEMENTAL DATA</b>	
Net Asset Value, excluding the Redeemable Preferred Share liability (\$millions)	\$ 233.46
Net Asset Value (\$millions)	\$ 73.80
Number of Units outstanding	10,644,266
Management expense ratio <sup>(1)</sup>	1.16% <sup>(4)</sup>
Portfolio turnover rate <sup>(2)</sup>	46.88% <sup>(4)</sup>
Trading expense ratio <sup>(3)</sup>	0.05% <sup>(4)</sup>
Net Asset Value per Unit <sup>(5)</sup>	\$ 21.93
Closing market price - Preferred	\$ 15.29
Closing market price - Class A	\$ 6.72

(1) The management expense ratio ("MER") is the sum of all fees and expenses for the stated period, including harmonized sales tax but excluding transaction fees and Preferred share distributions, divided by the average net asset value, excluding the Redeemable Preferred Share liability. Generally, the MER increases when the Fund becomes smaller in size due to redemptions. The MER, including Preferred share distributions, is 4.99%, 5.43%, 5.19%, 4.92%, 5.50% and 5.34% for 2017, 2016, 2015, 2014, 2013 and 2012 respectively. The MER for 2015 includes the special resolution expense. The MER for 2015 excluding the special resolution expense is 1.18%. The MER for 2013 includes rights offering costs. The MER for 2013 excluding rights offering costs is 1.19%.

(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.



# Premium Income Corporation

## Management Report of Fund Performance

### Management Fees

Strathbridge, as the Investment Manager of the Fund, is entitled to fees under the Investment Management Agreement calculated monthly as 1/12 of 0.80 percent of the net asset value of the Fund at each month end. Services received under the Investment Management Agreement include the making of all investment decisions and writing of covered call options in accordance with the investment objectives, strategy and criteria of the Fund. Strathbridge also makes all decisions as to the purchase and sale of securities in the Fund's portfolio and as to the execution of all portfolio and other transactions.

Strathbridge, as the Manager of the Fund, is entitled to fees under the Management Agreement calculated monthly as 1/12 of 0.10 percent of the net asset value of the Fund at each month end. Services received under the Management Agreement include providing or arranging for required administrative services to the Fund.

### Past Performance

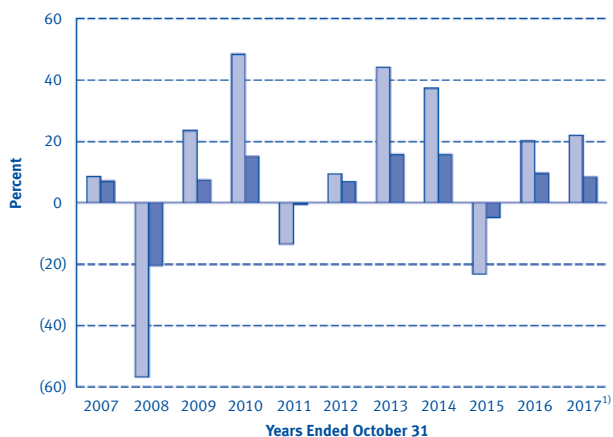
The following chart sets out the Fund's year-by-year past performance. It is important to note that the:

- (1) information shown assumes that all distributions made by the Fund during these periods were reinvested in Units of the Fund,
- (2) information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns, and
- (3) past performance of the Fund does not necessarily indicate how it will perform in the future.

### Year-By-Year Returns

The following bar chart illustrates how the Fund's total return varied from year to year for each of the past ten years and for the six months ended April 30, 2017. 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, 2017 for the six months ended.

### Total Return



(1) For the six months ended April 30, 2017.

■ Class A Return  
■ Total Fund Return



### Portfolio Manager Report

After generating one of the highest returns among global equity markets in 2016, the S&P/TSX Composite Index continued to rally in the first few months of 2017 to finish the semi-annual period ending April 30, 2017 with a total return of 6.9 percent. The S&P/TSX Diversified Banks Index outperformed the broader market during the period with a total return of 10.8 percent. Each of the Canadian banks generated positive returns during the period with the Bank of Montreal posting the strongest total return of 15.3 percent while The Bank of Nova Scotia lagged with a still respectable total return of 7.3 percent.

The Canadian banks on average generated better than expected earnings during the period, reflecting strong trading revenues, lower loan loss provisions and exceptionally strong operating leverage. Capital ratios continued to build during the period with an average Basel III common equity tier 1 ratio of 11.1 percent at the end of April 2017. The strong capital ratios allowed the banks within the portfolio to increase their dividends during the period by an average of 4.3 percent.

The net asset value of the Fund at April 30, 2017 was \$21.93 per Unit compared to \$21.00 per unit at October 31, 2016. Preferred shareholders received cash distributions of \$0.43125 per share during the period while Class A shareholders received cash distributions of \$0.40638 per share. The total return of the Fund, including reinvestment of distributions, for the six months ended April 30, 2017 was 8.4 percent while the Fund's Class A shares total return was 22.0 percent.

The Fund maintained its invested position throughout most of the period and ended April 30, 2017 with a cash position of 2.1 percent. Volatility for the Canadian banks was subdued for most of the period but the Fund did selectively write covered call options from time to time and generated a net realized gain on options attributable to the Strathbridge Selective Overwriting ("SSO") strategy of \$0.06 per Unit for the six month period. The Fund ended April 2017 with approximately 14 percent of the portfolio subject to covered calls.

# Premium Income Corporation

## Management Report of Fund Performance

### Summary of Investment Portfolio

The composition of the portfolio may change due to ongoing portfolio transactions of the Fund. A quarterly portfolio summary, which includes the percentage of net asset value for each holding, and a monthly portfolio list are available on our website at [www.strathbridge.com](http://www.strathbridge.com).

#### Asset Mix

April 30, 2017

	% of Net Asset Value*
Financial Institutions	97.6%
Cash and Short-Term Investments	2.1%
Other Assets (Liabilities)	0.3%
	100.0%

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

#### Portfolio Holdings

April 30, 2017

	% of Net Asset Value*
Royal Bank of Canada	23.5%
Bank of Montreal	19.8%
The Toronto-Dominion Bank	18.7%
Canadian Imperial Bank of Commerce	16.7%
The Bank of Nova Scotia	16.4%
National Bank of Canada	2.5%
Cash and Short-Term Investments	2.1%

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

#### Forward-Looking Statements

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

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

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

## Management's Responsibility for Financial Reporting

The accompanying condensed financial statements of Premium Income Corporation (the "Fund") and all the information in this semi-annual report are the responsibility of the management of Strathbridge Asset Management Inc. (the "Manager") and have been approved by the Fund's Board of Directors (the "Board").

The condensed financial statements have been prepared by management in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgments. Management has ensured that the other financial information presented in this semi-annual report is consistent with the condensed financial statements. The significant accounting policies which management believes are appropriate for the Fund are described in Note 3 of the annual financial statements for the year ended October 31, 2016.

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

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



John P. Mulvihill  
Director  
Strathbridge Asset Management Inc.



John D. Germain  
Director  
Strathbridge Asset Management Inc.

May 29, 2017

## Premium Income Corporation

### Notice to Shareholders

The accompanying unaudited Condensed Financial Statements for the six months ended April 30, 2017 have been prepared by management and have not been reviewed by the independent auditor of the Fund.

**Statements of Financial Position**

As at April 30, 2017 (Unaudited) and October 31, 2016 (Audited)

	Note	April 30, 2017	Oct. 31, 2016
<b>ASSETS</b>			
Financial assets at fair value through profit or loss	2	\$ 227,862,831	\$ 216,371,716
Dividends receivable		1,085,800	1,056,078
Short-term investments	2	4,194,494	5,795,830
Cash		632,526	1,076,382
<b>TOTAL ASSETS</b>		<b>233,775,651</b>	<b>224,300,006</b>
<b>LIABILITIES</b>			
Accrued liabilities		46,756	70,380
Derivative liabilities	2	92,064	380,393
Accrued management fees	5	172,840	170,517
Redemptions payable		–	98,218
Redeemable Preferred shares		159,663,990	159,663,990
Class B shares		1,000	1,000
<b>TOTAL LIABILITIES</b>		<b>159,976,650</b>	<b>160,384,498</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES</b>		<b>\$ 73,799,001</b>	<b>\$ 63,915,508</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE</b>		<b>\$ 6.9332</b>	<b>\$ 6.0047</b>

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

# Premium Income Corporation

## Condensed Financial Statements

### Statements of Comprehensive Income

Six months ended April 30 (Unaudited)

	Note	2017	2016
<b>INCOME</b>			
Dividend income		\$ 4,521,913	\$ 4,486,643
Interest income		21,948	36,585
Net realized gain/(loss) on investments at fair value through profit or loss	3	10,098,062	(3,765,038)
Net realized gain on options at fair value through profit or loss	3	687,805	2,660,168
Net change in unrealized gain/loss on investments at fair value through profit or loss	3	4,927,967	6,986,174
<b>TOTAL INCOME</b>		<b>20,257,695</b>	10,404,532
<b>EXPENSES</b>			
Management fees	5	1,066,096	966,273
Administrative and other expenses		120,919	100,179
Transaction fees	6	61,962	147,451
Custodian fees		25,362	24,831
Audit fees		18,107	17,971
Director fees	5	10,200	9,900
Independent review committee fees	5	3,659	3,409
Legal fees		4,923	1,372
Shareholder reporting costs		24,186	23,562
Harmonized sales tax		122,831	107,346
<b>TOTAL EXPENSES</b>		<b>1,458,245</b>	1,402,294
<b>OPERATING PROFIT</b>		<b>18,799,450</b>	9,002,238
Preferred share distributions		(4,590,340)	(4,592,356)
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES</b>	7	<b>\$ 14,209,110</b>	\$ 4,409,882
<b>INCREASE IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES PER CLASS A SHARE</b>	7	<b>\$ 1.3349</b>	\$ 0.4141

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

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

Six months ended April 30 (Unaudited)

	2017	2016
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, BEGINNING OF YEAR	<b>\$ 63,915,508</b>	\$ 61,670,853
Increase in Net Assets Attributable to Holders of Class A Shares	<b>14,209,110</b>	4,409,882
<b>Class A Share Distributions</b>		
Non-taxable distributions	<b>(4,325,617)</b>	(4,327,517)
<b>Changes in Net Assets Attributable to Holders of Class A Shares during the Period</b>	<b>9,883,493</b>	82,365
NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES, END OF PERIOD	<b>\$ 73,799,001</b>	\$ 61,753,218

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

# Premium Income Corporation

## Condensed Financial Statements

### Statements of Cash Flows

Six months ended April 30 (Unaudited)

	2017	2016
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	\$ 6,872,212	\$ 14,349,990
<b>Cash Flows Provided by (Used In) Operating Activities</b>		
Operating Profit	18,799,450	9,002,238
<b>Adjustments to Reconcile Net Cash Provided by (Used In) Operating Activities</b>		
Net realized (gain)/loss on investments at fair value through profit or loss	(10,098,062)	3,765,038
Net realized gain on options at fair value through profit or loss	(687,805)	(2,660,168)
Net change in unrealized gain/loss on investments at fair value through profit or loss	(4,927,967)	(6,986,174)
Increase in dividends receivable and due from brokers - investments	(29,722)	(3,678,472)
Increase/(decrease) in accrued liabilities, accrued management fees and due to brokers - investments	(21,301)	1,404,988
Purchase of investment securities	(109,076,686)	(163,081,195)
Proceeds from disposition of investment securities	113,011,076	163,016,192
	<b>(11,830,467)</b>	<b>(8,219,791)</b>
<b>Cash Flows Used In Financing Activities</b>		
Preferred share distributions	(4,590,340)	(4,592,356)
Class A share distributions	(4,325,617)	(4,327,517)
Preferred share redemptions	(70,140)	(4,890)
Class A share redemptions	(28,078)	(1,888)
	<b>(9,014,175)</b>	<b>(8,926,651)</b>
<b>Net Decrease in Cash and Cash Equivalents during the Period</b>	<b>(2,045,192)</b>	<b>(8,144,204)</b>
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,827,020	\$ 6,205,786
Cash and Cash Equivalents are comprised of:		
Cash	632,526	1,712,500
Short-Term Investments	4,194,494	4,493,286
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,827,020	\$ 6,205,786
Dividends received	\$ 4,492,191	\$ 4,404,640
Interest received	\$ 22,072	\$ 38,766

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



**Schedule of Investments**

As at April 30, 2017 (Unaudited)

	Par Value/ Number of Shares/ (Contracts)	Average Cost/ (Proceeds)	Fair Value	% of Net Assets Attributable to Holders of Class A Shares and Redeemable Preferred Shares
<b>SHORT-TERM INVESTMENTS</b>				
<b>Bankers' Acceptances</b>				
The Bank of Nova Scotia, 0.84% - June 27, 2017	4,200,000	\$ 4,191,306	\$ 4,194,494	1.8 %
<b>TOTAL SHORT-TERM INVESTMENTS</b>		<b>\$ 4,191,306</b>	<b>\$ 4,194,494</b>	<b>1.8 %</b>
<b>INVESTMENTS</b>				
<b>Canadian Common Shares</b>				
<b>Financials</b>				
Bank of Montreal	478,500	\$ 42,946,957	\$ 46,251,810	
Canadian Imperial Bank of Commerce	354,300	36,739,662	39,061,575	
National Bank of Canada	109,000	5,929,125	5,782,450	
Royal Bank of Canada	588,000	48,358,709	54,960,360	
The Bank of Nova Scotia	504,200	32,934,976	38,258,696	
The Toronto-Dominion Bank	678,000	40,132,634	43,547,940	
<b>Total Financials</b>		<b>207,042,063</b>	<b>227,862,831</b>	<b>97.6 %</b>
<b>Total Canadian Common Shares</b>		<b>\$ 207,042,063</b>	<b>\$ 227,862,831</b>	<b>97.6 %</b>
<b>Options</b>				
<b>Written Covered Call Options</b> (100 shares per contract)				
Bank of Montreal - May 2017 @ \$99	(1,480)	\$ (120,457)	\$ (41,136)	
Royal Bank of Canada - May 2017 @ \$96	(1,960)	(139,867)	(50,928)	
<b>Total Written Covered Call Options</b>		<b>\$ (260,324)</b>	<b>\$ (92,064)</b>	<b>0.0 %</b>
Adjustment for transaction fees		(63,438)		
<b>TOTAL INVESTMENTS</b>		<b>\$ 206,718,301</b>	<b>\$ 227,770,767</b>	<b>97.6 %</b>
<b>OTHER NET ASSETS</b>			<b>1,497,730</b>	<b>0.6 %</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS OF CLASS A SHARES AND REDEEMABLE PREFERRED SHARES</b>			<b>\$ 233,462,991</b>	<b>100.0 %</b>

# Premium Income Corporation

## Notes to Condensed Financial Statements

April 30, 2017 (Unaudited)

### 1. Basis of Presentation

The condensed semi-annual financial statements for the Premium Income Corporation (the “Fund”) have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standard (“IAS”) 34 Interim Financial Reporting. However, not all disclosures required by IFRS for annual financial statements have been presented and, accordingly, these condensed semi-annual financial statements should be read in conjunction with the most recently prepared annual financial statements for the year ended October 31, 2016.

These condensed semi-annual financial statements follow the same accounting policies and method of application as the most recent audited financial statements for the year ended October 31, 2016.

These condensed financial statements were approved by the Board of Directors on May 29, 2017.

### 2. Risks Associated with Financial Instruments

The various types of risks that are associated with its investment strategies, financial instruments and markets in which the Fund invests remain unchanged from the prior year and are described in Note 7 of the audited financial statements for the year ended October 31, 2016.

#### Credit Risk

The analysis below summarizes the credit quality of the Fund’s short-term investments as at April 30, 2017 and October 31, 2016.

Credit Rating	Percentage of Short-Term Investments	
	April 30, 2017	Oct. 31, 2016
A-1	100.0%	100.0%

During the periods ended April 30, 2017 and October 31, 2016, the counterparties to the Fund’s derivative financial instruments had a credit rating of A-1 or higher by Standard & Poor’s Ratings Services.

#### Liquidity Risk

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

	As at April 30, 2017 Financial Liabilities		
	On Demand	< 3 months	Total
Accrued liabilities	\$ –	\$ 46,756	\$ 46,756
Derivative liabilities	–	92,064	92,064
Accrued management fees	–	172,840	172,840
Redeemable Preferred shares	159,663,990	–	159,663,990
Class B shares	1,000	–	1,000
	\$ 159,664,990	\$ 311,660	\$ 159,976,650

Notes to Condensed Financial Statements

April 30, 2017 (Unaudited)

	As at October 31, 2016		
	Financial Liabilities		
	On Demand	< 3 months	Total
Accrued liabilities	\$ -	\$ 70,380	\$ 70,380
Redemptions payable	-	98,218	98,218
Accrued management fees	-	170,517	170,517
Derivative liabilities	-	380,393	380,393
Redeemable Preferred shares	159,663,990	-	159,663,990
Class B shares	1,000	-	1,000
	\$ 159,664,990	\$ 719,508	\$ 160,384,498

Market Risk

(a) Price Risk

Approximately 98 percent (October 31, 2016 - 97 percent) of the Fund's net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, held at April 30, 2017 were publicly traded equities. If equity prices on the exchange increased or decreased by 5 percent as at April 30, 2017, the net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, would have increased or decreased by \$11.4 million (October 31, 2016 - \$10.8 million) respectively or 4.9 percent (October 31, 2016 - 4.8 percent) of the net assets attributable to holders of Class A shares, excluding the Redeemable Preferred Share liability, with all other factors remaining constant. In practice, actual trading results may differ and the difference could be material.

Concentration Risk

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

	April 30, 2017	Oct. 31, 2016
Financials	100.0%	100.0%

Fair Value Measurement

The following table illustrates the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at April 30, 2017 and October 31, 2016.

	As at April 30, 2017			
	Level 1	Level 2	Level 3	Total
Short-Term Investments	\$ -	\$ 4,194,494	\$ -	\$ 4,194,494
Canadian Common Shares	227,862,831	-	-	227,862,831
Options	-	(92,064)	-	(92,064)
	\$ 227,862,831	\$ 4,102,430	\$ -	\$ 231,965,261

	As at October 31, 2016			
	Level 1	Level 2	Level 3	Total
Short-Term Investments	\$ -	\$ 5,795,830	\$ -	\$ 5,795,830
Canadian Common Shares	216,194,816	-	-	216,194,816
Exchange-Traded Funds	176,900	-	-	176,900
Options	-	(380,393)	-	(380,393)
	\$ 216,371,716	\$ 5,415,437	\$ -	\$ 221,787,153

# Premium Income Corporation

## Notes to Condensed Financial Statements

April 30, 2017 (Unaudited)

There were no transfers between Level 1 and Level 2 and the Fund did not hold any financial instruments within Level 3 of the fair value hierarchy during the six months ended April 30, 2017 and during the year ended October 31, 2016.

### 3. Financial Instruments by Category

The following tables present the carrying amounts of the Fund's financial instruments by category as at April 30, 2017 and October 31, 2016.

	As at April 30, 2017				Total
	Financial Instruments at FVTPL		Financial Instruments at Amortized Cost		
	Designated at Inception	Held for Trading			
<b>Assets</b>					
Non-derivative financial assets	\$ 227,862,831	\$ -	\$ -	\$ -	\$ 227,862,831
Short-term investments	-	-	-	4,194,494	4,194,494
Dividends receivable	-	-	-	1,085,800	1,085,800
Cash	-	-	-	632,526	632,526
	\$ 227,862,831	\$ -	\$ -	\$ 5,912,820	\$ 233,775,651
<b>Liabilities</b>					
Accrued liabilities	\$ -	\$ -	\$ -	\$ 46,756	\$ 46,756
Derivative liabilities	-	92,064	-	-	92,064
Accrued management fees	-	-	-	172,840	172,840
Redeemable Preferred shares	-	-	-	159,663,990	159,663,990
Class B shares	-	-	-	1,000	1,000
	\$ -	\$ 92,064	\$ -	\$ 159,884,586	\$ 159,976,650

	As at October 31, 2016				Total
	Financial Instruments at FVTPL		Financial Instruments at Amortized Cost		
	Designated at Inception	Held for Trading			
<b>Assets</b>					
Non-derivative financial assets	\$ 216,371,716	\$ -	\$ -	\$ -	\$ 216,371,716
Short-term investments	-	-	-	5,795,830	5,795,830
Dividends receivable	-	-	-	1,056,078	1,056,078
Cash	-	-	-	1,076,382	1,076,382
	\$ 216,371,716	\$ -	\$ -	\$ 7,928,290	\$ 224,300,006
<b>Liabilities</b>					
Accrued liabilities	\$ -	\$ -	\$ -	\$ 70,380	\$ 70,380
Redemptions payable	-	-	-	98,128	98,128
Accrued management fees	-	-	-	170,517	170,517
Derivative liabilities	-	380,393	-	-	380,393
Redeemable Preferred shares	-	-	-	159,663,990	159,663,990
Class B shares	-	-	-	1,000	1,000
	\$ -	\$ 380,393	\$ -	\$ 160,004,015	\$ 160,384,408

Notes to Condensed Financial Statements

April 30, 2017 (Unaudited)

The following table presents the net gain on financial instruments at FVTPL by category for the six months ended April 30, 2017 and 2016.

	April 30, 2017	April 30, 2016
<b>Net Realized Gain/(Loss) on Financial Instruments at FVTPL</b>		
Designated at Inception	\$ 10,098,062	\$ (3,765,038)
Held for Trading	687,805	2,660,168
	10,785,867	(1,104,870)
<b>Net Change in Unrealized Gain/Loss on Financial Instruments at FVTPL</b>		
Designated at Inception	4,451,734	7,069,378
Held for Trading	476,233	(83,204)
	4,927,967	6,986,174
<b>Net Gain on Financial Instruments at FVTPL</b>	<b>\$ 15,713,834</b>	<b>\$ 5,881,304</b>

#### 4. Shares

For the six months ended April 30, 2017, cash distributions paid to Preferred shareholders were \$4,590,340 (April 30, 2016 - \$4,592,356) representing a payment of \$0.43 (April 30, 2016 - \$0.43) per Preferred share and cash distributions paid to Class A shareholders were \$4,325,617 (April 30, 2016 - \$4,327,517) representing a payment of \$0.41 (April 30, 2016 - \$0.41) per Class A share.

During the six months ended April 30, 2017 and 2016, nil Preferred shares and Class A shares were redeemed.

During the six months ended April 30, 2017 and the year ended October 31, 2016, share transactions are as follows:

	April 30, 2017	Oct. 31, 2016
<b>Redeemable Preferred Shares</b>		
Shares outstanding, beginning of period	10,644,266	10,648,942
Shares redeemed	-	(4,676)
Shares outstanding, end of period	10,644,266	10,644,266
<b>Class A Shares</b>		
Shares outstanding, beginning of period	10,644,266	10,648,942
Shares redeemed	-	(4,676)
Shares outstanding, end of period	10,644,266	10,644,266
<b>Class B Shares</b>		
Shares outstanding, beginning and end of period	1,000	1,000

# Premium Income Corporation

## Notes to Condensed Financial Statements

April 30, 2017 (Unaudited)

### 5. Related Party Transactions

#### (a) Management Fees

Total management fees for the six months ended April 30, 2017 were \$1,066,096 (April 30, 2016 - \$966,273).

#### (b) Director Fees

Total director fees paid to the external members of the Board of Directors for the six months ended April 30, 2017 were \$10,200 (April 30, 2016 - \$9,900).

#### (c) Independent Review Committee Fees

Total remuneration paid to the external members of the Independent Review Committee for the six months ended April 30, 2017 were \$3,659 (April 30, 2016 - \$3,409).

### 6. Brokerage Commissions and Soft Dollars

The ascertainable soft dollar value received as a percentage of total transaction fees paid during the six months ended April 30, 2017 and 2016 is disclosed below:

	April 30, 2017	April 30, 2016
Soft Dollars	\$ 35,584	\$ 79,896
Percentage of Total Transaction Fees	57.4%	54.2%

### 7. Increase in Net Assets Attributable to Holders of Class A Shares per Class A Share

The increase in net assets attributable to holders of Class A shares per Class A share for the six months ended April 30, 2017 and 2016 is calculated as follows:

	April 30, 2017	April 30, 2016
Increase in Net Assets Attributable to Holders of Class A Shares	\$ 14,209,110	\$ 4,409,882
Weighted Average Number of Class A Shares Outstanding during the Period	10,644,266	10,648,942
Increase in Net Assets Attributable to Holders of Class A Shares per Class A Share	\$ 1.3349	\$ 0.4141

### 8. Future Accounting Policy Changes

In July 2014, the International Accounting Standards Board (“IASB”) finalized the reform of financial instruments accounting and issued IFRS 9: Financial Instruments (“IFRS 9”) (as revised in 2014), which contains the requirements for: a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement in its entirety upon its effective date. The new standard, which becomes effective for annual periods beginning on or after January 1, 2018, is not expected to have a significant impact on the Fund.

In January 2016, a Disclosure Initiative was issued by the IASB, which amends IAS 7 Statements of Cash Flows. The amendments are designed to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flow changes. These amendments are effective for the annual periods beginning on or after January 1, 2017. Based on the Manager’s evaluation, the amendments are not expected to have a significant impact on the October 31, 2018 financial statements.

Investment Funds Managed by  
Strathbridge Asset Management Inc.

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UNIT TRUSTS

Canadian Utilities & Telecom Income Fund (UTE.UN)  
Core Canadian Dividend Trust (CDD.UN)  
Low Volatility U.S. Equity Income Fund (LVU.UN)  
NDX Growth & Income Fund (NGI.UN)  
U.S. Financials Income Fund (USF.UN)  
Top 10 Canadian Financial Trust (TCT.UN)

SPLIT SHARES

Premium Income Corporation (PIC.PR.A/PIC.A)  
S Split Corp. (SBN.PR.A/SBN)  
Top 10 Split Trust (TXT.PR.A/TXT.UN)  
World Financial Split Corp. (WFS.PR.A/WFS)

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