2017 ANNUAL REPORT

BLUE RIBBON INCOME FUND

RBN.UN

Actively managed portfolio focused on higher yielding Canadian securities.

Management Report of Fund Performance

March 12, 2018

This annual management report of fund performance for Blue Ribbon Income Fund (the "Fund") contains financial highlights but does not contain the audited annual financial statements of the Fund. The audited annual financial statements follow this report. You may obtain a copy of the audited annual or unaudited interim financial statements, at no cost, by calling 1-866-642-6001 or by sending a request to Investor Relations, Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, Box 793, Toronto, Ontario, M5J 2T3, or by visiting our website at www.blueribbonincomefund.com or SEDAR at www.sedar.com. Unitholders may also contact Brompton Funds by using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, Independent Review Committee's report, or quarterly portfolio disclosure.

All figures in this management report of fund performance, unless otherwise noted, are based on the Fund's Net Asset Value, which is calculated in accordance with the terms of the Fund's declaration of trust.

The Fund

Blue Ribbon Income Fund is a closed-end investment trust managed by Blue Ribbon Fund Management Ltd. (the "Administrator"). Brompton Funds Limited ("Brompton") is the sub-administrator of the Fund and provides administrative services to the Fund on behalf of the Administrator. The Fund's portfolio is actively managed by Bloom Investment Counsel, Inc. ("Bloom" or the "Investment Manager"). The units of the Fund trade on the Toronto Stock Exchange ("TSX") under the symbol RBN.UN and are RRSP, DPSP, RRIF, RESP and TFSA eligible.

Investment Objectives and Strategies

The Fund's investment objectives are to provide unitholders with high monthly distributions and low management fees, together with the opportunity for capital appreciation.

Recent Developments

There were no recent developments to report.

Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's 2017 annual information form, which is available on the Fund's website at www.blueribbonincomefund.com or on SEDAR at www.sedar.com. There were no changes during the period ended December 31, 2017 that materially affected the risks associated with an investment in the units of the Fund as they were discussed.

Results of Operations

Distributions and Changes in Net Assets from Operations

Cash distributions amounted to $0.60 per unit for the year ended December 31, 2017, compared to $0.66 per unit in 2016, reflecting a $0.02 per unit decrease in the Fund's monthly distribution effective in April 2016. Since inception in September 1997, the Fund has paid total cash distributions of $18.18 per unit.

The Fund has a distribution reinvestment plan which allows participating unitholders to automatically reinvest monthly distributions, commission free, in additional units of the Fund. Pursuant to this plan, 58,348 units were acquired in the market at an average price of $9.71 per unit and 5,008 units were issued from treasury at an average price of $9.73 per unit during the year ended December 31, 2017.

For 2017, total revenue from the Fund's portfolio was $0.41 per unit, compared to $0.44 per unit in 2016. The decrease reflected a combination of dividend rate changes made by companies in the portfolio and changes in portfolio constituents. Expenses were $0.17 per unit in 2017, compared to $0.16 per unit in 2016. The Fund had no gain/loss from its portfolio in 2017, compared to $2.09 per unit in 2016.

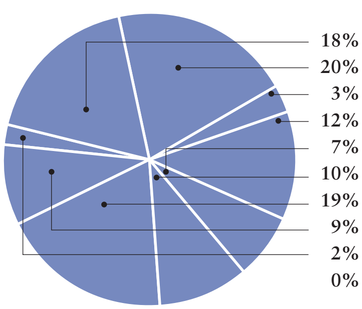
Net Asset Value

The Net Asset Value per unit of the Fund was $9.84 at December 31, 2017, compared to $10.19 at December 31, 2016, a 3.4% decline. The aggregate Net Asset Value of the Fund decreased to $165.0 million at December 31, 2017 from $194.1 million at December 31, 2016. This $29.1 million change reflected $18.4 million of redemptions, the payment of $11.1 million in distributions and unit repurchases of $4.0 million under the Fund's normal course issuer bid program, partially offset by $4.4 million of net income from operations.

Investment Portfolio

At December 31, 2017, the Fund owned 32 equities and REITs compared to 31 holdings at December 31, 2016. During 2017, four new names were purchased: Ag Growth International Inc., Intertape Polymer Group Inc., Shaw Communications Inc. Class B and Kinder Morgan Canada Limited. Two names were also sold: Peyto Exploration & Development Corp. and Veresen Inc. and, in addition, DH Corporation was acquired by Vista Equity Partners for cash. The Fund had no net realized or unrealized losses in 2017 as gains in the consumer staples and discretionary, pipes, power, utilities and infrastructure, real estate and financial sectors were offset principally by losses in the oil and gas sector. The portfolio's investment weighting is shown in the accompanying pie chart, and a detailed listing of the Fund's security holdings is provided in the financial statements.

Portfolio Sectors



Net Gains (Losses) by Sector (millions)		Realized		Unrealized		Total
Consumer staples and discretionary	$	3.0	$	1.5	$	4.5
Financial		0.9		1.5		2.4
Healthcare		0.2		(0.4)		(0.2)
Industrial		0.8		(1.6)		(0.8)
Materials		1.2		(1.1)		0.1
Oil and gas		(2.0)		(10.7)		(12.7)
Pipes, power, utilities and infrastructure		8.1		(4.8)		3.3
Real estate		—		2.6		2.6
Telecommunications services		—		0.1		0.1
Information technology		(0.2)		0.9		0.7
Total	$	**12.0**	$	**(12.0)**	$	—

Liquidity and Capital Resources

The Fund has a 364-day revolving credit facility which provides for maximum borrowings of $15 million, with borrowings in Canadian currency at either the prime rate of interest or the bankers' acceptance rate, plus a fixed percentage. The facility can be used to invest in additional portfolio investments and for working capital purposes. During 2017, there were no borrowings under the facility.

To provide liquidity for unitholders, units of the Fund are listed on the TSX under the symbol RBN.UN. The Fund's normal course issuer bid program allows it to purchase its units for cancellation if they trade below Net Asset Value per unit. As a result, purchases under the issuer bid program are accretive to the Net Asset Value per unit at the time of purchase. During 2017, 420,100 units were purchased for cancellation at an average price of $9.70 per unit. Investors also have the right to redeem their units in accordance with the Fund's provisions. During 2017, 1,858,962 units were redeemed at an average price of $9.89 per unit.

Related Party Transactions

Related party transactions consist of services provided by the Administrator and the Investment Manager pursuant to administration and investment management agreements. See the Administration and Investment Management Fees section below.

Administration and Investment Management Fees

Pursuant to an administration agreement, the Administrator provides management and administrative services to the Fund, for which it is paid an administration fee equal to 0.50% per annum of the Net Asset Value of the Fund, plus applicable taxes. The Administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund. For the year ended December 31, 2017, these expenses amounted to $0.3 million (2016 – $0.3 million). The administration fee is used by the Administrator to cover certain costs to administer the Fund and for profit. The Fund also pays to the Administrator a service fee equal to 0.40% per annum of the Net Asset Value of the Fund, which is in turn paid by the Administrator to the investment dealers based on the proportionate number of units held by clients of each dealer at the end of each calendar quarter. For the year ended December 31, 2017, administration fees amounted to $1.0 million (2016 – $1.1 million) and service fees were $0.7 million (2016 – $0.8 million).

Bloom Investment Counsel, Inc., the Investment Manager of the Fund, receives an investment management fee equal to 0.50% per annum of the Net Asset Value of the Fund, plus applicable taxes. For the year ended December 31, 2017, investment management fees amounted to $1.0 million (2016 – $1.1 million).

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the fiscal periods indicated. This information is derived from the Fund's audited annual financial statements. *The information in the following tables is presented in accordance with National Instrument ("NI") 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets per unit.* The increase (decrease) in Net Assets from operations is based on average units outstanding during the period, and all other numbers are based on actual units outstanding at the relevant point in time.

Net Assets per Unit[(1)]

For the years ended December 31	**2017**	2016	2015	2014	2013
Net Assets per unit, beginning of year[(2)]	$ **10.19**	$ 8.42	$ 10.61	$ 11.68	$ 10.96
Increase (decrease) from operations:[(3)]					
Total revenue	**0.41**	0.44	0.49	0.61	0.62
Total expenses	**(0.17)**	(0.16)	(0.19)	(0.21)	(0.20)
Realized gains (losses)	**0.64**	0.85	—	0.37	0.03
Unrealized gains (losses)	**(0.64)**	1.24	(1.64)	(0.96)	1.15
Total increase (decrease) in Net Assets from operations	$ **0.24**	$ 2.37	$ (1.34)	$ (0.19)	$ 1.60
Distributions to unitholders:[(2)]					
From net investment income	$ **0.17**	$ 0.18	$ 0.24	$ 0.24	$ 0.27
From capital gains	**—**	—	—	0.28	0.01
Return of capital	**0.43**	0.48	0.60	0.32	0.56
Total distributions to unitholders	$ **0.60**	$ 0.66	$ 0.84	$ 0.84	$ 0.84
Net Assets per unit, end of year[(2)]	$ **9.84**	$ 10.19	$ 8.42	$ 10.61	$ 11.68

(1) The financial information was prepared in accordance with IFRS.

(2) Net Assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time.

(3) The increase (decrease) in Net Assets from operations per unit is based on the weighted average number of units outstanding over the fiscal period.

Ratios and Supplemental Data (Based on Net Asset Value)

As at December 31	2017	2016	2015	2014	2013
Net Asset Value (000s)	$ 164,953	$ 194,079	$ 191,212	$ 276,561	$ 305,194
Number of units outstanding (000s)	16,771	19,045	22,702	26,071	26,125
Management expense ratio ("MER")[1]	1.73%	1.70%	1.79%	1.90%	2.21%
Trading expense ratio[2]	0.05%	0.07%	0.11%	0.04%	0.03%
Portfolio turnover rate[3]	14.55%	15.94%	33.74%	31.74%	3.11%
Net Asset Value per unit	$ 9.84	$ 10.19	$ 8.42	$ 10.61	$ 11.68
Closing market price – units	$ 9.66	$ 9.82	$ 7.96	$ 10.35	$ 11.43

(1) MER is based on the requirements of NI 81-106 and includes the total expenses (excluding commissions and other portfolio transaction costs) of the Fund for the stated period, including interest expense and issuance costs, and is expressed as an annualized percentage of the average Net Asset Value of the period. Please see the Expense Ratio section following this table for further discussion of the calculation.

(2) The trading expense ratio represents total commissions expressed as an annualized percentage of daily average Net Asset Value of the Fund during the period.

(3) The Fund's portfolio turnover rate indicates how actively the Fund's Investment Manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of such investments during the period.

Expense Ratio

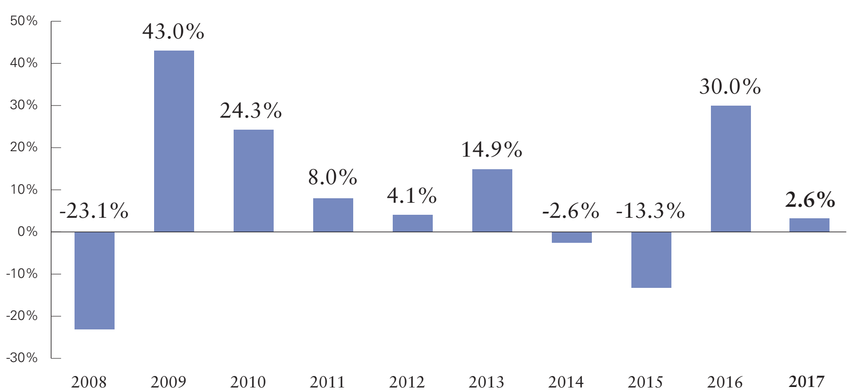
The Fund's MER was 1.73% for the year ended December 31, 2017, up from 1.70% in 2016. The increase reflected a lower average Net Asset Value in 2017, which led to higher fixed costs as a percentage of Net Asset Value.

Past Performance

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per unit and assumes that cash distributions made by the Fund and deemed distributions based on the intrinsic value of the rights/warrants at approximately the exercise date of the rights/warrants in the periods shown were reinvested (at Net Asset Value per unit) in additional units of the Fund.

The bar chart shows the Fund's return for the periods ended December 31, 2008 through December 31, 2017. The chart shows, in percentage terms, how an investment held on the first day of each fiscal period would have changed by the last day of the fiscal period.

Year-by-Year Returns



The following table shows the Fund's compound return for each period indicated compared with the S&P/TSX Composite Index ("Composite Index"). The Composite Index tracks the performance, on a market-weight basis and a total return basis, of a broad index of large-capitalization issuers listed on the TSX. Since the Fund is actively managed, the sector weightings differ from those of the Composite Index. In addition, the Fund's portfolio contains predominantly higher-dividend-paying securities, whereas the Composite Index does not necessarily focus on this type of investment. For these reasons, it is not expected that the Fund's performance will mirror that of the Composite Index. Further, the Composite Index is calculated without the deduction of management fees, fund expenses and trading commissions, whereas the performance of the Fund is calculated after deducting such fees and expenses.

Annual Compound Returns

	1-Year	3-Year	5-Year	10-Year	Since Inception[1]
Blue Ribbon Income Fund	**2.6%**	4.9%	5.3%	6.7%	10.4%
S&P/TSX Composite Index	**9.1%**	6.6%	8.6%	4.6%	6.8%

[1] Period from September 16, 1997 (commencement of operations) to December 31, 2017 (annualized return).

Since its inception in September 1997, the Fund has outperformed the Composite Index on an annualized basis by 3.6%. This outperformance is due to a combination of factors including the value-approach and stock selection by the Investment Manager, the Fund's focus on dividend-paying securities, which have generally performed better than non-dividend-paying securities, and the Fund's overweight positions (relative to the Composite Index) in the pipes, power, utilities and infrastructure sector. In 2017, as a result of strong performance in the financial sector and underperformance in the oil and gas sector, the Fund underperformed the Composite Index in 2017. Compared to the Composite Index, the Fund had a higher weighting in the oil and gas sector and a lower weighting in the financial sector. Please see the Investment Manager's Report for more details.

Summary of Investment Portfolio

As at December 31, 2017

Total Net Asset Value		**$ 164,952,510**
Portfolio Composition	**% of Portfolio**	**% of Net Asset Value**
Financial	19.2%	19.3%
Pipes, power, utilities and infrastructure	18.9%	19.0%
Consumer staples and discretionary	17.8%	17.9%
Industrial	11.3%	11.3%
Oil and gas	10.1%	10.2%
Real estate	8.9%	8.9%
Materials	7.2%	7.2%
Healthcare	2.5%	2.5%
Cash and short-term investments	2.4%	2.4%
Telecommunication services	1.7%	1.7%
Total investment portfolio	100.0%	100.4%
Other net liabilities		(0.4%)
Total Net Asset Value		**100.0%**

Top 25 Holdings	**% of Portfolio**	**% of Net Asset Value**
Altus Group Limited	5.1%	5.1%
Toronto-Dominion Bank (The)	5.1%	5.1%
Bank of Nova Scotia (The)	4.9%	5.0%
Sun Life Financial Inc.	4.7%	4.7%
Manulife Financial Corporation	4.5%	4.5%
Boralex Inc.	4.3%	4.3%
Vermilion Energy Inc.	4.1%	4.2%
Premium Brands Holdings Corp.	4.1%	4.1%
Enercare Inc.	4.1%	4.1%
Superior Plus Corp.	3.9%	3.9%
Corus Entertainment Inc. Class B	3.9%	3.9%
Allied Properties Real Estate Investment Trust	3.7%	3.8%
Keyera Corp.	3.6%	3.7%
Transcontinental Inc. Class A	3.5%	3.6%
Northland Power Inc.	3.2%	3.2%
Labrador Iron Ore Royalty Corp.	2.8%	2.8%
Chemtrade Logistics Income Fund	2.8%	2.8%
Gibson Energy Inc.	2.6%	2.6%
Ag Growth International Inc.	2.5%	2.6%
Extendicare Inc.	2.5%	2.5%
Intertape Polymer Group Inc.	2.5%	2.5%
Cash and short-term investments	2.4%	2.4%
TFI International Inc.	2.4%	2.4%
AltaGas Ltd.	2.2%	2.2%
Loblaw Companies Ltd.	2.2%	2.2%
Total	**87.6%**	**88.2%**

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available on the Fund's website at www.bromptongroup.com within 60 days of each quarter end.

2017 Tax Information

The following information is applicable to holders who, for the purpose of the Income Tax Act (Canada), are resident in Canada and hold units as capital property outside of an RRSP, DPSP, RRIF, RESP or TFSA. Unitholders should receive a T3 slip from their investment dealer providing this information. T3 supplementary slips for holdings of the Fund will indicate Other Income (Investment Income and Non-Investment Income) in Box 26, Foreign Non-Business Income in Box 25, Capital Gains in Box 21 and Eligible Dividend Income in Box 49. Dividend income is subject to the standard gross-up and federal dividend tax credit rules. The return of capital component is a non-taxable amount that serves to reduce the adjusted cost base of Fund units and is reported on the T3 supplementary slips in Box 42.

The following table outlines the breakdown in the Fund's distributions declared in 2017 on a per unit basis.

Record Date	Payment Date	Eligible Dividends	Return of Capital	Total Distributions
January 31, 2017	February 14, 2017	$ 0.01458	$ 0.03542	$ 0.05
February 28, 2017	March 14, 2017	0.01458	0.03542	0.05
March 31, 2017	April 17, 2017	0.01458	0.03542	0.05
April 28, 2017	May 12, 2017	0.01458	0.03542	0.05
May 31, 2017	June 14, 2017	0.01458	0.03542	0.05
June 30, 2017	July 17, 2017	0.01458	0.03542	0.05
July 31, 2017	August 15, 2017	0.01458	0.03542	0.05
August 31, 2017	September 15, 2017	0.01458	0.03542	0.05
September 29, 2017	October 16, 2017	0.01458	0.03542	0.05
October 31, 2017	November 14, 2017	0.01458	0.03542	0.05
November 30, 2017	December 14, 2017	0.01458	0.03542	0.05
December 29, 2017	January 15, 2018	0.01458	0.03542	0.05
		$ 0.17496	**$ 0.42504**	**$ 0.60**

This information is of a general nature and does not constitute legal or tax advice to any particular investor. Accordingly, investors are advised to consult their own tax advisors with respect to their individual circumstances.

Investment Manager

Bloom Investment Counsel, Inc.

Bloom Investment Counsel, Inc. ("Bloom") was established in 1985 and specializes in the management of segregated investment portfolios for wealthy individuals, corporations, institutions, charitable foundations and trusts. In addition to its conventional investment management business, Bloom currently manages specialty high-yield equity portfolios comprised of dividend-paying common equity securities, income trusts, and real estate investment trusts. Bloom currently manages four TSX-listed, closed-end portfolios.

BLOOM
INVESTMENT COUNSEL, INC.

Investment Manager's Report

January 4, 2018

The Canadian Economy

While 2017 could not necessarily be classified as a homerun, Canadian economic growth was quite strong and surprised to the upside. Despite a slowing of growth in the second half of 2017, real GDP is still expected to come in at around 3% for the full year, which would be the best annual growth rate in over six years. With that said, the most recent data point showed flat real GDP growth in October, bringing the three-month annualized growth rate to 0.6%, the weakest since mid-2016. However, the strong and resilient performance of the services sector, which hit an all-time high in October, has helped offset the increasingly volatile goods sector.

In normal times, it would be the Canadian economy's turn to shine at this later stage in the business cycle—benefitting from rising commodity prices and strong global growth. However, those positives will likely be offset this coming year by uncertainty surrounding NAFTA negotiations (with the very real possibility of a bad outcome) and further restraining measures on mortgages. Furthermore, with lower housing starts anticipated and exports still struggling, Canadian GDP growth is expected to decelerate to just over 2% in 2018.

We believe that even with this more restrained rate of growth the labour market will tighten further this coming year, producing the lowest unemployment rate seen in Canada since 1974. This should be enough to convince the Bank of Canada (BoC) to hike rates further in 2018 despite Governor Poloz's concerns surrounding NAFTA, consumer indebtedness and associated sensitivity to higher rates in addition to youth unemployment, which is actually near all-time lows.

One notable data point that has continued to surprise to the upside has been employment growth, reaching levels not seen in 15 years. Over the past twelve months, there have been an average of 33,000 jobs created per month, driven by the more service-focused industries that helped propel the provinces of Ontario, Quebec and British Columbia to lead in this job growth. As highlighted in the most recent November employment report, the Canadian labour market generated a large positive surprise of 80,000 jobs during the month. Combined with a stabilization of people willing and able to work (the participation rate), the unemployment rate declined to 5.9%, which is close to the lowest level we have seen in 40 years. However, a negative impact in terms of a slowdown in employment growth is the minimum wage increases set for Ontario and Alberta this year, making them the two provinces with the highest minimum wages.

Labour market slack appears to be all gone as growth in wages, which had remained sluggish for some time, jumped to 2.8% in November from 2.4% in October. To that end, overall capacity utilization rates have climbed to levels not seen in ten years, and inflationary pressures have started to slowly work their way through the economy, suggesting that the broader economy is reaching its potential. Canada's headline inflation rate of 1.7% in November remained somewhat subdued but increased from 1.4% in October.

As expected, benchmark Canadian home prices posted yet another double-digit gain in 2017, while housing starts jumped 11% to 220,000 units, marking the highest level in ten years. This strength was in spite of federal mortgage-tightening measures late last year, rising interest rates, and foreign buyers' taxes in BC (July 2016) and Ontario (April 2017). The strongest population growth in 25 years and the surprisingly hot economy drove this housing activity, with foreign buying also playing a not-too-subtle role. Policies implemented by both the Federal and Provincial governments have, at least temporarily, helped cool the price of homes, however the impact from the January 1, 2018 start of higher mortgage qualification rates (previously alluded to) is yet to be seen.

Furthermore, higher short-term interest rates (i.e., the Canadian 5-year) have put upward pressure on mortgage (and other lending) rates, which should also help limit the pace of further housing price increases. Combined with the potential for more housing price-limiting policy action, we remain somewhat concerned with the debt levels (both personal and mortgage debt) of the Canadian consumer. Consequently, we believe the BoC will increase rates fairly slowly over the next year, allowing consumers to naturally adjust their spending, and focus on debt reduction as their top financial priority for 2018.

Related to the direction of interest rates, the Canadian dollar decreased by 0.8% against the US dollar during the last quarter, but on a longer-term basis, the trailing 12-month performance of the Loonie versus the US dollar was +6.3%. The Canadian dollar's strength over the past year can be explained by improving short-term economic performance leading to the BoC's two summer rate hikes. However, we would be surprised to see much further strength from here with growth expectations already elevated, and rate hikes more likely to move gradually from here, creating further interest rate divergence from more likely Fed rate hikes during the next year.

Lastly, we note that the flattening of the yield curve is a trend that has been in place since 2013 as both Canada and the US have seen a large reduction (flattening) in the 2–10 Year Government Bond yields, now at levels not seen in ten years. Interestingly, an inverted yield curve has been the best predictor of recessions in the last 70 years.

Blue Ribbon Income Fund Performance

While Blue Ribbon Income Fund performed moderately well in 2017, it did underperform the broader market during the last quarter and for the year, returning +1.2% and +2.6%, respectively, owing to some relatively weak performers within the energy sector that hold a larger weighting in our portfolios relative to the S&P/TSX Composite Total Return Index. Further, the portfolio is underweight the large financial sector (34.6% of the index) relative to that index. This is not unusual as we attempt to provide added value through our management by finding investments in other areas of the market which are quite often not in financials or, for that matter, in the S&P/TSX index at all.

Positions in Labrador Iron Ore Royalty Corporation, Altus Group Limited, Boralex Inc., Intertape Polymer Group Inc. and Toronto-Dominion Bank were the greatest contributors to performance last quarter. For the past year, the greatest contributors to performance were Premium Brands Holdings Corporation, Veresen Inc., Boralex Inc., Labrador Iron Ore Royalty Corporation and Altus Group Limited.

Blue Ribbon Income Fund Portfolio Changes

During the year, additional shares were purchased in AltaGas Limited, Altus Group Limited, Intertape Polymer Group Inc., Loblaw Companies Limited, and TFI International Inc. Furthermore, new positions were made in Ag Growth International Inc., Fiera Capital Corporation, Kinder Morgan Canada Limited and Shaw Communications Inc.

The positions in Bank of Nova Scotia, Boralex Inc., Chemtrade Logistics Income Fund, Corus Entertainment Inc., Enercare Inc., DH Corporation, Extendicare Inc., Fiera Capital Corporation, K-Bro Linen Inc., Kinder Morgan Canada Limited, Labrador Iron Ore Royalty Corporation, Loblaw Companies Limited, Peyto Exploration and Development Corporation, Premium Brands Holdings Corporation, Sun Life Financial Inc., Superior Plus Corporation, TFI International Inc., Toronto-Dominion Bank, Veresen Inc. and Vermilion Energy Inc. were either trimmed or sold outright during the year at a time when we believed that the stock price more than reflected its true value, or when we desired more liquidity based on our current market view.

During the last year, Veresen Inc.'s common shareholders elected to receive either Pembina Pipeline Corporation common shares or cash pursuant to the previously announced takeover bid by Pembina Pipeline Corporation. The Veresen investment was sold prior to this election and was highly profitable for the Blue Ribbon Income Fund.

During the last year, DH Corporation's shares were tendered following the closing of the acquisition by Vista Equity Partners of all DH Corporation's shares outstanding for $25.50/share in cash.

In our opinion, Peyto Exploration and Development Corporation had become caught in the crossfire of very weak natural gas prices given its size, liquidity and top-line exposure to the commodity, thereby making it one of the worst performing Canadian energy names in 2017. Furthermore, we do not believe the negative sentiment on the name will abate anytime soon and are of the view that the dividend is unsustainable at current natural gas prices. Consequently, we eliminated our position in Peyto Exploration and Development Corporation.

Outlook

As we noted previously, the Canadian economy will likely lead the way in terms of real GDP growth for the G7 countries for 2017. However since the beginning of last year, the S&P/TSX has underperformed most developed country markets (and registered as the 72nd best performer out of 93 global indices tracked), particularly owing to energy, as we have seen a significant disconnect between oil prices and the prices of Canadian oil-weighted equities, given the latter have largely failed to move upward along with the former over the past year. Furthermore, going forward, while we look for another year of relatively healthy growth for global GDP in 2018, there are increasing signs that economic activity is pushing near full capacity in many regions. With tighter monetary policy and growth unlikely to produce another upside surprise, most Canadian equities will likely be challenged to repeat this past year's performance with minimal volatility.

The S&P/TSX Composite Total Return Index for the last quarter and year returned +4.5% and +9.1%, respectively, yet the index continues to trade at more than a two multiple point discount to the S&P 500 Index, the largest such discount in nearly 15 years. While every sector other than energy has become more expensive since the beginning of 2017, we would not be surprised to see the S&P/TSX earnings multiple continue to slowly rise. This is based on the assumption that liquidity continues to flow from lower-yielding bonds to the higher earnings yields available in the equity markets.

As valuations became further stretched throughout 2017, the number of new investments slowed in the past quarter. With that said, we continue to be disciplined with our valuation approach maintaining a relatively wide spread between our buy and sell prices. We remain active on seeking additional new investments that are able to prosper in many economic environments while maintaining our patient investment approach.

Forward-Looking Statements

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based on what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

Management Responsibility Statement

The financial statements of Blue Ribbon Income Fund (the "Fund") have been prepared by Blue Ribbon Fund Management Limited (the "Administrator" of the Fund) and approved by the Board of Directors of the Administrator. The Administrator is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

The Administrator maintains appropriate procedures to ensure that relevant and reliable financial information is produced. Statements have been prepared in accordance with International Financial Reporting Standards and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in note 3 to the financial statements.

The Board of Directors of the Administrator is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of a majority of independent directors.

The Administrator, with the approval of its Board of Directors, has appointed the external firm of PricewaterhouseCoopers LLP as the auditors of the Fund. They have audited the financial statements of the Fund in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

(Signed) "Mark A. Caranci"

Mark A. Caranci
President
Blue Ribbon Fund Management Limited

(Signed) "Craig T. Kikuchi"

Craig T. Kikuchi
Chief Financial Officer
Blue Ribbon Fund Management Limited

March 12, 2018

Independent Auditor's Report

To the Unitholders and Trustee of Blue Ribbon Income Fund (the "Fund")

We have audited the accompanying financial statements of the Fund, which comprise the statements of financial position as at December 31, 2017 and December 31, 2016 and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

March 12, 2018

Statements of Financial Position

As at December 31	2017	2016
Assets		
Current assets		
Investments	**$ 161,633,574**	$ 185,358,556
Cash	**3,949,415**	9,116,042
Amounts receivable for investments sold	**—**	374,331
Income receivable	**591,961**	711,260
Total assets	**166,174,950**	195,560,189
Liabilities		
Current liabilities		
Distributions payable to unitholders (note 7)	**838,541**	952,244
Accounts payable and accrued liabilities	**383,899**	529,001
Total liabilities excluding Net Assets attributable to holders of redeemable units	**1,222,440**	1,481,245
Net Assets attributable to holders of redeemable units	**$ 164,952,510**	$ 194,078,944
Redeemable units outstanding (note 5)	**16,770,811**	19,044,885
Net Assets attributable to holders of redeemable units per unit	**$ 9.84**	$ 10.19

Approved on behalf of Blue Ribbon Income Fund by the Board of Directors of Blue Ribbon Fund Management Ltd., the Administrator.

(Signed) “Mark A. Caranci”

Mark A. Caranci
Director

(Signed) “M. Paul Bloom”

M. Paul Bloom
Director

The accompanying notes are an integral part of these financial statements.

Statements of Comprehensive Income

For the years ended December 31	2017	2016
Income		
Securities lending income (note 10)	$ **35,061**	$ 60,400
Net gain (loss) on investments:		
Interest income for distribution purposes	**84,797**	76,648
Dividend income	**7,537,728**	9,691,650
Net realized gain (loss) on sale of investments (note 9)	**12,024,552**	18,856,594
Net change in unrealized gain (loss) on investments	**(12,020,287)**	27,544,342
Total net gain (loss) on investments	**7,626,790**	56,169,234
Total income (loss), net	**7,661,851**	56,229,634
Expenses		
Administration and investment management fees (note 8)	**2,002,788**	2,142,856
Service fees (note 8)	**666,201**	758,191
Audit fees	**32,095**	27,722
Trustee fees	**7,613**	7,346
Independent Review Committee fees (note 8)	**21,114**	23,256
Custodial fees	**17,004**	17,062
Legal fees	**3,622**	6,626
Unitholder reporting costs	**30,376**	25,940
Other administrative expenses (note 8)	**367,843**	424,722
Interest and bank charges	**28,066**	28,202
Transaction costs	**90,958**	140,713
Total expenses	**3,267,680**	3,602,636
Increase (decrease) in Net Assets attributable to holders of redeemable units	$ **4,394,171**	$ 52,626,998
Increase (decrease) in Net Assets attributable to holders of redeemable units per unit[1]	$ **0.24**	$ 2.37

[1] Based on the weighted average number of redeemable units outstanding during the year (note 5).

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

For the years ended December 31	2017	2016
Cash flows from operating activities:		
Increase (decrease) in Net Assets attributable to holders of redeemable units	**$ 4,394,171**	$ 52,626,998
Adjustments for:		
Net realized (gain) loss on sale of investments (note 9)	**(12,024,552)**	(18,856,594)
Net change in unrealized (gain) loss on investments	**12,020,287**	(27,544,342)
Decrease (increase) in income receivable	**119,299**	329,847
Increase (decrease) in accounts payable and accrued liabilities	**(145,102)**	(157,624)
Purchase of investments (note 9)	**(93,127,558)**	(98,087,574)
Proceeds from sale of investments (note 9)	**117,231,136**	148,407,298
Cash provided by (used in) operating activities	**28,467,681**	56,718,009
Cash flows from financing activities:		
Amounts paid for redemptions of redeemable units	**(18,388,679)**	(31,654,005)
Amounts paid for repurchase of redeemable units (note 5)	**(4,076,016)**	(3,586,056)
Distributions paid to holders of redeemable units (note 7)	**(11,218,341)**	(15,157,184)
Proceeds from reinvestment of distributions to holders of redeemable units	**48,728**	—
Cash provided by (used in) financing activities	**(33,634,308)**	(50,397,245)
Net increase (decrease) in cash	**(5,166,627)**	6,320,764
Cash, beginning of year	**9,116,042**	2,795,278
Cash, end of year	**$ 3,949,415**	$ 9,116,042
Supplemental information:[1]		
Interest received	**$ 83,999**	$ 76,697
Dividends received	**7,657,825**	10,018,448

[1] Included in cash flows from operating activities.

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Net Assets Attributable to Holders of Redeemable Units

For the years ended December 31	2017	2016
Net Assets attributable to holders of redeemable units, beginning of year	**$ 194,078,944**	$ 191,212,329
Operations:		
Increase (decrease) in Net Assets attributable to holders of redeemable units	**4,394,171**	52,626,998
Distributions to holders of redeemable units:		
Distributions paid to holders of redeemable units (note 7)		
Net investment income	**(3,235,896)**	(3,982,403)
Return of capital	**(7,868,742)**	(10,537,919)
Total	**(11,104,638)**	(14,520,322)
Redeemable unit transactions:		
Redemption of redeemable units (note 5)	**(18,388,679)**	(31,654,005)
Repurchase of redeemable units (note 5)	**(4,076,016)**	(3,586,056)
Reinvestment of distributions to holders of redeemable units (note 7)	**48,728**	—
Net increase (decrease) from redeemable unit transactions	**(22,415,967)**	(35,240,061)
Net increase (decrease) in Net Assets attributable to holders of redeemable units	**(29,126,434)**	2,866,615
Net Assets attributable to holders of redeemable units, end of year	**$ 164,952,510**	$ 194,078,944

The accompanying notes are an integral part of these financial statements.

Schedule of Investment Portfolio

As at December 31, 2017		Cost	Carrying Value	% of Portfolio
No. of Units/ Shares	**Consumer Staples and Discretionary**			
548,700	Corus Entertainment Inc. Class B	$ 6,100,548	$ 6,419,790	
329,800	Enercare Inc.	1,597,651	6,764,198	
53,900	Loblaw Companies Ltd.	2,558,562	3,677,058	
65,800	Premium Brands Holdings Corp.	3,576,623	6,787,928	
236,500	Transcontinental Inc. Class A	3,586,036	5,874,660	
		17,419,420	**29,523,634**	**18.3%**
	Financial			
100,800	Bank of Nova Scotia (The)	6,187,880	8,176,896	
285,100	Manulife Financial Corporation	5,276,649	7,475,322	
150,200	Sun Life Financial Inc.	6,365,131	7,792,376	
114,500	Toronto-Dominion Bank (The)	5,314,194	8,432,925	
		23,143,854	**31,877,519**	**19.6%**
	Healthcare			
444,000	Extendicare Inc.	4,246,843	4,062,600	
		4,246,843	**4,062,600**	**2.5%**
	Industrial			
79,100	Ag Growth International Inc.	4,567,715	4,219,194	
188,800	Intertape Polymer Group Inc.	4,202,016	4,057,312	
544,200	Superior Plus Corp.	6,671,615	6,459,654	
119,800	TFI International Inc.	1,833,454	3,936,628	
		17,274,800	**18,672,788**	**11.6%**
	Materials			
236,400	Chemtrade Logistics Income Fund	2,600,584	4,586,160	
170,000	Labrador Iron Ore Royalty Corp.	4,880,292	4,624,000	
1,828,800	Noranda Income Fund	8,395,548	2,670,048	
		15,876,424	**11,880,208**	**7.4%**
	Oil and Gas			
242,700	ARC Resources Ltd.	4,845,039	3,579,825	
1,068,900	Bonavista Energy Corp.	17,099,053	2,405,025	
211,800	Crescent Point Energy Corp.	8,191,381	2,029,044	
1,100,700	Trinidad Drilling Ltd.	3,980,719	1,871,190	
150,300	Vermilion Energy Inc.	3,405,049	6,865,704	
		37,521,241	**16,750,788**	**10.4%**
	Pipes, Power, Utilities and Infrastructure			
129,100	AltaGas Ltd.	2,551,105	3,694,842	
61,400	AltaGas Ltd. Subscription Receipts	1,843,228	1,741,918	
302,200	Boralex Inc.	3,974,925	7,101,700	
239,400	Gibson Energy Inc.	4,958,400	4,352,292	
170,300	Keyera Corp.	1,811,277	6,032,026	
184,500	Kinder Morgan Canada Limited	3,136,500	3,138,345	
226,300	Northland Power Inc.	3,492,392	5,284,105	
		21,767,827	**31,345,228**	**19.3%**
	Real Estate			
147,400	Allied Properties Real Estate Investment Trust	4,560,246	6,202,592	
229,800	Altus Group Limited	5,546,922	8,486,514	
		10,107,168	**14,689,106**	**9.1%**
	Telecommunication Services			
98,700	Shaw Communications Inc. Class B	2,721,406	2,831,703	
		2,721,406	**2,831,703**	**1.8%**
	Total Investments	**$ 150,078,983**	**$ 161,633,574**	**100.0%**

Notes to the Financial Statements

December 31, 2017 and 2016

1. GENERAL INFORMATION

Blue Ribbon Income Fund (the "Fund") is a closed-end investment trust created under the laws of the Province of Ontario on July 11, 1997, pursuant to an amended and restated declaration of trust. The address of the Fund's registered office is Bay Wellington Tower, Brookfield Place, Suite 2930, 181 Bay Street, Toronto, Ontario, M5J 2T3. Computershare Trust Company of Canada is the Trustee and Blue Ribbon Fund Management Ltd. (the "Administrator") is responsible for managing the affairs of the Fund. Bloom Investment Counsel, Inc. manages the Fund's portfolio. CIBC Mellon Trust Company is the custodian of the Fund's assets and prepares the weekly valuations of the Fund. The Fund is listed on the Toronto Stock Exchange under the symbol RBN.UN and commenced operations on September 17, 1997. The Fund aims to provide a high level of monthly distributions and the opportunity to participate in capital gains by actively managing a portfolio of publicly listed or traded securities, including income trusts, royalty trusts, real estate investment trusts, common shares, preferred securities and debt instruments.

These financial statements were approved on behalf of Blue Ribbon Income Fund by the Board of Directors of Blue Ribbon Fund Management Ltd., the Administrator, on March 1, 2018.

2. BASIS OF PRESENTATION

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

a) Financial Instruments

The Fund's investments in debt and equity securities are designated at fair value through profit or loss ("FVTPL") at inception. As a result of such designation, the Fund's investments are measured at FVTPL. The Fund's obligation for Net Assets attributable to holders of redeemable units is measured assuming the redemption of units at Net Asset Value on the valuation date. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amounts required to be received or paid, discounted when appropriate, at the financial instrument's effective interest rate. The Fund's accounting policies for measuring the fair value of its investments are the same as those used in measuring its published Net Asset Value. The carrying values of the Fund's financial assets and liabilities that are not carried at FVTPL approximate their fair value amounts due to their short-term nature.

b) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the Statements of Financial Position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

c) Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded marketable securities) is based on quoted market prices at the close of trading on the measurement date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Administrator determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each measurement date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same and option pricing models. Refer to note 13 for further information about the Fund's fair value measurements.

d) Cash

Cash is comprised of demand deposits with financial institutions.

e) Transaction Costs

Transactions costs directly attributable to the acquisition or disposal of an investment are expensed in the period incurred and disclosed as "Transaction costs" in the Statements of Comprehensive Income.

Notes to the Financial Statements (continued)

December 31, 2017 and 2016

f) Investment Transactions and Income and Expense Recognition

Investment transactions are accounted for on the trade date. The interest for distribution purposes shown on the Statements of Comprehensive Income represents the coupon interest received by the Fund accounted for on an accrual basis. The Fund does not amortize premiums paid or discounts received on the purchase of fixed income securities except for zero coupon bonds, which are amortized on a straight line basis.

Realized gain (loss) on sale of investments and unrealized gain (loss) on investments are determined on an average cost basis. Average cost does not include amortization of premiums or discounts on fixed income securities, with the exception of zero coupon bonds. Dividend income and dividend expense on securities sold short are recognized on the ex-dividend date and interest income for distribution purposes is accrued as earned.

g) Income Taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). The Fund distributes to its unitholders sufficient net income and net capital gains so that it is not subject to income taxes and, in substance, is exempt from Canadian taxes on these sources of income. Accordingly, the Fund does not record any Canadian income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the Statements of Financial Position as a deferred income tax asset. The Fund may incur withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the Statements of Comprehensive Income.

h) Foreign Exchange

The financial statements are presented in Canadian dollars, which is the functional currency of the Fund. The fair values of investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the 11 a.m. (Toronto time) rate of exchange on each valuation date. Investments, income and expenses denominated in foreign currencies are translated at the rate of exchange prevailing on the date of such transactions.

i) Securities Lending

The Fund may enter into securities lending transactions. These transactions involve the temporary exchange of securities for collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the Statements of Comprehensive Income.

j) Redeemable Units

As required under International Accounting Standard ("IAS") 32, *Financial Instruments: Presentation*, the Fund classifies its redeemable units as liabilities. The Fund's redeemable units do not meet the criteria in IAS 32 for classification as equity as the Fund has more than one contractual obligation to its unitholders.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Classification of Measurement of Financial Instruments and Application of Fair Value Option

In classifying and measuring financial instruments held by the Fund, the Administrator is required to make judgements about the classification of financial instruments and the applicability of the fair value option to its investments which are not held for trading. The fair value option has been applied to the Fund's investments in debt and equity securities as the investments are managed on a fair value basis in accordance with the Fund's investment strategy. The Fund meets the definition of an investment entity and its purpose is to provide investment management services to its unitholders by investing its Net Assets for capital growth and/or investment income and by measuring its investment performance on a fair value basis.

5. REDEEMABLE UNITS OF THE FUND

Authorized

The Fund is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal, undivided interest in the Net Asset Value of the Fund. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Fund. Units may be redeemed at the option of unitholders by tendering units of the Fund by the last business day of October for redemption on the second last business day of November ("Redemption Valuation Date"). Redemption of tendered units is settled based on the Net Asset Value per unit on the Redemption Valuation Date, less associated costs of the redemption, including brokerage costs. Units tendered for redemption are redeemed effective the Redemption Valuation Date of each year and are settled on or before the tenth business day in December, subject to the Administrator's right to suspend redemptions in certain circumstances. For purposes of calculating the Net Asset Value per unit, the value of the securities that make up the portfolio is equal to the weighted average trading price of such securities over the last three business days of November.

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid program for the period from December 5, 2016 to December 4, 2017. Pursuant to this issuer bid, the Fund was permitted to purchase up to 2,221,800 units for cancellation. The Fund renewed the issuer bid program for the period from December 5, 2017 to December 4, 2018, which allows the Fund to purchase up to 1,854,700 units for cancellation. The Fund may only repurchase units when the Net Asset Value per unit exceeds the trading price per unit.

Issued

	2017 Number of Units	2016 Number of Units
Redeemable units, outstanding at January 1	**19,044,885**	22,701,516
Redeemable units issued under the distribution reinvestment plan	**5,008**	—
Repurchase of redeemable units	**(420,100)**	(406,900)
Redemption of redeemable units	**(1,858,982)**	(3,249,731)
Redeemable units, outstanding at December 31	**16,770,811**	19,044,885
Weighted average number of units outstanding	**18,670,983**	22,197,615

During the year ended December 31, 2017, 1,858,982 (year ended December 31, 2016 – 3,249,731) units were redeemed at a price of $9.89 (year ended December 31, 2016 – $9.74) per unit.

During the year ended December 31, 2017, 420,100 (year ended December 31, 2016 – 406,900) units were repurchased for cancellation pursuant to the normal course issuer bid program at an average cost of $9.70 (year ended December 31, 2016 – $8.81) per unit.

On December 31, 2017, the Fund's closing market price per unit was $9.66 (December 31, 2016 – $9.82).

6. CAPITAL MANAGEMENT

The Fund's objective in managing its capital is to seek long-term capital appreciation by investing in an actively managed portfolio consisting primarily of North American exchange-listed securities. The Fund's capital is comprised of Net Assets attributable to holders of redeemable units and securities sold short. In order to manage its capital structure, the Fund may return capital to unitholders, increase or decrease its level of leverage or purchase units for cancellation.

7. DISTRIBUTIONS TO UNITHOLDERS

Distributions, as declared by the Administrator, are made on a monthly basis to unitholders of record on the last business day of each month. The distributions are payable by the tenth business day of the following month. For the year ended December 31, 2017, the Fund declared total distributions of $0.60 (year ended December 31, 2016 – $0.66) per unit, which amounted to $11,104,638 (year ended December 31, 2016 – $14,520,322). Under the Fund's distribution reinvestment plan, unitholders may elect to reinvest monthly distributions by purchasing additional units of the Fund, which may be issued from treasury or purchased in the open market. For the year ended December 31, 2017, 5,008 units were issued by the Fund pursuant to the distribution reinvestment plan (year ended December 31, 2016 – nil).

On January 19, 2018, the Fund declared $0.05 per unit monthly distributions for record dates January 31, 2018, February 28, 2018, and March 29, 2018, respectively.

8. RELATED PARTY TRANSACTIONS

a) Administration, Investment Management and Service Fees

Pursuant to a management agreement, the Administrator provides management and administrative services to the Fund, for which it is paid an administration fee equal to 0.50% per annum of the Net Asset Value of the Fund, plus applicable taxes. For the year ended December 31, 2017, the management fees amounted to $1,001,394 (year ended December 31, 2016 – $1,071,428), with $74,478 payable to the Administrator as of December 31, 2017 (December 31, 2016 – $87,035).

The Administrator is also reimbursed for all of its general and administrative expenses that relate to the operations of the Fund. These expenses amounted to $273,641 and $324,023 for the years ended December 31, 2017 and 2016, respectively.

The Fund also pays to the Administrator a service fee equal to 0.40% per annum of the Net Asset Value of the Fund. The service fee is in turn paid by the Administrator to the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter. For the year ended December 31, 2017, the service fees amounted to $666,201 (year ended December 31, 2016 – $758,191), with $164,909 payable as of December 31, 2017 (December 31, 2016 – $194,062).

Bloom Investment Counsel, Inc. is the Investment Manager of the Fund and is paid an investment management fee equal to 0.50% per annum of the Net Asset Value of the Fund, plus applicable taxes. For the year ended December 31, 2017, the investment management fees amounted to $1,001,394 (year ended December 31, 2016 – $1,071,428), with $74,478 payable to the Investment Manager as of December 31, 2017 (December 31, 2016 – $87,035).

b) Independent Review Committee Fees

The total remuneration paid to members of the Independent Review Committee during the year ended December 31, 2017 was $21,114 (year ended December 31, 2016 – $23,256) and consisted only of fees. As at December 31, 2017, there were no Independent Review Committee fees payable (December 31, 2016 – $59).

Notes to the Financial Statements (continued)

December 31, 2017 and 2016

9. INVESTMENT TRANSACTIONS

For the years ended December 31	2017	2016
Proceeds from sale of investments	**$ 116,856,805**	$ 148,781,629
Less cost of investments sold:		
Investments at cost, beginning of year	**161,783,678**	193,621,139
Investments purchased during the year	**93,127,558**	98,087,574
Investments at cost, end of year	**(150,078,983)**	(161,783,678)
Cost of investments sold during the year	**104,832,253**	129,925,035
Net realized gain (loss) on sale of investments	**$ 12,024,552**	$ 18,856,594

10. SECURITIES LENDING

The Fund has entered into a securities lending program with its custodian, CIBC Mellon Trust Company (and certain of its affiliates). The Fund will receive collateral of at least 105% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or the United States Government or its agencies. The market values of the securities on loan and the related collateral at December 31, 2017 were $17.1 million (December 31, 2016 – $23.0 million) and $17.9 million (December 31, 2016 – $24.2 million), respectively.

Securities lending income reported in the Statements of Comprehensive Income is net of a securities lending charge which the Fund's custodian, CIBC Mellon Trust Company (and certain of its affiliates), is entitled to receive.

For the years ended December 31, securities lending income was as follows:

	2017	2016
Gross securities lending income	**$ 50,085**	$ 86,293
Securities lending charges	**(15,024)**	(25,882)
Net securities lending income	**35,061**	60,411
Withholding taxes on securities lending income	**—**	(11)
Net securities lending income received by the Fund	**$ 35,061**	$ 60,400

During the year ended December 31, 2017, securities lending charges represented 30% (year ended December 31, 2016 – 30%) of the gross securities lending income.

11. LOAN PAYABLE

Effective February 17, 2015, pursuant to an agreement with a Canadian chartered bank, the Fund has a 364-day renewable revolving credit facility. The revolving credit facility provides for maximum borrowings of $15 million at either the prime rate of interest or the bankers' acceptance rate plus a fixed percentage. There were no borrowings under this facility at December 31, 2017. The credit facility is secured by a first-priority security interest over all of the Fund's assets. There were no amounts drawn against this facility in the year ended December 31, 2017 (year ended December 31, 2016 – nil).

12. FINANCIAL RISK MANAGEMENT

The Fund's investment activities expose it to a variety of financial risks. The Schedule of Investment Portfolio presents the securities held by the Fund as at December 31, 2017, and groups the securities by market segment. The following summary presents the market segments held by the Fund as at December 31, 2016. Significant risks that are relevant to the Fund are discussed below.

As at	December 31, 2016
Investment Sector	% of Portfolio
Consumer staples and discretionary	16.3%
Financial	17.5%
Healthcare	3.5%
Industrial	6.2%
Information technology	3.2%
Materials	8.6%
Oil and gas	17.4%
Pipe, power, utilities, and infrastructure	22.3%
Real estate	5.0%
Total	100.0%

The Administrator attempts to minimize the potential adverse effects of these risks on the Fund's performance by employing a professional, experienced investment manager who diversifies the investment portfolio within the constraints of the investment objectives. To assist in managing risks, the Administrator also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and restrictions, internal guidelines, and securities regulations.

The investment portfolio is primarily comprised of Canadian equities.

a) 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 risk 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 market segment. All securities present a risk of loss of capital. The Investment Manager attempts to moderate this risk through the careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk of loss resulting from financial instruments is equivalent to their fair value.

The Fund is exposed to other price risk from its investment in equity securities. As at December 31, 2017, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, Net Assets would have increased or decreased by approximately $16.2 million or 9.80% (December 31, 2016 – approximately $18.5 million or 9.55%) of total Net Assets. In practice, the actual trading results may differ, and the difference could be material.

b) Currency Risk

Currency risk is the risk that financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. As at December 31, 2017 and December 31, 2016, the Fund had no currency risk exposure.

c) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The carrying amount of the Fund's income receivable and amounts receivable for securities sold represents the maximum credit risk exposure, as they will be settled in the short term.

All transactions in securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the Fund has received payment. The trade will fail if either party fails to meet its obligation.

The Fund has entered into a securities lending program with its custodian; see note 10. Credit risk associated with these transactions is considered minimal as all counterparties have sufficient, approved credit and the value of cash or securities held as collateral must be at least 105% of the fair value of the securities loaned.

d) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to liquidity risk through its annual redemptions. For the annual redemption, the Fund receives notice at least 20 business days prior to the date of redemption and has up to 10 business days following the date of redemption to settle the redemptions, which provides the Investment Manager time to sell securities, although there may not be sufficient time to sell the securities at a reasonable price.

As at December 31, 2017 and December 31, 2016, the entire Fund's financial liabilities, other than the redeemable units, had maturities of less than three months.

Notes to the Financial Statements (continued)

December 31, 2017 and 2016

13. FAIR VALUE MEASUREMENT

The Fund's assets and liabilities recorded at fair value have been categorized within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The Fund classifies its investments and derivatives assets/liabilities into three categories based on the nature of the inputs used to determine their fair value. The categories and the nature of the inputs used in each category are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs, other than quoted prices that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Assets and liabilities at fair value as at December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Equities	$ 161,633,574	$ —	$ —	$ 161,633,574
Total	**$ 161,633,574**	**$ —**	**$ —**	**$ 161,633,574**

Assets and liabilities at fair value as at December 31, 2016	Level 1	Level 2	Level 3	Total
Equities	$ 185,358,556	$ —	$ —	$ 185,358,556
Total	$ 185,358,556	$ —	$ —	$ 185,358,556

There were no transfers of financial assets and liabilities between the levels during the years ended December 31, 2017 and 2016.

All fair value measurements above are recurring. The carrying values of cash, income receivable, amounts receivable for investments sold, distributions payable to unitholders and accounts payable and accrued liabilities approximate their fair values due to their short-term nature. Fair values are classified as level 1 when the related security is actively traded and a quoted price is available. If an instrument classified as level 1 subsequently ceases to be actively traded, it is transferred out of level 1. In such cases, the instrument is reclassified into level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as level 3. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

a) Equities

The Fund's investments in equity securities are classified as level 1 when the security is actively traded and a reliable price is observable. The net realized and unrealized gain from equity securities for the year ended December 31, 2017 was $4,265 (year ended December 31, 2016 – gain of $46,400,936).

14. FUTURE ACCOUNTING CHANGES

IFRS 9, *Financial Instruments*

The final version of IFRS 9, *Financial Instruments*, was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces a model for classification and measurement, a single, forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. The new, single principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Fund will continue to measure its financial instruments at fair value through profit and loss upon adoption of IFRS 9.

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