2014 ANNUAL REPORT

BLUE RIBBON INCOME FUND

RBN.UN

Actively managed, broadly diversified portfolio of income-producing securities.

**Management Report of Fund Performance**

March 12, 2015

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 annual or 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, P.O. 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.

*In accordance with investment fund industry practice, all figures in this management report of fund performance, unless otherwise noted, are based on the Fund's calculation of its Net Asset Value, which is 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 units of the Fund trade on the Toronto Stock Exchange ("TSX") under the symbol RBN.UN. The Fund's portfolio is actively managed by Bloom Investment Counsel, Inc. ("Bloom" or the "Investment Manager"). The Fund is 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

### Treasury Offering

On December 19, 2014, the Fund completed a treasury offering of 808,545 units at a price per unit of $10.60 for total gross proceeds of approximately $8.6 million. The offering price of the units was determined so as to be non-dilutive to the Net Asset Value per unit of existing unitholders prior to the filing of the final prospectus. The net proceeds were used to purchase securities in accordance with the Fund's investment objectives.

### Adoption of International Financial Reporting Standards ("IFRS")

The Fund adopted IFRS in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the CPA Canada Handbook ("Canadian GAAP"). The main effect of the Fund's transition to IFRS was to measure its investments that are traded in active markets using the last traded prices on the measurement date. Prior to the transition, the Fund measured its long investments at bid prices and short investments at ask prices. The Fund also classified its redeemable units as liabilities, whereas they were accounted for as equity under Canadian GAAP.

# Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's 2014 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 to the Fund during the year ended December 31, 2014 that materially affected the risks associated with an investment in the units of the Fund.

# Results of Operations

### Distributions and Changes in Net Assets from Operations

During 2014, the Fund declared $0.84 per unit in cash distributions, unchanged from 2013 as the Fund continued to pay a monthly distribution rate of $0.07 per unit. Since inception in September 1997, the Fund has paid total cash distributions of $16.08 per unit.

Total revenue from the Fund's portfolio was $0.61 per unit in 2014, compared to $0.62 per unit in 2013. Expenses were $0.23 per unit in 2014, up from $0.20 per unit in 2013.

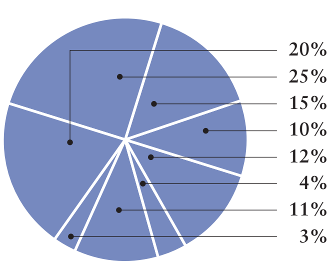
### Net Asset Value

The Net Asset Value per unit of the Fund was $10.61 at December 31, 2014, down 9.2% from $11.68 at December 31, 2013, due to a decrease in the value of the Fund's portfolio. The aggregate Net Asset Value of the Fund was $276.6 million at December 31, 2014, down $28.6 million from $305.2 million at year-end 2013. The decrease reflected $15.3 million in losses from the portfolio, the payment of cash distributions of $21.7 million, unit repurchases of $5.5 million under the Fund's issuer bid program and $4.8 million in unit redemptions, which more than offset $10.4 million of net income, $8.1 million received from the treasury offering, net of expenses, and $0.2 million from the dividend reinvestment program.

### Investment Portfolio

At December 31, 2014, the Fund owned 32 dividend-paying equities and REITs, compared to 33 at December 31, 2013. Boralex Inc., Loblaw Companies Ltd., Northland Power Inc. and Teck Resources Ltd. were added while Manitoba Telecom Services Inc., Cominar REIT, Huntingdon Capital Corp., Just Energy Group Inc. and Canadian Imperial Bank of Commerce were divested from the portfolio during 2014. The Fund had a net realized and unrealized loss of $15.3 million during 2014 as losses incurred in the oil and gas, materials, industrial and healthcare sectors more than offset gains in the pipes, power, utilities and infrastructure; consumer staples and discretionary; and real estate sectors. 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 |
|---|---|---|---|
| Oil and gas | $ 0.01 | $ (25.17) | $ (25.16) |
| Pipes, power, utilities and infrastructure | 5.36 | 5.48 | 10.84 |
| Industrial | 2.33 | (4.21) | (1.88) |
| Real estate | 0.53 | 3.38 | 3.91 |
| Materials | 0.06 | (10.28) | (10.22) |
| Financials | 1.33 | 0.58 | 1.91 |
| Consumer staples and discretionary | — | 5.56 | 5.56 |
| Healthcare | — | (0.31) | (0.31) |
| Telecom and media | 0.06 | (0.05) | 0.01 |
| **Total** | **$ 9.68** | **$ (25.02)** | **$ (15.34)** |

### Liquidity

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 on the TSX 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 2014, 460,100 units were purchased for cancellation at an average cost of $11.94 per unit. Investors may also redeem their units annually, in November, in accordance with the Fund's redemption provisions. On November 27, 2014, 422,848 units were redeemed at a price of $11.24 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 2014, these expenses amounted to $576,209 (2013 – $547,453). The administration fee is used by the Administrator to cover the cost 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 2014, administration fees amounted to $1.7 million and service fees were $1.2 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, 2014, investment management fees amounted to $1.7 million (2013 – $1.5 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 | | **2014** | | 2013 | | 2012 | | 2011 | | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net Assets per unit, beginning of year[2]** | $ | **11.68** | $ | 10.96 | $ | 11.28 | $ | 11.09 | $ | 9.75 |
| **Increase (decrease) from operations:[3]** | | | | | | | | | | |
| Total revenue | | **0.61** | | 0.62 | | 0.66 | | 0.71 | | 0.66 |
| Total expenses | | **(0.21)** | | (0.20) | | (0.21) | | (0.20) | | (0.18) |
| Realized gains (losses) | | **0.37** | | 0.03 | | 0.50 | | 0.35 | | 0.35 |
| Unrealized gains (losses) | | **(0.96)** | | 1.15 | | (0.49) | | (0.04) | | 1.52 |
| **Total increase (decrease) in Net Assets from operations** | $ | **(0.19)** | $ | 1.60 | $ | 0.46 | $ | 0.82 | $ | 2.35 |
| **Distributions to unitholders:[2]** | | | | | | | | | | |
| From net investment income | $ | **0.24** | $ | 0.27 | $ | 0.23 | $ | 0.47 | $ | 0.40 |
| From capital gains | | **0.28** | | 0.01 | | 0.52 | | — | | — |
| Return of capital | | **0.32** | | 0.56 | | 0.06 | | 0.19 | | 0.44 |
| **Total distributions to unitholders** | $ | **0.84** | $ | 0.84 | $ | 0.81 | $ | 0.66 | $ | 0.84 |
| **Net Assets per unit, end of year[2]** | $ | **10.61** | $ | 11.68 | $ | 10.93 | $ | 11.28 | $ | 11.09 |

(1) Financial information for 2013 and 2014 was prepared in accordance with IFRS. Prior to 2013, financial information was prepared in accordance with Canadian GAAP and the Net Assets per unit presented in the financial statements differed from the Net Asset Value calculated for weekly Net Asset Value purposes. The difference was primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for weekly Net Asset Value purposes. Figures for 2013 have been restated due to IFRS transition.

(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 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Net Asset Value (000s) | $ 276,561 | $ 305,194 | $ 266,686 | $ 236,652 | $ 256,514 |
| Number of units outstanding | 26,070,633 | 26,124,864 | 24,324,241 | 20,915,178 | 23,091,289 |
| Management expense ratio ("MER")[1] | 1.90% | 2.21% | 2.80% | 1.84% | 2.21% |
| Trading expense ratio[2] | 0.04% | 0.03% | 0.05% | 0.05% | 0.05% |
| Portfolio turnover rate[3] | 31.74% | 3.11% | 12.92% | 4.94% | 9.38% |
| Net Asset Value per unit | $ 10.61 | $ 11.68 | $ 10.96 | $ 11.31 | $ 11.11 |
| Closing market price – units | $ 10.35 | $ 11.43 | $ 11.27 | $ 10.79 | $ 10.64 |

(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 investments during the period.

### Expense Ratio

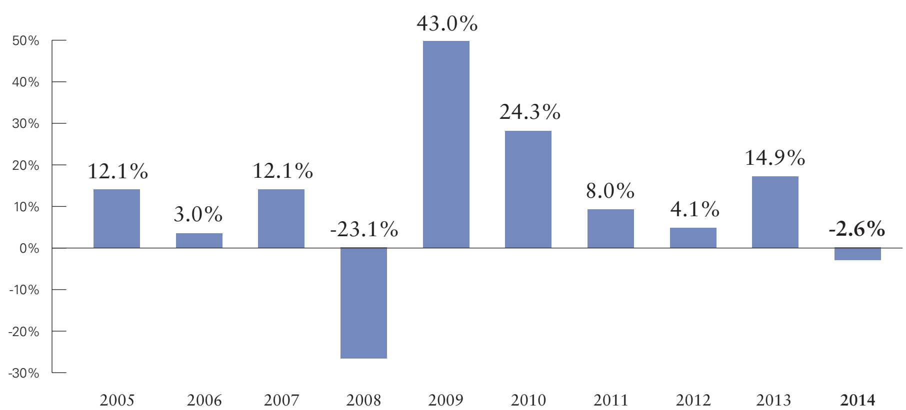
The Fund's MER was 1.90% for 2014, down from 2.21% for 2013. The MER in 2014 and 2013 included agents' fees and issuance costs for treasury offerings amounting to $0.3 million and $0.1 million, respectively, which were borne by subscribers of new units. Excluding these costs, the MER in 2014 was 1.75%, down from 1.78% in 2013, which is more representative of the ongoing operating costs of the Fund.

## 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 each period since January 1, 2005 to December 31, 2014. 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 including common stocks, REITs and income trust units. Since the Fund is actively managed, the sector weightings differ from those of the Composite Index. In addition, the Fund's portfolio contains predominantly high-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 and fund expenses, 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%) | 5.2% | 9.4% | 8.0% | 11.4% |
| S&P/TSX Composite Index | **10.6%** | 10.2% | 7.5% | 7.6% | 6.9% |

[1] Period from September 16, 1997 (commencement of operations) to December 31, 2014

During 2014, the Fund underperformed the Composite Index as the Fund's portfolio holds a 4.1% weighting in the financials sector (versus a 35.7% weighting for the Composite Index), which performed strongly during the year. Since inception and on a five- and 10-year basis, the Fund has outperformed the Composite Index, even after taking into account administration costs, due to the long-term value of investing in high-income equities, coupled with careful security selection by the Investment Manager.

## Summary of Investment Portfolio

As at December 31, 2014

| | |
|---|---|
| Total Net Asset Value | $ 276,560,623 |

| Portfolio Composition | % of Portfolio | % of Net Asset Value |
|---|---|---|
| Pipes, power, utilities and infrastructure | 23.5% | 23.6% |
| Oil and gas | 18.6% | 18.8% |
| Industrial | 14.2% | 14.3% |
| Materials | 11.3% | 11.4% |
| Consumer staples and discretionary | 10.3% | 10.4% |
| Real estate | 9.7% | 9.9% |
| Cash and short-term investments | 6.1% | 6.2% |
| Financials | 3.8% | 3.8% |
| Healthcare | 2.5% | 2.6% |
| Total investment portfolio | 100.0% | 101.0% |
| Other net liabilities | | (1.0%) |
| Total Net Asset Value | | 100.0% |

| Top 25 Holdings | % of Portfolio | % of Net Asset Value |
|---|---|---|
| TransForce Inc. | 6.6% | 6.7% |
| Cash and short-term investments | 6.1% | 6.2% |
| Chemtrade Logistics Income Fund | 5.9% | 6.0% |
| Veresen Inc. | 5.6% | 5.6% |
| Keyera Corp. | 5.2% | 5.3% |
| Vermilion Energy Inc. | 5.1% | 5.2% |
| AltaGas Ltd. | 5.0% | 5.0% |
| EnerCare Inc. | 4.6% | 4.7% |
| ARC Resources Ltd. | 4.5% | 4.5% |
| Loblaw Companies Ltd. | 4.5% | 4.5% |
| InnVest REIT | 3.9% | 3.9% |
| Superior Plus Corp. | 3.7% | 3.8% |
| Transcontinental Inc. | 2.9% | 2.9% |
| Noranda Income Fund | 2.7% | 2.7% |
| Morguard REIT | 2.6% | 2.6% |
| Crescent Point Energy Corp. | 2.6% | 2.6% |
| Extendicare Inc. | 2.5% | 2.5% |
| Innergex Renewable Energy Inc. | 2.4% | 2.4% |
| Bonavista Energy Corp. | 2.2% | 2.2% |
| Baytex Energy Corp. | 2.2% | 2.2% |
| DH Corporation | 2.1% | 2.2% |
| Pengrowth Energy Corp. | 2.1% | 2.1% |
| Inter Pipeline Ltd. | 2.1% | 2.1% |
| Boralex Inc. | 1.7% | 1.7% |
| The Toronto-Dominion Bank | 1.7% | 1.7% |
| **Total** | **90.5%** | **91.3%** |

*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.*

## 2014 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 2014 on a per unit basis.

| Record Date | Payment Date | Return of Capital | Eligible Dividends | Capital Gains | Total Distributions |
|---|---|---|---|---|---|
| January 31, 2014 | February 14, 2014 | $ 0.02649 | $ 0.02017 | $ 0.02334 | $ 0.07 |
| February 28, 2014 | March 14, 2014 | 0.02649 | 0.02017 | 0.02334 | 0.07 |
| March 31, 2014 | April 14, 2014 | 0.02649 | 0.02017 | 0.02334 | 0.07 |
| April 30, 2014 | May 14, 2014 | 0.02649 | 0.02017 | 0.02334 | 0.07 |
| May 30, 2014 | June 13, 2014 | 0.02649 | 0.02017 | 0.02334 | 0.07 |
| June 30, 2014 | July 15, 2014 | 0.02649 | 0.02017 | 0.02334 | 0.07 |
| July 31, 2014 | August 15, 2014 | 0.02649 | 0.02017 | 0.02334 | 0.07 |
| August 29, 2014 | September 15, 2014 | 0.02649 | 0.02017 | 0.02334 | 0.07 |
| September 30, 2014 | October 15, 2014 | 0.02649 | 0.02017 | 0.02334 | 0.07 |
| October 31, 2014 | November 14, 2014 | 0.02649 | 0.02017 | 0.02334 | 0.07 |
| November 28, 2014 | December 12, 2014 | 0.02649 | 0.02017 | 0.02334 | 0.07 |
| December 31, 2014 | January 15, 2015 | 0.02649 | 0.02017 | 0.02334 | 0.07 |
| **Total** | | **$ 0.31788** | **$ 0.24204** | **$ 0.28008** | **$ 0.84** |

*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 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 has managed more than 10 TSX-listed, closed-end portfolios in this specialty area since 1997, with an aggregate market value of over $2.5 billion.

BLOOM
INVESTMENT COUNSEL, INC.

# Investment Manager's Report

January 6, 2015

### The Canadian Economy

Canadian GDP for the month of October 2014, the most recent figure released, came in slightly ahead of consensus expectations, posting growth of 0.3%, maintaining September's positive trend. Growth in the fourth quarter was on track for a 3% rise, a full half-point ahead of consensus expectations. Manufacturing output was responsible for much of the upside. Forecasts of a further weakening in the Canadian dollar along with continued improvements in the US economy bode well for further GDP upside. Weak oil prices in the quarter were slightly offset by increased oil production volumes, pushing out the impact on GDP growth until later in 2015.

Headline inflation in the month of November, the most current data available, eased back to the 2.0% level, after a string of higher than expected results. Core CPI inflation, the Bank of Canada's operational target for monetary policy, advanced at a slightly faster pace, up 2.1% in November, but well down from the 2.3% observed in October. This was the fourth consecutive month that core inflation had been at or above the Bank of Canada's 2% target. The outlook for inflation appears muted as the falling price of oil is expected to bring down gasoline and fuel oil prices further into the new year. A warmer winter than last year should also help drive natural gas prices lower.

Canadian housing starts recovered slightly in November, posting an annualized rate of 196,500 versus the 183,700 pace of the previous month. Although well below the post-recession peak of 212,000 units, November's rate was enough to meet existing demographic demands. Multi-unit starts continue to rise and more than offset the falling single-house build rate. Regionally, only a minority of the provinces saw activity increase, but that list included the big three provinces of Ontario, Quebec and British Columbia.

After strong September and October results, November employment fell by 10,000, bringing the annualized job growth rate back below 1%. Given the huge decline in oil prices, the markets will be watching for significant cutbacks in the energy sector, especially Alberta, which accounted for almost one-third of the job gains in 2014. The November unemployment rate sat at 6.6%, well below a year ago, but the rate is trending in the wrong direction.

During the last quarter, the price of a barrel of oil, as measured by the one-year forward strip for WTI in Canadian dollars, fell by 33.7% from $99.68 to $66.11. The oil price fell 35.1% from $101.87 to $66.11 for the year. The Canadian AECO natural gas 12-month forward strip price also fell significantly, falling by 30.7% from $3.87 to $2.68/GL for the quarter. For the year, gas fell by 27.4% from $3.69 to $2.68/GL. Canadian spot oil and gas prices at quarter-end stood at $61.82/barrel and $3.19/GL, respectively.

### Market Performance

The S&P/TSX Composite Total Return Index for the last quarter returned negative 1.5%. The best-performing sectors last quarter were consumer staples (up 20.2%), information technology (up 15.6%), and healthcare (up 15.3%). The worst-performing sectors for the quarter were energy (down 15.8%), materials (down 7.1%) and industrials (down 0.5%).

The S&P/TSX Composite Total Return Index for the last year returned 10.6%. The best-performing sectors last year were consumer staples (up 49.1%), information technology (up 35.1%), and healthcare (up 30.3%). The worst-performing sectors for the year were energy (down 4.8%), materials (down 2.6%) and financials (up 13.8%).

### Outlook

We believe that the first quarter of 2015 will be a difficult period for Canadian equities. There will be continued volatility until the market settles on the appropriate values for commodity and commodity-related securities. However, with the prospects for a firming US economy and a weaker Canadian dollar, a number of our industry sectors will thrive. Offsetting this is the risk of an increasing Canadian unemployment rate due to the weakness in the oil and natural gas sector.

# 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 Ltd.*

*//signed// "Craig T. Kikuchi"*

**Craig T. Kikuchi**
*Chief Financial Officer*
*Blue Ribbon Fund Management Ltd.*

March 12, 2015

# 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, 2014, December 31, 2013 and January 1, 2013, and the statements of comprehensive income, changes in net assets attributable to holders of redeemable units and cash flows for the years ended December 31, 2014 and 2013, 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 the 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 audit 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 judgement, 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, 2014, December 31, 2013 and January 1, 2013 and its financial performance and its cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

*//signed// "PricewaterhouseCoopers LLP"*

**PricewaterhouseCoopers LLP**
*Chartered Professional Accountants*
*Licensed Public Accountants*

*Toronto, Ontario*

March 12, 2015

## Statements of Financial position

| As at | Dec. 31, 2014 | Dec. 31, 2013 | Jan. 1, 2013 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Investments | **$ 266,357,078** | $ 306,276,072 | $ 263,794,284 |
| Cash | **13,042,565** | 398,028 | 3,949,818 |
| Income receivable | **1,484,101** | 1,477,289 | 1,299,940 |
| Amounts receivable for units issued | **—** | 56,000 | — |
| Amounts receivable for investments sold | **144,780** | — | — |
| **Total assets** | **281,028,524** | 308,207,389 | 269,044,042 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | **848,937** | 913,483 | 655,560 |
| Payable for investments purchased | **1,794,020** | 270,980 | — |
| Distributions payable to unitholders (note 7) | **1,824,944** | 1,828,740 | 1,702,697 |
| **Total liabilities excluding Net Assets attributable to holders of redeemable units** | **4,467,901** | 3,013,203 | 2,358,257 |
| **Net Assets attributable to holders of redeemable units** | **$ 276,560,623** | $ 305,194,186 | $ 266,685,785 |
| **Redeemable units outstanding** (note 5) | **26,070,633** | 26,124,864 | 24,324,241 |
| **Net Assets attributable to holders of redeemable units per unit** | **$ 10.61** | $ 11.68 | $ 10.96 |

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 | 2014 | 2013 |
|---|---|---|
| **Income** | | |
| Securities lending income | $ 182,306 | $ 195,223 |
| Net gain (loss) on investments: | | |
| Dividend income | 15,558,252 | 15,010,782 |
| Interest for distribution purposes | 125,460 | 423,475 |
| Net realized gain (loss) on investments (note 9) | 9,686,312 | 814,847 |
| Net change in unrealized loss (gain) on investments | (25,026,359) | 28,771,407 |
| Total net gain (loss) on investments | 343,665 | 45,020,511 |
| **Total income, net** | 525,971 | 45,215,734 |
| **Expenses** | | |
| Administration and investment management fees (note 8) | 3,368,217 | 3,041,010 |
| Service fees (note 8) | 1,175,543 | 1,104,936 |
| Audit fees | 43,591 | 37,190 |
| Independent review committee fees (note 8) | 30,648 | 30,918 |
| Trustee fees | 7,910 | 9,290 |
| Custodial fees | 24,559 | 20,085 |
| Legal fees | 5,607 | 7,600 |
| Unitholder reporting costs | 6,527 | 6,828 |
| Other administrative expenses (note 8) | 726,178 | 708,759 |
| Transaction costs | 109,463 | 79,439 |
| **Total expenses** | 5,498,243 | 5,046,055 |
| **Increase (decrease) in Net Assets attributable to holders of redeemable units** | $ (4,972,272) | $ 40,169,679 |
| **Increase (decrease) in Net Assets attributable to holders of redeemable units per unit**[1] | $ (0.19) | $ 1.60 |

[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 | 2014 | 2013 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Decrease (increase) in Net Assets attributable to holders of redeemable units | **$ (4,972,272)** | $ 40,169,679 |
| Adjustments for: | | |
| Net realized gain on sale of investments (note 9) | **(9,686,312)** | (814,847) |
| Net change in unrealized (gain) loss on investments | **25,026,359** | (28,771,407) |
| Increase in income receivable | **(6,812)** | (177,349) |
| Decrease (increase) in accounts payable and accrued liabilities | **(64,546)** | 257,923 |
| Purchase of investments (note 9) | **(92,941,594)** | (202,551,901) |
| Proceeds from sale of investments (note 9) | **118,898,801** | 189,927,347 |
| **Cash provided by (used in) operating activities** | **36,253,624** | (1,960,555) |
| **Cash flows from financing activities:** | | |
| Distributions paid to holders of redeemable units, net (note 7) | **(21,737,556)** | (20,977,116) |
| Proceeds from reinvestment of distributions to holders of redeemable units | **277,515** | 523,806 |
| Amounts received from issuance upon treasury offering, net (note 5) | **8,099,195** | 20,738,031 |
| Amounts paid for redemptions of redeemable units | **(4,752,558)** | (971,126) |
| Amounts paid for repurchase of redeemable units (note 5) | **(5,495,683)** | (904,830) |
| **Cash used in financing activities** | **(23,609,087)** | (1,591,235) |
| Net increase (decrease) in cash | **12,644,537** | (3,551,790) |
| Cash, beginning of year | **398,028** | 3,949,818 |
| **Cash, end of year** | **$ 13,042,565** | $ 398,028 |
| **Supplemental information:** | | |
| Interest paid[1] | **$ 127** | $ 204 |
| Interest received[1] | **$ 164,868** | $ 409,808 |
| Dividends received[1] | **$ 15,512,033** | $ 14,846,956 |

(1) Included in cash flows from operating activities.

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

| For the years ended December 31 | 2014 | 2013 |
|---|---|---|
| **Net Assets attributable to holders of redeemable units, beginning of year** | **$ 305,194,186** | $ 266,685,785 |
| **Operations:** | | |
| Decrease (increase) in Net Assets attributable to holders of redeemable units | **(4,972,272)** | 40,169,679 |
| **Unitholder transactions:** | | |
| Net investment income | **(6,259,816)** | (6,664,650) |
| Net realized gains on investments | **(7,245,659)** | (260,717) |
| Return of capital | **(8,228,285)** | (14,177,792) |
| Distributions to holders of redeemable units | **(21,733,760)** | (21,103,159) |
| **Redeemable units transactions:** | | |
| Proceeds from issuance of units upon treasury offering, net (note 5) | **8,099,195** | 20,738,031 |
| Reinvestments of distributions to holders of redeemable units (note 7) | **221,515** | 579,806 |
| Repurchase from redeemable units issued (note 5) | **(5,495,683)** | (904,830) |
| Redemption of redeemable units (note 5) | **(4,752,558)** | (971,126) |
| Net increase (decrease) attributable to redeemable unit transactions | **(1,927,531)** | 19,441,881 |
| Net increase (decrease) in Net Assets attributable to holders of redeemable units | **(28,633,563)** | 38,508,401 |
| **Net Assets attributable to holders of redeemable units, end of year** | **$ 276,560,623** | $ 305,194,186 |
| **Distributions per redeemable unit** (note 7) | **$ 0.84** | $ 0.84 |

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

# Schedule of Investment Portfolio

| As at December 31, 2014 | | Cost | Carrying Value | % of Portfolio |
|---|---|---|---|---|
| **No. of Units/ Shares** | **Consumer Staples and Discretionary** | | | |
| 1,029,200 | Colabor Group Inc. | $ 8,983,906 | $ 3,447,820 | |
| 888,500 | EnerCare Inc. | 4,304,163 | 12,883,250 | |
| 200,000 | Loblaw Companies Ltd. | 9,390,000 | 12,434,000 | |
| | | **22,678,069** | **28,765,070** | **10.8%** |
| | **Financial** | | | |
| 163,100 | DH Corporation | 3,490,340 | 5,980,877 | |
| 84,000 | Toronto-Dominion Bank (The) | 3,288,734 | 4,662,840 | |
| | | **6,779,074** | **10,643,717** | **4.0%** |
| | **Healthcare** | | | |
| 1,050,000 | Extendicare Inc. | 10,170,988 | 6,846,000 | |
| | | **10,170,988** | **6,846,000** | **2.6%** |
| | **Industrial** | | | |
| 1,000,000 | Horizon North Logistics Inc. | 5,994,622 | 2,640,000 | |
| 866,700 | Superior Plus Corp. | 10,625,301 | 10,391,733 | |
| 486,300 | Transcontinental Inc. | 6,339,880 | 8,053,128 | |
| 625,000 | TransForce Inc. | 4,713,029 | 18,493,750 | |
| | | **27,672,832** | **39,578,611** | **14.9%** |
| | **Materials** | | | |
| 796,400 | Chemtrade Logistics Income Fund | 8,206,601 | 16,485,480 | |
| 240,000 | Labrador Iron Ore Royalty Corp. | 6,889,823 | 4,464,000 | |
| 2,800,000 | Noranda Income Fund | 12,854,077 | 7,420,000 | |
| 200,000 | Teck Resources Ltd. | 4,871,660 | 3,176,000 | |
| | | **32,822,161** | **31,545,480** | **11.8%** |
| | **Oil and Gas** | | | |
| 500,000 | ARC Resources Ltd. | 9,981,538 | 12,580,000 | |
| 312,000 | Baytex Energy Corp. | 10,680,909 | 6,027,840 | |
| 850,000 | Bonavista Energy Corp. | 17,578,915 | 6,205,000 | |
| 265,000 | Crescent Point Energy Corp. | 10,421,565 | 7,131,150 | |
| 1,600,000 | Pengrowth Energy Corp. | 14,152,118 | 5,856,000 | |
| 250,000 | Vermilion Energy Inc. | 5,479,271 | 14,250,000 | |
| | | **68,294,316** | **52,049,990** | **19.5%** |
| | **Pipes, Power, Utilities and Infrastructure** | | | |
| 320,000 | AltaGas Ltd. | 6,323,420 | 13,868,800 | |
| 375,800 | Boralex Inc. | 4,828,990 | 4,829,030 | |
| 587,300 | Innergex Renewable Energy Inc. | 4,776,876 | 6,671,728 | |
| 160,000 | Inter Pipeline Ltd. | 1,531,099 | 5,750,400 | |
| 180,000 | Keyera Corp. | 3,828,888 | 14,592,600 | |
| 278,800 | Northland Power Inc. | 4,290,383 | 4,262,852 | |
| 850,000 | Veresen Inc. | 9,082,550 | 15,606,000 | |
| | | **34,662,206** | **65,581,410** | **24.6%** |
| | **Real Estate** | | | |
| 140,000 | H&R Real Estate Investment Trust | 2,236,524 | 3,042,200 | |
| 1,800,000 | InnVest REIT | 8,478,000 | 10,764,000 | |
| 400,000 | Morguard REIT | 3,926,219 | 7,264,000 | |
| 120,000 | RioCan REIT | 2,405,983 | 3,171,600 | |
| 400,000 | True North Apartment REIT | 4,270,000 | 3,116,000 | |
| | | **21,316,726** | **27,357,800** | **10.3%** |
| | **Short-Term Investments** | | | |
| $ 4,000,000 | Toronto-Dominion Bank (The), Bankers' Acceptance, *1.2%, due March 9, 2015* | 3,989,000 | 3,989,000 | |
| | | **3,989,000** | **3,989,000** | **1.5%** |
| | **Total Investments** | **$ 228,385,372** | **$ 266,357,078** | **100.0%** |

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

# Notes to the Financial Statements

December 31, 2014 and 2013

## 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 Global Securities Services 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 3, 2015.

## 2. BASIS OF PRESENTATION AND ADOPTION OF IFRS

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), including IFRS 1, First-time Adoption of International Financial Reporting Standards. The Fund adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the CPA Canada Handbook ("Canadian GAAP"). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS Statement of Financial Position at January 1, 2013 and throughout all periods presented as if these policies had always been in effect. Note 13 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended December 31, 2013 as prepared under Canadian GAAP.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 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) 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 circumstance 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 12 for further information about the Fund's fair value measurements.

### c) Cash

Cash is comprised of demand deposits with financial institutions.

### d) 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 Statement of Comprehensive Income.

### e) Investment Transactions and Income and Expense Recognition

Investment transactions are accounted for on the trade date. The interest for distribution purposes shown on the Statement 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.

### f) 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 Statement 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 Statement of Comprehensive Income.

### g) 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.

### h) 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 the accrual basis and included in the Statement of Comprehensive Income.

### i) Redeemable Units

Under IFRS, IAS 32 requires that units of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liabilities. The Fund's 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.

## 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 are 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 are 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 3, 2013 to December 2, 2014. Pursuant to this issuer bid, the Fund was permitted to purchase up to 2,612,600 units for cancellation. The Fund renewed the issuer bid program from December 3, 2014 to December 2, 2015, which allows the Fund to purchase up to 2,557,700 units for cancellation. The Fund may only repurchase units when the Net Asset Value per unit exceeds its trading price.

## Notes to the Financial Statements (continued)

December 31, 2014 and 2013

**Issued**

| | **2014** | 2013 |
|---|---|---|
| | **Number of Units** | Number of Units |
| Units, beginning of year | **26,124,864** | 24,324,241 |
| Issuance of units upon treasury offering | **808,545** | 1,915,205 |
| Units issued under the distribution reinvestment plan | **20,172** | 52,234 |
| Repurchase of units | **(460,100)** | (82,000) |
| Redemption of units | **(422,848)** | (84,816) |
| Units, end of year | **26,070,633** | 26,124,864 |

On December 19, 2014, the Fund completed a treasury offering of 808,545 units for proceeds of $8,099,195, net of agents' fees and issuance costs of $471,382. During the year ended December 31, 2014, 460,100 units were repurchased for cancellation at an average cost of $11.94 per unit (2013 – 82,000 units at an average cost of $11.03 per unit). On November 27, 2014, 422,848 units (2013 – 84,816) were redeemed at a price of $11.24 (2013 – $11.45) per unit.

The weighted average number of units outstanding for the year ended December 31, 2014 was 25,893,816 units (2013 – 25,107,210).

On December 31, 2014, the Fund's closing market price per unit was $10.35 (December 31, 2013 – $11.43).

### 6. CAPITAL MANAGEMENT

The Fund's objectives in managing its capital are to provide unitholders with monthly cash distributions and the opportunity to participate in gains in the value of the investment portfolio. The Fund's capital includes Net Assets attributable to holders of redeemable units. The Fund manages its capital taking into consideration the risk characteristics of its holdings. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to unitholders, return capital to unitholders, increase or decrease its level of borrowing, 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, 2014, the Fund declared total distributions of $0.84 (December 31, 2013 – $0.84) per unit, which amounted to $21,733,760 (December 31, 2013 – $21,103,159; January 1, 2013 – $16,925,739). 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, 2014, 20,172 units (2013 – 52,234) in respect of distributions were issued by the Fund.

### 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, 2014, the administration fee amounted to $1,684,108 (2013 – $1,520,505), with $118,931 payable to the Administrator as of December 31, 2014 (December 31, 2013 – $137,072; January 1, 2013 – $111,154).

The Administrator is also reimbursed for all general and administrative expenses that relate to the operations of the Fund. These expenses amounted to $576,209 and $547,453 for the years ended December 31, 2014 and 2013, 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 years ended December 31, 2014, the service fee amounted to $1,175,543 (2013 – $1,104,936), with $276,544 payable as of December 31, 2014 (2013 – $305,194).

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, 2014, the investment management fee amounted to $1,684,108 (2013 – $1,520,505), with $118,931 payable to the Investment Manager as of December 31, 2014 (December 31, 2013 – $137,072; January 1, 2013 – $111,154).

#### b) Independent Review Committee Fees

The total remuneration paid to members of Independent Review Committee during the year ended December 31, 2014 was $30,648 (2013 – $30,918) and consisted only of fixed fees. For the periods ended December 31, 2014, December 31, 2013 and January 1, 2013, there were no outstanding payables.

## 9. INVESTMENT TRANSACTIONS

| For the year ended December 31 | 2014 | 2013 |
|---|---|---|
| Proceeds from sale of investments | **$ 119,043,581** | $ 189,927,347 |
| Less cost of investments sold: | | |
| Investments at cost, beginning of year | **243,278,008** | 229,567,629 |
| Investments purchased during the year | **94,464,633** | 202,822,879 |
| Investments at cost, end of year | **(228,385,372)** | (243,278,008) |
| Cost of investments sold during the year | **(109,357,269)** | (189,112,500) |
| Net realized gain on sale of investments | **$ 9,686,312** | $ 814,847 |

For the years ended December 31, 2014 and 2013, there were no soft dollar amounts paid.

## 10. SECURITIES LENDING

The Fund has entered into a securities lending program with its custodian, CIBC Mellon Global Securities Services Company. 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, 2014 were $83.3 million (2013 – $104.2 million) and $87.9 million (2013 – $110.3 million), respectively.

## 11. 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, 2014, and groups the securities by market segment. The following comparative summary presents the market segments held by the Fund as at December 31, 2013 and January 1, 2013. Significant risks that are relevant to the Fund are discussed below.

| As at | Dec. 31, 2013 | Jan. 1, 2013 |
|---|---|---|
| Investment Sector | % of Portfolio | % of Portfolio |
| Consumer staples and discretionary | 4.3% | 6.6% |
| Financial | 4.7% | 1.3% |
| Healthcare | 2.3% | 3.0% |
| Industrial | 12.8% | 9.0% |
| Materials | 11.1% | 9.6% |
| Oil and gas | 23.9% | 22.6% |
| Pipe, power, utilities, and infrastructure | 19.7% | 16.8% |
| Real estate | 11.3% | 12.2% |
| Telecom and media | 0.3% | — |
| Short-term investments | 9.6% | 18.9% |
| Total | 100.0% | 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, 2014, 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 $26.2 million or 9.49% of total Net Assets (December 31, 2013 – approximately $27.7 million or 9.1% of total Net Assets; January 1, 2013 – approximately $21.3 million or 8.0% of total Net Assets). In practice, the actual trading results may differ, and the difference could be material.

# Notes to the Financial Statements (continued)

December 31, 2014 and 2013

### b) Credit Risk

Credit risk is the risk that a 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.

### c) 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, 2014, all of the Fund's financial liabilities, other than the redeemable units, had maturities of less than three months.

## 12. 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 derivative 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 judgement 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.

| **As at December 31, 2014** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Equities | $ 262,368,078 | $ — | $ — | $ 262,368,078 |
| Short-term investments | — | 3,989,000 | — | 3,989,000 |
| **Total investments** | **$ 262,368,078** | **$ 3,989,000** | **$ —** | **$ 266,357,078** |

There were no transfers among the levels during the year ended December 31, 2014.

| As at December 31, 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equities | $ 276,863,026 | $ — | $ — | $ 276,863,026 |
| Short-term investments | — | 29,413,046 | — | 29,413,046 |
| Total investments | $ 276,863,026 | $ 29,413,046 | $ — | $ 306,276,072 |

There were no transfers among the levels during the year ended December 31, 2013.

| As at January 1, 2013 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equities | $ 213,903,504 | $ — | $ — | $ 213,903,504 |
| Short-term investments | — | 49,890,780 | — | 49,890,780 |
| Total investments | $ 213,903,504 | $ 49,890,780 | $ — | $ 263,794,284 |

There were no transfers among the levels during the year ended December 31, 2012. All fair value measurements above are recurring. The carrying values of cash, income receivable, amounts receivable for units issued, payable for investments purchased, distributions payable to unitholders, accounts payable and accrued liabilities and the Fund's obligation for Net Assets attributable to holders of redeemable units 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 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 equity positions are classified as level 1 when the security is actively traded and a reliable price is observable. The net loss from equity securities for the year ended December 31, 2014 was $15,340,047 (2013 – gain of $29,586,254).

### b) Short-Term Investments

The Fund's short-term investments are classified as level 2.

## 13. TRANSITION TO IFRS

The effect of the Fund's transition to IFRS is summarized in this note as follows:

### Transition Elections

The only voluntary exemption adopted by the Fund upon transition was the ability to designate a financial asset or liability at fair value through profit or loss upon transition to IFRS. All financial assets designated at FVTPL upon transition were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, Investment Companies.

### Statement of Cash Flows

Under Canadian GAAP, the Fund was exempt from providing a statement of cash flows. IAS 1 requires that a complete set of financial statements include a statement of cash flows for the current and comparative periods, without exception.

### Reconciliation of Equity and Comprehensive Income as Previously Reported under Canadian GAAP to IFRS

| Equity | Dec. 31, 2013 | Jan. 1, 2013 |
|---|---|---|
| Equity as reported under Canadian GAAP | $ 304,535,262 | $ 265,866,147 |
| Revaluation of investments at FVTPL | 658,924 | 819,638 |
| Net Assets attributable to holders of redeemable units | $ 305,194,186 | $ 266,685,785 |

| Comprehensive Income | Dec. 31, 2013 |
|---|---|
| Comprehensive income as reported under Canadian GAAP | $ 40,330,393 |
| Revaluation of investments at FVTPL | (160,714) |
| Increase (decrease) in Net Assets attributable to holders of redeemable units | $ 40,169,679 |

### a) Classification of Redeemable Units Issued by the Fund

Under Canadian GAAP, the Fund accounted for its redeemable units as equity. Under IFRS, IAS 32 requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liabilities. The Fund's 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 and, therefore, the units have been reclassified as financial liabilities on transition to IFRS.

### b) Revaluation of Investments at FVTPL

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Section 3855, Financial Instruments – Recognition and Measurement, which required the use of bid prices for long positions and ask prices for short positions to the extent such prices were available. Under IFRS, the Fund measures the fair values of its investments using the guidance in IFRS 13, Fair Value Measurement, which requires that if an asset or a liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. It also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. As a result, upon adoption of IFRS, an adjustment was recognized to increase the carrying amount of the Fund's investments by $658,924 as at December 31, 2013 and $819,637 as at January 1, 2013.

## 14. FUTURE ACCOUNTING CHANGES

### IFRS 9, Financial Instruments

The final version of IFRS 9, Financial Instruments, was issued by the International Accounting Standards Board 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 a 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; however, it is available for early adoption. In addition, the own credit risk changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The Fund is in the process of assessing the impact of IFRS 9 and has yet determined when it will adopt the new standard.

# Corporate Information

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