

2013 ANNUAL REPORT



RBN.UN

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

### Management Report of Fund Performance

March 12, 2014

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](http://www.blueribbonincomefund.com) or SEDAR at [www.sedar.com](http://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 Limited (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 "Investment Manager"). The Fund is RRSP, DPSP, RRI, 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 August 7, 2013, the Fund completed a treasury offering of approximately 1.9 million units for total gross proceeds of approximately \$21.9 million. The units were offered at a price of \$11.45. The net proceeds were used to purchase securities in accordance with the Fund's investment objectives.

## RISKS

Risks associated with an investment in the units of the Fund are discussed in the Fund's 2013 annual information form, which is available on the Fund's website at [www.blueribbonincomefund.com](http://www.blueribbonincomefund.com) or on SEDAR at [www.sedar.com](http://www.sedar.com). There were no changes to the Fund during the period ended December 31, 2013 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 2013, the Fund declared \$0.84 per unit in cash distributions, compared to \$0.81 per unit in 2012. This reflected the decision to increase the monthly cash distribution to \$0.07 per unit from \$0.055 in October 2012. The higher regular monthly payment represented an annualized yield of 7.2% on the Fund's Net Asset Value at December 31, 2013. Since inception in September 1997, the Fund has paid total cash distributions of \$15.24 per unit.

Total revenue from the Fund's portfolio was \$0.62 per unit in 2013, compared to \$0.66 per unit in 2012 as several companies lowered their dividends including Bonavista Energy Corp., Extencicare Inc., Pengrowth Energy Corp, and Colabor Group Inc. Expenses were \$0.20 per unit, down from \$0.21 per unit in 2012. Although net investment income for the period was lower than distributions paid, the Fund has generated \$1.19 per unit of gains in 2013.

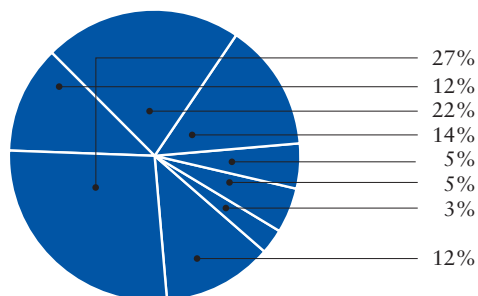
### Net Asset Value

The Net Asset Value per unit of the Fund was \$11.68 at December 31, 2013, up 6.6% or \$0.72 from year end 2012, due to an increase in the value of the Fund's portfolio. The aggregate Net Asset Value of the Fund was \$305.2 million at year end 2013, a \$38.5 million year-over-year increase. The increase reflected \$29.6 million in gains from the portfolio and \$21.1 million raised in the treasury offering, partially offset by the payment of cash distributions in excess of investment income.

### Investment Portfolio

At December 31, 2013, the Fund owned 33 dividend-paying equities and income trusts, compared to 27 at December 31, 2012. Horizon North Logistics Inc., Labrador Iron Ore Royalty Corp., Cominar REIT, Canadian Imperial Bank of Commerce, Davis + Henderson Corp., Transcontinental Inc., and Manitoba Telecom Services Inc. were all added while Whistler Blackcomb Holdings Inc. was divested from the portfolio during the period. The Fund had a net realized and unrealized gain of \$29.6 million in 2013. The largest gains were recorded in pipes, power, utilities and infrastructure sectors where the best performer was Keyera Corp. (23% appreciation in price). In the industrial sector, Horizon North Logistics (42% appreciation) and TransForce Inc. (21% appreciation) generated significant gains. Pengrowth Energy Corp. in the oil and gas sector also performed well in 2013 (25% appreciation). 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	\$ —	\$ 7.8	\$ 7.8
Materials	—	4.8	4.8
Pipes, power, utilities and infrastructure	2.4	6.7	9.1
Industrial	—	8.6	8.6
Consumer staples and discretionary	0.7	(1.3)	(0.6)
Financial	—	3.1	3.1
Healthcare	—	(0.9)	(0.9)
Telecom and media	0.5	0.1	0.6
Real estate	(0.4)	(2.5)	(2.9)
<b>Total</b>	<b>\$ 3.2</b>	<b>\$ 26.4</b>	<b>\$ 29.6</b>

### 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 are accretive to the Net Asset Value per unit at the time of purchase. During 2013, 82,000 units were purchased for cancellation at an average price of \$11.03 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 1.00% 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 2013, these expenses amounted to \$547,453 (2012 – \$658,307). 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. During 2013, management and administrative fees amounted to \$3.0 million and service fees were \$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<sup>(1)</sup>

As at December 31	2013	2012	2011	2010	2009
Net Assets per unit, beginning of year <sup>(2)</sup>	\$ 10.93	\$ 11.28	\$ 11.09	\$ 9.75	\$ 7.50
Increase (decrease) from operations: <sup>(3)</sup>					
Total revenue	0.62	0.66	0.71	0.66	0.69
Total expenses	(0.20)	(0.21)	(0.20)	(0.18)	(0.59)
Realized gains (losses)	0.13	0.50	0.35	0.35	0.14
Unrealized gains (losses)	1.06	(0.49)	(0.04)	1.52	2.30
<b>Total increase (decrease) in Net Assets from operations</b>	<b>\$ 1.61</b>	<b>\$ 0.46</b>	<b>\$ 0.82</b>	<b>\$ 2.35</b>	<b>\$ 2.54</b>
Distributions to unitholders: <sup>(2)</sup>					
From net investment income	0.27	0.23	0.47	0.40	—
From capital gains	0.01	0.52	—	—	—
Return of capital	0.56	0.06	0.19	0.44	0.72
<b>Total distributions to unitholders<sup>(2)</sup></b>	<b>\$ 0.84</b>	<b>\$ 0.81</b>	<b>\$ 0.66</b>	<b>\$ 0.84</b>	<b>\$ 0.72</b>
<b>Net Assets per unit, end of year</b>	<b>\$ 11.66</b>	<b>\$ 10.93</b>	<b>\$ 11.28</b>	<b>\$ 11.09</b>	<b>\$ 9.75</b>

<sup>(1)</sup> The Net Assets per unit presented in the audited annual financial statements differs from the Net Asset Value calculated for weekly Net Asset Value purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for weekly Net Asset Value purposes.

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

<sup>(3)</sup> 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	2013	2012	2011	2010	2009
Net Asset Value (000s)	\$ 305,194	\$ 266,686	\$ 236,652	\$ 256,514	\$ 250,971
Number of units outstanding	26,124,864	24,324,241	20,915,178	23,091,289	25,753,149
Management expense ratio ("MER") <sup>(1)</sup>	2.21%	2.80%	1.84%	2.21%	7.23%
Trading expense ratio <sup>(2)</sup>	0.03%	0.05%	0.05%	0.05%	0.17%
Portfolio turnover rate <sup>(3)</sup>	3.11%	12.92%	4.94%	9.38%	78.96%
Net Asset Value per unit	\$ 11.68	\$ 10.96	\$ 11.31	\$ 11.09	\$ 9.78
Closing market price	\$ 11.43	\$ 11.27	\$ 10.79	\$ 10.64	\$ 9.78

<sup>(1)</sup> 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. For 2009, the MER includes the one-time extra ordinary expenses associated with the reorganization of the Fund. Please see the Expense Ratio section following this table for further discussion of the calculation.

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

<sup>(3)</sup> 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

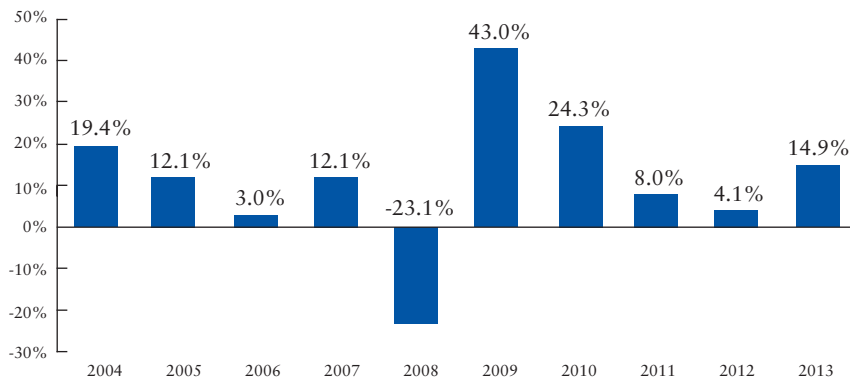
The Fund’s MER was 2.21% for 2013 compared to 2.80% for 2012. The lower MER in 2013 reflected lower agent’s fees and issuance costs for the August, 2013 treasury offering in comparison with the December, 2012 treasury offering. These agent’s fees and issuance costs were borne by subscribers of new units under the treasury offering. Excluding these costs in both years, MER in 2013 was 1.78% compared to 1.93% in 2012.

### 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, 2004 to December 31, 2013. 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 <sup>(1)</sup>
Blue Ribbon Income Fund	14.9%	8.9%	18.1%	10.6%	12.3%
S&P/TSX Composite Index	13.0%	3.4%	11.9%	8.0%	6.6%

<sup>(1)</sup> Period from September 16, 1997 (commencement of operations) to December 31, 2013.

Since inception and in the most recent period, the Fund has consistently outperformed the Composite Index even after taking into account administration costs, due to the value of investing in high-income equities, coupled with careful security selection by the Investment Manager. The Fund’s portfolio differs from the Composite Index in that the Fund’s portfolio tends to pay distributions and dividends at a higher rate than the Composite Index and the portfolio sector weightings of the portfolio may vary from the Composite Index.

## SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2013

Total Net Asset Value	\$ 305,194,186
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Portfolio Composition	% of Portfolio	% of Net Asset Value
Oil and gas	23.8%	24.0%
Pipes, power, utilities and infrastructure	19.7%	19.8%
Industrial	12.8%	12.8%
Real estate	11.3%	11.3%
Materials	11.1%	11.2%
Cash and short-term investments	9.7%	9.8%
Financial	4.7%	4.7%
Consumer staples and discretionary	4.3%	4.3%
Healthcare	2.3%	2.3%
Telecom and media	0.3%	0.3%
Total investment portfolio	100.0%	100.5%
Other net liabilities		(0.5%)
Total Net Asset Value		100.0%

Top 25 Holdings	% of Portfolio	% of Net Asset Value
Cash and short-term investments	9.7%	9.8%
TransForce Inc	6.2%	6.2%
Vermilion Energy Inc.	5.1%	5.1%
Chemtrade Logistics Income Fund	5.1%	5.1%
Keyera Corp.	5.0%	5.0%
ARC Resources Ltd.	4.8%	4.8%
Veresen Inc.	4.7%	4.8%
Noranda Income Fund	4.6%	4.6%
AltaGas Ltd	4.3%	4.3%
Baytex Energy Corp.	4.2%	4.3%
Crescent Point Energy Corp.	3.6%	3.6%
Superior Plus Corp.	3.5%	3.5%
Pengrowth Energy Corporation	3.4%	3.4%
Innergex Renewable Energy Inc.	3.1%	3.1%
EnerCare Inc.	2.8%	2.8%
Innvest REIT	2.7%	2.8%
Bonavista Energy Corp.	2.7%	2.7%
Extendicare Inc.	2.3%	2.3%
Huntingdon Capital Corp.	2.3%	2.3%
Morguard REIT	2.1%	2.2%
Davis + Henderson Corporation	1.7%	1.7%
Canadian Imperial Bank of Commerce	1.6%	1.6%
Horizon North Logistics Inc.	1.6%	1.6%
Colabor Group Inc.	1.5%	1.5%
Transcontinental Inc.	1.5%	1.5%
Total	90.1%	90.6%

*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](http://www.bromptongroup.com) within 60 days of each quarter end.*

## 2013 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, RRIIF, 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 2013 on a per unit basis

Record Date	Payment Date	Eligible Dividend	Capital Gains	Return of Capital	Total Distributions
Jan. 31, 2013	Feb. 14, 2013	\$ 0.02211	\$ 0.00087	\$ 0.04702	\$ 0.07
Feb. 28, 2013	Mar. 14, 2013	0.02211	0.00087	0.04702	0.07
Mar. 28, 2013	Apr. 12, 2013	0.02211	0.00087	0.04702	0.07
Apr. 30, 2013	May 14, 2013	0.02211	0.00087	0.04702	0.07
May 31, 2013	Jun. 14, 2013	0.02211	0.00087	0.04702	0.07
Jun. 28, 2013	Jul. 15, 2013	0.02211	0.00087	0.04702	0.07
Jul. 31, 2013	Aug. 15, 2013	0.02211	0.00087	0.04702	0.07
Aug. 30, 2013	Sep. 16, 2013	0.02211	0.00087	0.04702	0.07
Sep. 30, 2013	Oct. 15, 2013	0.02211	0.00087	0.04702	0.07
Oct. 31, 2013	Nov. 14, 2013	0.02211	0.00087	0.04702	0.07
Nov. 29, 2013	Dec. 13, 2013	0.02211	0.00087	0.04702	0.07
Dec. 31, 2013	Jan. 15, 2014	0.02211	0.00087	0.04702	0.07
Total		\$ 0.26532	\$ 0.01044	\$ 0.56424	\$ 0.84

*This information is of 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 currently manages 5 TSX-listed closed-end portfolios.



INVESTMENT COUNSEL, INC.

## INVESTMENT MANAGER’S REPORT

January 6, 2014

### The Canadian Economy

The current economic focus is on how quickly the US Federal Reserve will continue to implement the tapering of quantitative policies initiated during the last down-turn. The “Fed” has been able to contemplate these changes after recent US economic data has finally shown signs of decent and sustainable growth. Reducing economic intervention is also the course the Bank of Canada would like to pursue but it is facing a tougher task as GDP, while also improving, has been tracking slightly below desired levels, as has the rate of inflation.

Canadian GDP grew by 0.3% in October, the most recent data available, slightly ahead of consensus. This suggests that the fourth quarter had a decent start following a 2.7% rise in Q3. Manufacturing was a key driver of growth in October, accounting for about one-third of the move. Wholesale trade was also a significant contributor, with smaller gains from transportation and warehousing, retailing, and the public sector.

November inflation rates, the latest data available, came in below consensus, with overall CPI up 0.9% and Core CPI up 1.1% year over year. This is below the Bank of Canada’s target of 2.0% causing further weakness in the Canadian Dollar. While the Bank of Canada targets overall CPI, it uses Core CPI as evidence of the underlying trend in inflation. These weak inflation numbers likely will have muted any thoughts of near-term interest rate hikes, possibly pushing out to 2015 any increases.

Employment figures for the month of November jumped by 21.6K, well above consensus, and enough to keep the jobless rate steady at 6.9%. Hiring was broadly across the goods and services sectors with construction employment falling primarily due to softer residential home building. Retail, health care and the public sector showed job declines. The Public sector saw a drop of 29K jobs, in-line with the previous 12 month trend, reflecting ongoing fiscal restraint.

The Canadian housing market sales are on track for a nominal gain in 2013 after rising by 0.2% for the first 11 months, a positive surprise to the majority of forecasters who were expecting some weakness. National sales for the month of November, the most recent release, have held up quite well, with only a slight decline, down 0.1% versus the prior month. Pricing has been even better than expected, jumping by 9.8% over last year. Of note, 25 of the 26 major cities have posted single digit price increases, the median increase being 3.6% year-to-date. Barring any major calamity, the 2014 outlook for the Canadian housing market appears to be quite stable and tracking in-line with the previous decade’s norms.

During the last quarter, the price of a barrel of oil, as measured by the one year forward strip for WTI in Canadian dollars, rose by 0.8% from \$101.08 to \$101.87 and for the year rose by 9.3%. The Canadian AECO natural gas 12-month forward strip price significantly outperformed but after a long period of underperformance, rising by 13.9% from \$3.24 to \$3.69/GL for the quarter and by 23.7% for the year. Canadian spot oil and gas prices at quarter-end stood at \$104.73/barrel and \$3.71/GL respectively.

### Market Performance

The S&P/TSX Composite Total Return Index (“Index”) for the last quarter returned 7.3% and year-to-date has returned 13.0%. The best performing sectors last quarter were Industrials (up 16.3%), Health Care (up 13.8%), and Financials (up 10.0%). The worst performing sectors for the quarter were Materials (down 2.0%), Utilities (up 3.1%) and Consumer Staples (up 4.1%). Year-to-date, the best performing sectors were Healthcare (up 72.1%), Consumer Discretionary (up 43.0%) and Industrials (up 37.5%). The worst performing sectors for the year-to-date were Materials (down 29.1%), Utilities (down 4.1%) and Telecommunication Services (up 13.1%).

### Outlook

Our outlook for the Canadian equity market for 2014 has become more constructive. We believe that further gains in the Index this year are likely, but that there will be some rotation in the leadership of stocks. We expect that the US economy will show reasonable growth this year which will positively influence our own economy and equities. Our focus remains on investments which provide both income and growth, but in an environment where we expect interest rates to eventually rise, we are seeking greater growth from our investments with a little less emphasis on income.

## 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 accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in note 2 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 auditor of the Fund. It has audited the financial statements of the Fund in accordance with Canadian generally accepted auditing standards to enable it to express to unitholders its opinion on the financial statements. The auditor has full and unrestricted access to the Audit Committee to discuss its findings.

*//signed// “Mark A. Caranci”*

*//signed// “Craig T. Kikuchi”*

**Mark A. Caranci**  
*President*  
*Blue Ribbon Fund Management Limited*

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

March 12, 2014

## INDEPENDENT AUDITOR’S REPORT

### To the Unitholders of Blue Ribbon Income Fund (the “Fund”):

We have audited the accompanying financial statements of the Fund, which comprise the statement of investments as at December 31, 2013, the statements of net assets as at December 31, 2013 and 2012 and the statements of operations and retained earnings and changes in net assets 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 the financial statements in accordance with Canadian generally accepted accounting principles, 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 the 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 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, 2013 and 2012 and the results of its operations and the changes in its net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

//signed// “PricewaterhouseCoopers LLP”

Chartered Professional Accountants, Licensed Public Accountants  
Toronto, Ontario

March 12, 2014

## STATEMENTS OF NET ASSETS

As at December 31	2013	2012
<b>Assets</b>		
Investments at fair value	\$ 276,204,102	\$ 213,083,867
Cash and short-term investments	29,854,934	53,870,587
Income receivable	1,433,429	1,269,950
Amounts receivable for units issued	56,000	—
<b>Total assets</b>	<b>307,548,465</b>	<b>268,224,404</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	913,483	655,560
Amounts payable for investments purchased	270,980	—
Distributions payable to unitholders (note 6)	1,828,740	1,702,697
<b>Total liabilities</b>	<b>3,013,203</b>	<b>2,358,257</b>
<b>Unitholders' equity</b>		
Unitholders' capital (note 4)	263,135,620	243,487,626
Contributed surplus (note 4)	11,092,734	11,298,847
Retained earnings	30,306,908	11,079,674
<b>Net Assets representing unitholders' equity (note 3)</b>	<b>\$ 304,535,262</b>	<b>\$ 265,866,147</b>
<b>Number of units outstanding (note 4)</b>	<b>26,124,864</b>	<b>24,324,241</b>
<b>Net Assets per unit</b>	<b>\$ 11.66</b>	<b>\$ 10.93</b>

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 OPERATIONS AND RETAINED EARNINGS

For the years ended December 31	2013	2012
<b>Income</b>		
Distribution and dividend income	\$ 15,010,782	\$ 13,397,285
Interest income	423,475	219,338
Securities lending income	195,223	211,579
	<b>15,629,480</b>	<b>13,828,202</b>
<b>Expenses</b>		
Administration and investment management fees (note 7)	3,041,010	2,547,012
Service fees (note 7)	1,104,936	946,434
Audit fees	37,190	37,614
Independent review committee fees	30,918	31,296
Trustee fees	9,290	7,663
Custodial fees	20,085	23,005
Legal fees	7,600	15,151
Unitholder reporting costs	6,828	6,585
Other administrative expenses (note 7)	708,759	880,230
	<b>4,966,616</b>	<b>4,494,990</b>
<b>Net investment income</b>	<b>10,662,864</b>	<b>9,333,212</b>
<b>Transaction costs</b>	<b>(79,439)</b>	<b>(120,968)</b>
<b>Net realized gain on sale of investments (note 8)</b>	<b>814,847</b>	<b>10,645,258</b>
<b>Change in unrealized gain/loss on investments (note 8)</b>	<b>28,932,121</b>	<b>(10,180,010)</b>
<b>Increase in Net Assets from operations</b>	<b>40,330,393</b>	<b>9,677,492</b>
Retained earnings, beginning of year	11,079,674	18,327,921
Distribution to unitholders	(21,103,159)	(16,925,739)
<b>Retained earnings, end of year</b>	<b>\$ 30,306,908</b>	<b>\$ 11,079,674</b>
<b>Increase in Net Assets from operations per unit<sup>(1)</sup></b>	<b>\$ 1.61</b>	<b>\$ 0.46</b>

<sup>(1)</sup> Based on the weighted average number of units outstanding during the year (note 4).

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

## STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31	2013	2012
<b>Net Assets, beginning of year</b>	<b>\$ 265,866,147</b>	<b>\$ 236,023,333</b>
<b>Operations:</b>		
Increase in Net Assets from operations	40,330,393	9,677,492
<b>Unitholder transactions:</b>		
Distributions to unitholders		
Net investment income	(6,664,650)	(4,888,687)
Capital gains	(260,717)	(10,869,730)
Return of capital	(14,177,792)	(1,167,322)
<b>Total</b>	<b>(21,103,159)</b>	<b>(16,925,739)</b>
Proceeds from issuance of units upon treasury offering, net (note 4)	20,738,031	42,149,873
Proceeds from distribution reinvestment plan (note 6)	579,806	263,646
Repurchase of units (note 4)	(904,830)	(2,434,564)
Redemption of units (note 4)	(971,126)	(2,887,894)
<b>Total unitholder transactions</b>	<b>19,441,881</b>	<b>37,091,061</b>
<b>Increase in Net Assets during the year</b>	<b>38,669,115</b>	<b>29,842,814</b>
<b>Net Assets, end of year</b>	<b>\$ 304,535,262</b>	<b>\$ 265,866,147</b>
<b>Distribution per unit (note 6)</b>	<b>\$ 0.84</b>	<b>\$ 0.81</b>

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

## STATEMENT OF INVESTMENTS

As at December 31, 2013		Cost	Fair Value	% of Portfolio
<b>No. of Units/ Shares</b>	<b>Consumer Staples and Discretionary</b>			
978,100	Colabor Group Inc.	\$ 8,748,846	\$ 4,587,289	
850,000	EnerCare Inc.	3,803,663	8,474,500	
		<b>12,552,509</b>	<b>13,061,789</b>	<b>4.7%</b>
	<b>Financial</b>			
55,000	Canadian Imperial Bank of Commerce	4,097,296	4,989,050	
176,200	Davis + Henderson Income Corp.	3,770,680	5,245,474	
42,000	Toronto-Dominion Bank	3,288,734	4,203,780	
		<b>11,156,710</b>	<b>14,438,304</b>	<b>5.2%</b>
	<b>Healthcare</b>			
1,050,000	Extencicare Inc.	10,170,988	7,161,000	
		<b>10,170,988</b>	<b>7,161,000</b>	<b>2.6%</b>
	<b>Industrial</b>			
491,200	Horizon North Logistics Inc.	2,803,616	4,867,792	
866,700	Superior Plus Corp.	10,625,302	10,695,078	
312,300	Transcontinental Inc., Class 'A'	3,899,431	4,565,826	
750,000	TransForce Inc.	5,655,635	18,937,500	
		<b>22,983,984</b>	<b>39,066,196</b>	<b>14.1%</b>
	<b>Materials</b>			
796,400	Chemtrade Logistics Income Fund	8,206,601	15,489,980	
130,000	Labrador Iron Ore Royalty Corp.	4,054,287	4,466,800	
2,594,100	Noranda Income Fund, Class 'A'	12,830,443	14,034,081	
		<b>25,091,331</b>	<b>33,990,861</b>	<b>12.3%</b>
	<b>Oil and Gas</b>			
500,000	ARC Resources Ltd.	9,981,538	14,760,000	
312,000	Baytex Energy Corp.	10,680,909	12,982,320	
600,000	Bonavista Energy Corp.	13,515,729	8,340,000	
265,000	Crescent Point Energy Corp.	10,421,565	10,925,950	
1,600,000	Pengrowth Energy Corp.	14,152,117	10,512,000	
250,000	Vermilion Energy Inc.	5,479,271	15,585,000	
		<b>64,231,129</b>	<b>73,105,270</b>	<b>26.6%</b>
	<b>Pipe, Power, Utilities, and Infrastructure</b>			
320,000	AltaGas Ltd.	6,323,420	13,046,400	
900,000	Innergex Renewable Energy Inc.	7,320,260	9,522,000	
160,000	Inter Pipeline Fund	1,531,099	4,132,800	
500,000	Just Energy Group Inc.	3,787,621	3,800,000	
240,000	Keyera Corp.	5,105,185	15,326,400	
1,016,500	Veresen Inc.	10,861,662	14,474,960	
		<b>34,929,247</b>	<b>60,302,560</b>	<b>21.8%</b>
	<b>Real Estate</b>			
185,000	Cominar REIT	4,112,698	3,404,000	
140,000	H&R REIT	2,236,524	2,989,000	
578,915	Huntingdon Capital Corp.	6,513,171	6,773,306	
1,800,000	InnVest REIT	8,478,000	8,370,000	
400,000	Morguard REIT	3,926,219	6,576,000	
120,000	RioCan REIT	2,405,983	2,970,000	
400,000	True North Apartment REIT	4,270,000	3,144,000	
		<b>31,942,595</b>	<b>34,226,306</b>	<b>12.4%</b>
	<b>Telecom and Media</b>			
28,700	Manitoba Telecom Services Inc.	806,470	851,816	
		<b>806,470</b>	<b>851,816</b>	<b>0.3%</b>
	<b>Total Canadian Equities</b>	<b>\$213,864,963</b>	<b>\$276,204,102</b>	<b>100.0%</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013 and 2012

### 1. OPERATIONS

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. 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 and commenced operations on September 17, 1997.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) and they include estimates and assumptions made by management that affect the reported amounts of assets and liabilities at the date of these financial statements and the reported amounts of income and expenses during the periods for which the financial statements report. Actual results could differ from these estimates.

#### a) Valuation of Investments

Investments are deemed held for trading in accordance with the Chartered Professional Accountants (“CPA”) Canada Handbook – Accounting Section 3855. The Fund’s investments are valued at estimated fair value. Investments held long that are publicly traded are valued at their bid price on the valuation date. Investments with no available bid price are valued at their closing price. Short-term investments and bonds are valued at the average bid quotations from recognized investment dealers. Securities for which quotations are not readily available are valued at their fair value primarily based on the results of valuation techniques using observable market inputs. The cost of investments is based on their average cost.

#### b) Cash and Short-Term Investments

Cash and short-term investments consist of cash on hand and short-term debt investments with maturities of less than three months on acquisition. Cash and short-term investments are deemed held for trading and therefore are carried at fair value.

#### c) Investment Transactions and Income Recognition

Investment transactions are recorded on trade date, and any realized gains or losses are recognized using the average cost of the investments. Interest income is recognized on an accrual basis. Distributions from income trusts are recognized on the ex-distribution date. Dividend income is recognized on the ex-dividend date. Net realized gains or losses on investments include net realized gains or losses from foreign currency changes.

#### d) Transaction Costs

Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities are expensed and are recognized in the Statements of Operations and Retained Earnings.

#### e) Income Taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). Provided the Fund makes distributions in each year of its net income and net realized capital gains, the Fund will not generally be liable for income tax. It is the intention of the Fund to distribute all of its net income and net realized capital gains on an annual basis. Accordingly, no income tax provision has been recorded.

#### f) Foreign Exchange

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. rate of exchange on each valuation date. Investments, and income and expenses denominated in foreign currencies are translated at the rate of exchange prevailing on the date of such transactions.

#### g) Other Assets and Liabilities

For the purposes of categorization in accordance with Section 3855, accounts payable and accrued liabilities and distributions payable to unitholders are designated as financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short-term nature.

#### h) Future Accounting changes

The adoption of *International Financial Reporting Standards* (“IFRS”) for investment companies will be mandatory for periods beginning on or after January 1, 2014.

The Administrator has developed a plan for the changeover to IFRS. The key elements of the plan include an assessment of differences between Canadian Generally Accepted Accounting Standards (“Canadian GAAP”) and IFRS, changes required to financial statement disclosure and impact on the current process for financial reporting purposes.

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

December 31, 2013 and 2012

Based on the Administrator's assessment of the accounting differences between Canadian GAAP and IFRS, the following main differences were identified:

- a) IFRS 13, Fair Value Measurements, was published in May 2011. The standard provides guidance on the measurement of fair value and allows for the use of last traded prices to value investments if the last traded prices were between the closing bid prices and closing ask prices. Under Canadian GAAP the fair value of investments for financial statement reporting purposes, was required to be measured at closing bid price for long positions and closing ask price for short positions. The Manager has assessed the guidance that will apply under IFRS and has determined that the use of last traded prices is appropriate in valuing investments. The impact to the Net Assets is represented by the Section 3855 adjustment in Note 3.
- b) A Statement of Cash Flow will be required for IFRS reporting purposes.

In addition, the Administrator has presently determined other minor impacts of IFRS will also include additional note disclosure and modifications to existing presentation. The Administrator does not expect that the Net Assets or Net Asset Value will be significantly impacted by the changeover to IFRS.

**3. RECONCILIATION OF NET ASSETS TO NET ASSET VALUE**

In accordance with National Instrument ("NI") 81-106, a reconciliation is required between the Net Assets for financial reporting purposes (the "Net Assets") and the Net Asset Value for reporting other than in the financial statements (the "Net Asset Value"). The reconciliation is as follows:

As at December 31	2013		2012	
	Total	Per Unit	Total	Per Unit
Net Asset Value	\$ 305,194,186	\$ 11.68	\$ 266,685,785	\$ 10.96
Section 3855 adjustment <sup>(1)</sup>	(658,924)	(0.02)	(819,638)	(0.03)
Net Assets	\$ 304,535,262	\$ 11.66	\$ 265,866,147	\$ 10.93

<sup>(1)</sup> The section 3855 adjustment relates to the valuation of an investment at bid price for Net Assets and at closing price for Net Asset Value.

**4. 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 will be 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 will be redeemed effective the Redemption Valuation Date of each year and will be 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 will be 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, 2012 to December 2, 2013. Pursuant to this issuer bid, the Fund was permitted to purchase up to 2,060,500 units for cancellation. The Fund renewed the issuer bid program from December 3, 2013 to December 2, 2014 which allows the Fund to purchase up to 2,612,600 units per cancellation. The Fund may only repurchase units when the Net Asset Value per unit exceeds its trading price.

**Issued**

	2013		2012	
	Number of Units	Amount	Number of Units	Amount
Units, beginning of year	24,324,241	\$ 243,487,626	20,915,178	\$ 205,793,814
Issuance of units upon treasury offering	1,915,205	20,738,031	3,865,000	42,149,873
Units issued under the distribution reinvestment plan	52,234	579,806	23,735	263,646
Repurchase of units	(82,000)	(820,828)	(220,100)	(2,165,662)
Redemption of units	(84,816)	(849,015)	(259,572)	(2,554,045)
Units, end of year	26,124,864	\$ 263,135,620	24,324,241	\$ 243,487,626

On August 7, 2013, the Fund completed a treasury offering for 1,915,205 units for proceeds, net of \$1,191,066 agents' fees and issuance costs, of \$20,738,031. During the year ended December 31, 2013, a total of 82,000 units were repurchased for cancellation at an average cost of \$11.03 per unit (2012 – 220,100 units at an average cost of \$11.06 per unit). On November 28, 2013, 84,816 units (2012 – 259,572) were redeemed at \$11.45 (2012 – \$11.13) per unit.



As of December 31, 2013, the Fund had accumulated contributed surplus of \$11,092,734 (2012 – \$11,298,847). Contributed surplus is recorded when units of the Fund are redeemed or repurchased at prices per unit which are below the average cost per unit of unitholders' capital. When units are redeemed or repurchased at prices per unit which are above the average cost per unit of unitholders' capital, contributed surplus is reduced until it is eliminated and then treated as a reduction of retained earnings (deficit).

The weighted average number of units outstanding for the year ended December 31, 2013 was 25,107,210 (2012 – 20,919,335)

## 5. 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 unitholders' equity. 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, issue warrants or purchase units for cancellation.

## 6. 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, 2013, the Fund declared total distributions of \$0.84 (2012 – \$0.81) per unit, which amounted to \$21,103,159 (2012 – \$16,925,739). Under the Fund's distribution reinvestment plan, unitholders may elect to reinvest monthly distributions in additional units of the Fund, which may be issued from treasury or purchased in the open market. For the year ended December 31, 2013, 52,234 units (2012 – 23,735) in respect of distributions were issued by the Fund.

## 7. MANAGEMENT AND SERVICE FEES AND OTHER RELATED PARTY EXPENSES

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. The Administrator is also reimbursed for all the general and administrative expenses that relate to the operations of the Fund. These expenses amounted to \$547,453 in 2013 and \$658,307 in 2012. 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. Bloom Investment Counsel, Inc. continues to be the Investment Manager of the Fund and is paid an investment management fee equal to 0.50% per annum of the Fund, plus applicable taxes.

## 8. INVESTMENT TRANSACTIONS

For the years ended December 31	2013	2012
Proceeds from sale of investments	\$ 7,561,843	\$ 48,757,142
Less cost of investments sold:		
Investments at cost, beginning of year	179,676,849	190,161,968
Investments purchased during the year	40,935,110	27,626,765
Investments at cost, end of year	(213,864,963)	(179,676,849)
Cost of investments sold during the year	6,746,996	38,111,884
Net realized gain on sale of investments	\$ 814,847	\$ 10,645,258

For the years ended December 31, 2013 and 2012, there were no soft dollar amounts paid.

## 9. SECURITIES LENDING

The Fund has entered into a securities lending program with its custodian, CIBC Mellon Global Securities Services Company. The Fund receives collateral of at least 105% of the value of the securities on loan. Collateral was 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, 2013 were \$104.2 million (December 31, 2012 – \$85.4 million) and \$110.3 million (December 31, 2012 – \$90.2 million), respectively.

## 10. FINANCIAL RISK MANAGEMENT

The Fund's investment activities expose it to a variety of financial risks. The Statement of Investments presents the securities held by the Fund as at December 31, 2013, and groups the securities by market segment. The following comparative summary presents the market segments held by the fund as at December 31, 2012. Significant risks that are relevant to the Fund are discussed below.

Investment Sector	% of Portfolio
Consumer Staples and Discretionary	8.1%
Financial	1.6%
Healthcare	3.8%
Industrial	11.1%
Materials	11.7%
Oil and gas	28.0%
Pipe, Power, Utilities, and Infrastructure	20.7%
Real Estate	15.0%
<b>Total</b>	<b>100.0%</b>

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

December 31, 2013 and 2012

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 income trusts and 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 income trusts and equity securities. As at December 31, 2013, 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 \$27.6 million or 9.1% of total Net Assets (2012 – 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.

**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 9. 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.

All of the Fund's financial liabilities had maturities of less than three months.

**11. FAIR VALUE DISCLOSURES**

The Fund's assets and liabilities recorded at fair value have been categorized in accordance with CPA Canada Accounting Handbook Section 3862, "Financial Instruments – Disclosure."

Section 3862 requires the Fund to classify 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. Short-term notes of \$29.8 million (2012 – \$53.7 million) included in cash and short-term investments are classified as level 1.

As at December 31, 2013	Level 1	Level 2	Level 3	Total
Equities	\$ 276,204,102	\$ —	\$ —	\$ 276,204,102
<b>Total investments</b>	<b>\$ 276,204,102</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 276,204,102</b>

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

As at December 31, 2012	Level 1	Level 2	Level 3	Total
Equities	\$ 213,083,867	\$ —	\$ —	\$ 213,083,867
<b>Total investments</b>	<b>\$ 213,083,867</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 213,083,867</b>

There were no transfers among the levels during the year ended December 31, 2012.

## CORPORATE INFORMATION

### Independent Review Committee

James W. Davie, BComm, MBA

Arthur R.A. Scace, QC, CM

Ken S. Woolner, BSc, PEng

### Directors of Blue Ribbon Fund Management Ltd.

**M. Paul Bloom**, BA (Hons)  
Executive Vice President and Chairman

**Mark A. Caranci**, BComm, CPA, CA  
President and Director

**Adina Bloom Somer**, BA (Hons), MBA, CIM  
Director

### Directors and Officers of Brompton Funds Limited

**Peter A. Braaten**, BA, MBA  
Director

**Raymond R. Pether**, BA, MBA  
Director

**Mark A. Caranci**, BComm, CPA, CA  
Director, President and  
Chief Executive Officer

**Craig T. Kikuchi**, BA, CPA, CA, CFA  
Chief Financial Officer and  
Corporate Secretary

**Christopher Cullen**, BAsC, MBA, CFA  
Senior Vice President

**Laura Lau**, BAsC (Hons), CFA, DMS  
Senior Vice President and Senior Portfolio  
Manager

**Michael Clare**, BComm (Hons), CPA, CA, CFA  
Vice President and Portfolio Manager

**Jason Goletz**, BA  
Vice President, Sales and Marketing

**Michelle L. Tiraborelli**, BSc, MBA  
Vice President

**Ann P. Wong**, BA, MAcc, CPA, CA,  
CPA (Delaware), CFA  
Vice President and Controller

**Kathryn A.H. Banner**, BA, MA  
Assistant Vice President and  
Assistant Corporate Secretary

### Directors and Officers of Bloom Investment Counsel, Inc.

**M. Paul Bloom**, BA (Hons)  
Director, President, Secretary and  
Portfolio Manager

**Adina Bloom Somer**, BA (Hons), MBA, CIM  
Director, Vice President and  
Portfolio Manager

**Beverly Lyons**, FCA, ICD.D, BComm  
Independent Director

**Fiona E. Mitra**, CA  
Chief Financial Officer

**Niall C.T. Brown**, BA (Hons), CFA  
Vice President, Portfolio Manager

**Sara N. Gottlieb**, BA (Hons), CFA  
Vice President, Portfolio Manager

### Trustee

Computershare Trust Company of Canada

### Custodian

CIBC Mellon Global Securities  
Services Company

### Auditor

PricewaterhouseCoopers LLP

### Website

[www.blueribbonincomefund.com](http://www.blueribbonincomefund.com)

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