



MANAGED BY BLOOM INVESTMENT COUNSEL, INC.

BLOOM SELECT INCOME FUND

INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2014

BLB.UN

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 REPORT OF FUND PERFORMANCE

This interim management report of fund performance for Bloom Select Income Fund (the "Fund") contains financial highlights but does not contain the interim or audited annual financial statements of the Fund. The interim financial statements follow this report. You may obtain a copy of any of the Fund's interim or annual reports, at no cost, by calling 1-855-BLOOM18 or by sending a request to Investor Relations, Bloom Investment Counsel, Inc., Suite 1710, 150 York Street, Toronto, Ontario, M5H 3S5, or by visiting our website at www.bloomfunds.ca or SEDAR at www.sedar.com. Unitholders may also contact us 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 presented 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 and annual information form, and is based on closing market prices of investments. Figures presented in the financial statements and certain figures presented in the Financial Highlights section of this management report of fund performance are based on Net Assets calculated using International Financial Reporting Standards which require the use of a price between the last bid and ask prices for investment valuation, which may differ from the closing market price.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

THE FUND

Bloom Select Income Fund is a closed-end investment trust managed by Bloom Investment Counsel, Inc. (“Bloom” or the “Manager”). Bloom provides administrative services to the Fund and actively manages the Fund’s portfolio. The units of the Fund trade on the Toronto Stock Exchange (“TSX”) under the symbol BLB.UN. The units of the Fund are RRSP, DPSP, RRIIF, RESP, RDSP and TFSA eligible.

INVESTMENT MANAGER



The manager 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, the Manager currently manages specialty high-income equity portfolios comprised of dividend paying common equity securities, income trusts and real estate investment trusts.

INVESTMENT MANAGER’S REPORT

July 2, 2014

The Canadian Economy

Canadian GDP for the month of April, the most recent figure released, came in weaker than commentators expected, with growth of only 0.1% versus a consensus expectation of 0.2% growth. This weak result was somewhat surprising as various data points had been indicating a stronger result. Weakness was driven primarily by the goods-producing industries declining by 0.3%, particularly in mining and utilities. Service sector gains were broad based, leaving the overall sector up 0.3%. GDP appears to now be tracking closer to 2%, for the second quarter, trailing the Bank of Canada’s expectations for 2.5%.

Inflation in the month of May, the most current data available, came in much higher than consensus, with overall CPI up 2.3% and Core CPI up 1.7% year-over-year. A very large increase was felt in agricultural commodity pricing directly impacting overall food prices, meat products being the hardest hit. Alcohol and tobacco prices experienced the largest increase, up 0.8% for the month. Deflationary worries from earlier in the year now seem to be clearly off the table. If anything, the Bank of Canada may have to address its target expectation of 2.0% inflation, a level we may easily breach before year-end.

Headline fears of “out of control” household debt to income ratios now appear to be unwarranted as homeowner equity is at its highest level in years approaching 70% and the ratio of total household debt to total assets has fallen to below 19%. The rise of existing home prices has been the primary driver of this improvement in the fiscal well-being of Canadians. May pricing rose 7.1% year-over-year across Canada, with Ontario continuing to lead the way, rising 7.9%. An interesting dichotomy appears to be developing as new house pricing was only up 1.6% for the same period, impacted mainly by the flattish results of condominiums.

Canadian job growth in May, the most recent data available, saw a month-over-month recovery of 26,000 jobs, in line with consensus expectations. The surprise was in the details where part-time jobs grew by 55,000 and full-time jobs actually declined by 29,000 despite the recent strength in the energy sector. Overall, the strength in part-time jobs reflects the seasonal increase in service-related jobs typically filled by students over the summer holiday period.

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 0.9% from \$107.09 to \$108.09. The Canadian AECO natural gas 12-month forward strip price significantly underperformed reversing the previous quarter’s strong results, falling by 7.2% from \$4.47 to \$4.15/GL for the quarter. Canadian spot oil and gas prices at quarter-end stood at \$112.45/barrel and \$4.37/GL respectively.

Market Performance

The S&P/TSX Composite Total Return Index for the last quarter returned 6.4%. The best performing sectors last quarter were Energy (up 10.5%), Industrials (up 9.4%), and Materials (up 6.4%). The worst performing sectors for the quarter were Health Care (down 6.6%), Telecommunication Services (up 0.9%) and Utilities (up 1.3%).

Outlook

Continuing our stance since the start of this year, we remain constructive on the Canadian equity market which year-to-date has maintained its outperformance over the U.S. markets. We still expect that the U.S. economy will show reasonable growth this year which will positively influence our own economy and equities. 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.

RESULTS OF OPERATIONS

Distributions

During the six months ended June 30, 2014, distributions were \$956,359 or \$0.25 per unit (2013: \$1,324,140 or \$0.25 per unit). The 2014 distribution reflects a monthly rate per unit of \$0.041666, in accordance with the targeted distribution rate of 5% per annum on the subscription price of \$10 per unit as disclosed in the Fund's Prospectus. Since inception in April 2012 the Fund has paid total cash and reinvested distributions of \$1.0986 per unit.

Increase in Net Assets from Operations

The Fund's income was \$5.0 million (\$1.30 per unit) for the six months ended June 30, 2014 (2013: \$1.0 million or \$0.18 per unit), arising from average portfolio investments during the period of \$38.4 million (2013: \$46.3 million). Income was comprised primarily of \$0.9 million in dividend and distribution income, \$0.4 million in net realized gains on sales of investments and \$3.6 million net unrealized gains on investments arising during the period (2013: \$1.5 million in dividend and distribution income offset by \$0.5 million in net realized losses on sales of investments and \$0.01 million in net unrealized losses on investments arising during the period).

Expenses were \$0.5 million (\$0.13 per unit) for the period (2013: \$0.6 million or \$0.12 per unit), the major components being management fees of \$375,477 and other administrative expenses of \$44,017.

Net Asset Value

The Net Asset Value per unit of the Fund was \$10.84 at June 30, 2014, up by 9.4% from \$9.91 at December 31, 2013. The aggregate Net Asset Value of the Fund increased from \$38.1 million at December 31, 2013 to \$41.3 million as of June 30, 2014, primarily due to net realized and unrealized gains of \$4.1 million on the portfolio and dividend income of \$0.9 million, offset by cash distributions to unitholders of \$0.9 million (net of reinvested distributions), expenses of \$0.5 million and the cost of units repurchased and cancelled of \$0.4 million. There were no redemptions during the period.

Liquidity

To provide liquidity for unitholders, units of the Fund are listed on the TSX under the symbol BLB.UN. The Fund received approval from the TSX on May 10, 2012 for a normal course issuer bid program from May 14, 2012 to May 13, 2013, allowing the Fund to purchase for cancellation up to 537,281 units on the TSX if they trade below Net Asset Value per unit. 151,600 units were purchased and cancelled by the Fund under this normal course issuer bid in the six months ended June 30, 2013 at a cost of \$1,343,145, or \$8.86 per unit. No units were purchased and cancelled by the Fund under this normal course issuer bid in the six months ended June 30, 2014.

The Fund received approval from the TSX on May 10, 2013 for a normal course issuer bid program from May 14, 2013 to May 13, 2014, allowing the Fund to purchase for cancellation up to 516,641 units on the TSX if they trade below Net Asset Value per unit. 32,200 units were purchased and cancelled by the Fund under this normal course issuer bid in the six months ended June 30, 2013 at a cost of \$279,835, or \$8.69 per unit. 34,400 units were purchased and cancelled by the Fund under this normal course issuer bid in the six months ended June 30, 2014 at a cost of \$335,566, or \$9.75 per unit.

The Fund received approval from the TSX on May 20, 2014 for a normal course issuer bid program from May 22, 2014 to May 21, 2015, allowing the Fund to purchase for cancellation up to 371,326 units on the TSX if they trade below Net Asset Value per unit. No units were purchased and cancelled by the Fund under this normal course issuer bid in the six months ended June 30, 2013. 9,800 units were purchased and cancelled by the Fund under this normal course issuer bid in the six months ended June 30, 2014 at a cost of \$100,494, or \$10.25 per unit.

Investment Portfolio

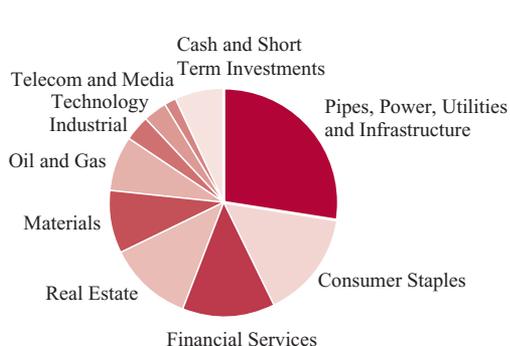
The Fund has established a portfolio comprised primarily of Canadian equities and income trusts, each of which was selected to achieve the investment objectives of the Fund. The investment objectives of the Fund include the requirement that the Fund only invests in stocks with a Beta (measurement of volatility) of less than 1.0 at the time of purchase, which affects the selection of investments. The Manager is pleased to have been able to invest 93% of the portfolio by market value as at June 30, 2014 in stocks displaying the requisite Beta at the time of purchase. The remainder of the portfolio has been invested at various times in Canadian short term bank paper and provincial treasury bills, until other suitable investment opportunities present themselves.

The Fund has invested primarily in: the Financial Services; Pipes, Power, Utilities and Infrastructure; and Consumer Staples sectors. The Fund’s largest individual holdings by market value as at June 30, 2014 are in Altus Group Limited (Financials), Superior Plus Corp. and Veresen Inc. (Pipes, Power, Utilities and Infrastructure) and InnVest REIT (Real Estate). The breakdown of the portfolio by market value is shown in the pie chart as well as in the Summary of Investment Portfolio below.

The Fund had unrealized gains of \$9.1 million in its portfolio as at June 30, 2014, with the Pipes, Power, Utilities and Infrastructure sector contributing gains of \$3.6 million, the Financial Services sector contributing gains of \$2.5 million and the Oil and Gas sector contributing gains of \$1.1 million. Each of the other sectors also contributed unrealized gains at the end of the period.

The Fund also had realized gains of \$0.4 million from the sale of several holdings, the largest gains being from the sale of holdings in CIBC in the Financials sector and DH Corporation in the Technology sector, offset by realized losses on the sale of holdings in Reitmans (Canada) Ltd. Class A in the Consumer Staples sector.

Portfolio Sectors



Sector	Value (thousands)	% of Total
Pipes, Power, Utilities and Infrastructure	\$ 11,445	27.7%
Consumer Staples	6,260	15.1%
Financial Services	5,479	13.3%
Real Estate	4,816	11.7%
Materials	3,737	9.0%
Oil and Gas	3,279	7.9%
Industrial	1,499	3.6%
Technology	1,320	3.2%
Telecom and Media	664	1.6%
Cash and Short Term Investments	2,870	6.9%
Total	\$ 41,369	100.0%

RELATED PARTY TRANSACTIONS

Related party transactions consist of administrative and investment management services provided by the Manager pursuant to the Fund’s Declaration of Trust and Fund expenses paid by the Manager and recharged to the Fund.

Administration and Investment Management Fees

Pursuant to the Fund’s Declaration of Trust, the Manager provides investment management and administrative services to the Fund, for which it is paid an annual management fee aggregating to 1.75% per annum of the Net Asset Value of the Fund. The management fee is comprised of 1.25% per annum of the Net Asset Value of the Fund, calculated weekly and payable monthly in arrears, plus an amount to be paid by the Manager to registered dealers equal to the service fee of 0.5% per annum of the Net Asset Value of the Fund, calculated quarterly and paid as soon as practicable after the end of each calendar quarter, plus applicable taxes.

The management fee is intended to compensate the Manager for providing portfolio advisory and certain administrative services to the Fund. A portion of this fee equal to the service fee is paid by the Manager to the registered investment dealers based on the proportionate number of units held by clients of each dealer at the end of each calendar quarter. During the six months ended June 30, 2014, management fees amounted to \$375,477 including service fees of \$108,419 (2013: management fees of \$472,757 including service fees of \$133,056).

Other expenses recharged to the Fund

On an ongoing basis the Manager pays on behalf of the Fund, and subsequently recharges to the Fund, certain expenses of the Fund. For the six months ended June 30, 2014 the Fund expensed investor relations costs of \$10,616 (2013: \$16,727), Independent Review Committee fees of \$16,860 (2013: \$16,860) and insurance premiums of \$297 (2013: \$661) which were paid and recharged by the Manager. The Fund pays for all ordinary expenses incurred in connection with the operation and administration of the Fund, including: all costs of portfolio transactions, fees payable to third party services providers, custodial fees, legal, accounting, audit and valuation fees and expenses, expenses of the members of the IRC, expenses related to compliance with National Instrument 81-107 (“NI 81-107”), fees and expenses relating to the voting of proxies by a third party, costs of reporting to unitholders, registrar, transfer and distribution agency costs, printing and mailing costs, listing fees and expenses and other administrative expenses and costs incurred in connection with the continuous public filing requirements, taxes, brokerage commissions, costs and expenses relating to the issue of units of the Fund, costs and expenses of preparing financial and other reports, costs and expenses arising as a result of complying with all applicable laws, regulations and policies and all amounts paid on account of indebtedness.

INDEPENDENT REVIEW COMMITTEE

Prior to the Fund’s launch, the Independent Review Committee (“IRC”) for the Fund was established pursuant to NI 81-107 and became operational. The IRC provides independent oversight regarding actual and perceived conflicts of interest involving the Fund and performs all other functions required of an independent review committee under NI 81-107. Costs and expenses, including the remuneration of IRC members, the costs of legal and other advisors to, and legal and other services for, IRC members, and insurance costs are chargeable to the Fund. As at June 30, 2014 the IRC consisted of three members, all of whom are independent of the Manager.

The Manager has received two standing instruction from the IRC with respect to related party transactions:

Allocation of Fund Expenses and Charging Expenses of Related Entities to the Funds

The standing instruction requires that the Manager follow its policy regarding the charging of expenses of related parties to the Fund, which will, in the IRC’s opinion, result in a fair and reasonable result for the Fund. The Manager reports any instances of reliance on the standing instruction to the IRC and the IRC reviews the transactions to confirm compliance with the standing instruction. The Manager relies on the standing instruction on an ongoing basis in charging to the Fund expenses which are payable by the Fund as per the Fund’s Declaration of Trust and Annual Information Form, but which have been paid by the Manager. These expense charges are measured on an accrual basis at the monetary value of the expenses incurred.

The Decision to Re-open a Fund

The standing instruction requires that the Manager follow its policy and procedures concerning fund re-openings, which will, in the IRC’s opinion, result in a fair and reasonable result for the Fund. The Manager will report any instances of reliance on the standing instruction to the IRC, but has not yet relied on this standing instruction.

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 distributions made by the Fund in the period were reinvested at Net Asset Value per unit in additional units of the Fund.

Annual Compound Returns

The following table shows the Fund’s annual compound return for the year to June 30, 2014 and for the period since inception, compared with the S&P/TSX Composite Total Return Index (“Index”). The 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, and is an appropriate benchmark as the Fund invests in such common stocks, REITs and income trusts. Since the Fund is actively managed, the sector weightings differ from those of the Index. Also, the Fund’s portfolio contains predominantly low volatility, high dividend paying securities, whereas the Index does not necessarily focus on this type of investment. As well, the Fund may invest in issuers that are not included in the Index. For these reasons it is not expected that the Fund’s performance will mirror that of the Index. Further, the 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.

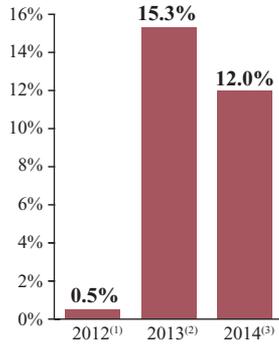
	One year	Since inception⁽¹⁾
Bloom Select Income Fund	28.3%	12.6%
S&P/TSX Composite Total Return Index	28.7%	14.0%

⁽¹⁾ Period from April 20, 2012 (commencement of operations) to June 30, 2014

During both periods the Fund has slightly underperformed relative to the Index, after taking into account the expenses of the Fund. In addition to the effect of the deduction of management fees and expenses inherent in the Fund's performance figures, this reflects the differences in average sector weightings between the Fund's portfolio and the Index over these periods; for example, over the year to June 30, 2014 the Fund was overweight compared to the Index in the consumer staples and the industrials sectors, and was underweight in the materials and financials sectors. It also reflects differences in individual portfolio selections between the Fund's portfolio and the Index within each of the sectors, which result in different average sector returns.

Year-by-Year Returns

The bar chart shows the Fund's performance for the period. It shows, in percentage terms, how an investment held on the first day of the period would have changed by the last day of the period.



⁽¹⁾ Period from April 20, 2012 (commencement of operations) to December 31, 2012

⁽²⁾ Year from January 1, 2013 to December 31, 2013

⁽³⁾ Six months from January 1 to June 30, 2014

BLOOM SELECT INCOME FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2014

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the period. *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, because the increase 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⁾

	Six months ended		Year ended	
	June 30, 2014	December 31, 2013	April 20, 2012 to December 31, 2012	
Net Assets per unit, beginning of period⁽¹⁾⁽²⁾	\$ 9.91	\$ 9.07	\$ 10.00	
Unit issue expense⁽³⁾	–	–	(0.61)	
Increase from operations:⁽²⁾				
Total revenue	0.24	0.53	0.34	
Total expenses	(0.13)	(0.22)	(0.16)	
Realized losses	0.12	(0.32)	(0.03)	
Unrealized gains (losses)	0.94	1.26	(0.15)	
Total increase in Net Assets from operations⁽¹⁾	\$ 1.17	\$ 1.25	\$ 0.00	
Distributions to unitholders⁽²⁾⁽⁴⁾				
From net investment income	\$ –	\$ (0.07)	\$ –	
From return of capital	(0.25)	(0.43)	(0.35)	
Total distributions to unitholders	\$ (0.25)	\$ (0.50)	\$ (0.35)	
Net Assets per unit, end of period⁽¹⁾⁽²⁾	\$ 10.84	\$ 9.91	\$ 9.07	

⁽¹⁾ This information is derived from the Fund's financial statements.

⁽²⁾ Net Assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time. The increase in Net Assets from operations per unit is based on the weighted average number of units outstanding over the fiscal period.

⁽³⁾ Unit issue expense of \$3,340,911 were incurred in connection with the issuance of Fund units. Unit issue expense per unit is based on the number of units issued at the time the expenses were incurred.

⁽⁴⁾ \$101,820 (2013: \$123,409; 2012: \$98,622) of distributions were reinvested in units under the Fund's Distribution Reinvestment Plan. The remainder of the distributions were paid in cash.

Ratios and Supplemental Data

As at and for the fiscal period ended	June 30, 2014	December 31, 2013	December 31, 2012⁽¹⁾
Net Asset Value (000s) ⁽²⁾	\$ 41,304	\$ 38,114	\$ 49,012
Number of units outstanding ⁽²⁾	3,810,795	3,844,984	5,404,932
Management expense ratio ("MER") ⁽³⁾	2.48%	2.43%	9.22%
Trading expense ratio ⁽⁴⁾	0.02%	0.09%	0.32%
Portfolio turnover rate ⁽⁵⁾	1.95%	4.65%	2.91%
Net Asset Value per Unit ⁽²⁾	\$ 10.84	\$ 8.89	\$ 9.07
Closing market price ⁽²⁾	\$ 10.57	\$ 8.61	\$ 8.87

⁽¹⁾ Period from inception on April 20, 2012 to December 31, 2012

⁽²⁾ As at the period end date shown

⁽³⁾ 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 period, including, in 2012, one-time unit issue expense relating to the Fund's initial public offering. Any unit issue expense is added to annualized ongoing expenses and expressed as a percentage of the average Net Asset Value of the Fund during the period.

⁽⁴⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of the average Net Asset Value of the Fund during the period.

⁽⁵⁾ The Fund's portfolio turnover rate indicates how actively the Manager manages the Fund's 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.

SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2014

Total Net Asset Value (including Cash, Short Term Investments and Other Net Assets)	\$41,304,475
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Portfolio Composition	% of Equity Portfolio	% of Total Net Asset Value
Pipes, Power, Utilities and Infrastructure	29.8%	27.7%
Consumer Staples	16.3%	15.2%
Financial	14.2%	13.3%
Real Estate	12.5%	11.7%
Materials	9.7%	9.0%
Oil and Gas	8.5%	7.9%
Industrial	3.9%	3.6%
Technology	3.4%	3.2%
Telecom and Media	1.7%	1.6%
Total Investment Portfolio	100.0%	93.2%
Cash and Short Term Investments		7.0%
Other Non-Debt Net Assets (Liabilities)		(0.2%)
Total Net Asset Value		100.0%

Top 25 Holdings	% of Equity Portfolio	% of Total Net Asset Value
Cash and Short Term Investments	N/A	7.0%
Altus Group Limited	7.2%	6.7%
Superior Plus Corp.	6.1%	5.7%
Veresen Inc.	5.6%	5.2%
InnVest REIT	5.4%	5.0%
Chemtrade Logistics Income Fund	5.2%	4.8%
Premium Brands Holdings Corporation	5.1%	4.7%
Bonterra Energy Corp.	5.1%	4.7%
EnerCare Inc.	4.8%	4.4%
Noranda Income Fund Priority Units	4.5%	4.2%
Keyera Corp.	4.4%	4.1%
Retrocom Mid-Market REIT	4.2%	3.9%
Innergex Renewable Energy Inc.	3.9%	3.7%
Transcontinental Inc.	3.9%	3.6%
Capstone Infrastructure Corporation	3.9%	3.6%
Vermilion Energy Inc.	3.5%	3.2%
DH Corporation	3.4%	3.2%
AltaGas Ltd.	3.2%	3.0%
Cominar REIT	2.9%	2.7%
TD Bank Group	2.9%	2.7%
Pizza Pizza Royalty Corp.	2.8%	2.6%
Gibson Energy Inc.	2.7%	2.5%
Colabor Group Inc.	2.4%	2.2%
Great-West Lifeco Inc.	2.2%	2.1%
Scotiabank	2.0%	1.9%

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.bloomfunds.ca within 60 days of each quarter end.

NOTICE

The accompanying unaudited financial statements of Bloom Select Income Fund (the “Fund”) for the six months ended June 30, 2014 have been prepared by Bloom Investment Counsel, Inc. (the “Manager” of the Fund) and approved by the Board of Directors of the Manager.

Signed



M. Paul Bloom
President and Director
Bloom Investment Counsel, Inc.

August 12, 2014

Signed



Fiona E. Mitra
Chief Financial Officer
Bloom Investment Counsel, Inc.

BLOOM SELECT INCOME FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2014**STATEMENTS OF FINANCIAL POSITION (unaudited)**

	June 30, 2014	December 31, 2013	January 1, 2013
Assets			
Current assets			
Investments	\$ 38,499,116	\$ 37,625,378	\$ 44,362,350
Cash and cash equivalents (note 7)	2,870,243	593,368	5,202,669
Dividends and distributions receivable	228,022	222,784	304,683
Prepaid expenses and other assets	56,734	24,220	31,913
Total assets	41,654,115	38,465,750	49,901,615
Liabilities			
Current liabilities			
Distributions payable to unitholders	158,781	160,236	225,202
Accrued liabilities (note 12)	190,859	191,311	196,755
Amounts due to investment dealers	–	–	467,316
Total liabilities	349,640	351,547	889,273
Unitholders' equity (note 8)			
Unitholders' capital	31,865,786	33,095,830	48,818,077
Contributed surplus	–	–	68,891
Retained earnings	9,438,689	5,018,373	125,374
Net assets representing unitholders' equity	\$ 41,304,475	\$ 38,114,203	\$ 49,012,342
Net assets per unit	\$ 10.84	\$ 9.91	\$ 9.07

The accompanying notes are an integral part of these financial statements

BLOOM SELECT INCOME FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2014

STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

For the six months ended	June 30, 2014	June 30, 2013
Income		
Dividend and distribution income	\$ 915,036	\$ 1,466,975
Interest for distribution purposes	1,359	13,854
Securities lending income (note 14)	4,587	32,619
Other changes in fair value of investments		
Net realized gain (loss) on sale of investments	443,420	(521,002)
Net change in unrealized appreciation (depreciation) of investments	3,608,942	(8,773)
Total Investment income	4,973,344	983,673
Expenses (Note 11)		
Management fees (note 12)	375,477	472,757
Audit fees	18,569	14,749
Unitholder reporting costs	16,967	17,883
Independent review committee fees	16,860	16,860
Custody fees	6,460	6,556
Legal fees	5,383	8,195
Other administrative expenses	44,017	58,798
Transaction costs (13)	8,740	21,049
Total expenses	492,473	616,847
Total increase in net assets from operations	\$ 4,480,871	\$ 366,826
Retained earnings, beginning of period	\$ 5,018,373	\$ 125,374
Surplus of repurchase cost over average cost of units cancelled	(60,555)	–
Retained earnings, end of period (note 8)	\$ 9,438,689	\$ 492,200
Weighted average units outstanding during the period	3,832,306	5,322,936
Increase in net assets from operations per unit (note 3i)	\$ 1.17	\$ 0.07

STATEMENTS OF CHANGES IN NET ASSETS ATTRIBUTABLE TO HOLDERS OF REDEEMABLE UNITS (unaudited)

For the six months ended	June 30, 2014	June 30, 2013
Net assets, beginning of period	\$ 38,114,203	\$ 49,012,342
Increase in net assets from operations	4,480,871	366,826
Distributions to unitholders (note 10)	(956,359)	(1,324,140)
Capital unit transactions (note 8)		
Repurchase and cancellation of units	(375,505)	(1,645,729)
Surplus of repurchase cost over average cost of units cancelled	(60,555)	(20,428)
Reinvestment of distributions	101,820	123,408
Net decrease from capital unit transactions	(334,240)	(1,542,749)
Increase (decrease) in net assets	3,190,272	(2,500,063)
Net assets, end of period	\$ 41,304,475	\$ 46,512,279

The accompanying notes are an integral part of these financial statements

BLOOM SELECT INCOME FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2014

STATEMENTS OF CASH FLOWS (unaudited)

For the six months ended	June 30, 2014	June 30, 2013
Cash flows from operating activities:		
Increase in net assets from operations	\$ 4,480,871	\$ 366,826
Adjustments for:		
Net realized gain (loss) on sale of investments	(443,420)	521,002
Net change in unrealized appreciation (depreciation) of investments	(3,608,942)	8,773
Dividends and distributions receivable	(5,238)	261
Prepaid expenses and other assets	(32,514)	(27,596)
Accrued liabilities	(452)	27,147
Return of capital received	109,277	170,562
Capital gains distributions received	38,425	
Purchase of investments	(749,763)	(3,974,780)
Proceeds from sale of investments	3,780,685	2,143,027
Cash provided by operating activities	3,568,929	(764,778)
Cash flows from financing activities:		
Repurchase of units for cancellation	(436,060)	(1,666,157)
Distributions paid to unitholders, net of reinvested distributions	(855,994)	(1,207,838.0)
Cash provided by financing activities	(1,292,054)	(2,873,995)
Net increase (decrease) in cash and cash equivalents	2,276,875	(3,638,773)
Cash and cash equivalents, beginning of period (note 7)	593,368	5,202,669
Cash and cash equivalents, end of period (note 7)	\$ 2,870,243	\$ 1,563,896
Interest received	\$ 725	\$ 18,361
Dividends and distributions received	\$ 1,057,500	\$ 1,637,798

The accompanying notes are an integral part of these financial statements

BLOOM SELECT INCOME FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2014

SCHEDULE OF INVESTMENTS

As at June 30, 2014		Cost	Carrying Value
No. of Units/ Shares			
	Canadian Equities		
	Consumer Staples and Discretionary		
240,000	Colabor Group Inc.	\$ 1,913,751	\$ 909,600
150,000	EnerCare Inc.	1,459,159	1,828,500
10,000	Loblaw Cos. Ltd.	470,258	476,200
80,000	Pizza Pizza Royalty Corp.	798,793	1,092,000
90,000	Premium Brands Holdings Corporation	1,573,787	1,953,900
		6,215,748	6,260,200
	Financial Services		
120,000	Altus Group Limited	904,664	2,752,800
28,000	Great-West Lifeco Inc.	675,201	845,040
11,000	Scotiabank	572,000	782,540
20,000	TD Bank Group	793,280	1,098,600
		2,945,145	5,478,980
	Industrial		
100,000	Transcontinental Inc.	1,123,640	1,499,000
		1,123,640	1,499,000
	Materials		
95,000	Chemtrade Logistics Income Fund	1,500,788	1,995,000
310,000	Noranda Income Fund Priority Units	1,673,114	1,742,200
		3,173,902	3,737,200
	Oil and Gas		
30,000	Bonterra Energy Corp.	1,386,162	1,942,800
18,000	Vermilion Energy Inc.	819,806	1,336,500
		2,205,968	3,279,300
	Pipes, Power, Utilities and Infrastructure		
25,000	AltaGas Ltd.	759,625	1,227,000
350,000	Capstone Infrastructure Corporation	1,422,108	1,487,500
30,000	Gibson Energy Inc.	637,604	1,021,200
140,000	Innergex Renewable Energy Inc.	1,338,809	1,513,400
21,600	Keyera Corp.	901,811	1,697,976
165,000	Superior Plus Corp.	1,244,805	2,341,350
115,000	Veresen Inc.	1,583,692	2,156,250
		7,888,454	11,444,676
	Real Estate		
60,000	Cominar REIT	1,238,928	1,131,000
390,000	InnVest REIT	1,804,993	2,074,800
350,000	Retrocom Mid-Market REIT	1,530,010	1,610,000
		4,573,931	4,815,800
	Technology		
42,500	DH Corporation	810,724	1,319,625
		810,724	1,319,625
	Telecom and Media		
17,100	Thomson Reuters Corporation	480,913	664,335
		480,913	664,335
	Total Canadian equities	\$ 29,418,425	\$ 38,499,116
	Embedded broker commissions	(67,719)	
	Total investments	\$ 29,350,706	\$ 38,499,116

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2014

1. GENERAL INFORMATION

Bloom Select Income Fund (the “Fund”) is a closed-end investment trust established under the laws of the province of Ontario pursuant to a Declaration of Trust dated March 22, 2012. The Fund is listed on the Toronto Stock Exchange under the symbol BLB.UN and commenced operations on April 20, 2012. The address of the Fund’s principal place of business is 150 York Street, Toronto, Ontario. The Fund invests in equity securities of Canadian companies. The financial statements are presented in Canadian dollars.

The manager and trustee of the Fund is Bloom Investment Counsel, Inc. (the “Manager”). CIBC Mellon Trust Company is the custodian of the Fund and CIBC Mellon Global Securities Services Company is the administrator of the Fund.

These financial statements were authorized for issue by the Manager on August 12, 2015.

2. BASIS OF PRESENTATION AND ADOPTION OF IFRS

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting* and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The Fund adopted IFRS in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the CPA 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 17 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, and the six months ended June 30, 2013, prepared under Canadian GAAP.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of August 12, 2014, which is the date on which the interim financial statements were authorized for issue by the Manager. Any subsequent changes to IFRS that are given effect in the Fund’s annual financial statements for the year ending December 31, 2014 could result in restatement of these interim financial statements, including the transition adjustments recognized on transition to IFRS.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

The Fund’s financial instruments include investments, cash and cash equivalents, dividends and distributions receivable, receivable for investments sold, payable for investments purchased, distributions payable, accrued liabilities, redemptions payable and units issued.

The Fund’s investments are designated as financial assets to be measured at fair value through profit and loss (FVTPL).

All other financial assets and liabilities of the Fund are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted where appropriate, at the contract’s effective interest rate. The carrying values of financial assets and liabilities at amortized cost approximate their fair values due to their short-term nature.

The Fund recognizes financial instruments at fair value on initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost.

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 traded in active markets (which includes the Fund’s investments) is based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for investment valuation where that price falls between the latest bid and ask prices. In circumstances where the last traded price is not

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2014 (continued)

within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances.

The Fund classifies fair value measurements within a hierarchy as described in Note 15(h). The Fund recognizes 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.

e) Impairment of financial assets at amortized cost

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Fund recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

d) Derecognition of financial assets and liabilities

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership are transferred, or in which these risks and rewards are neither transferred nor retained but the Fund does not retain control of the asset. On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is included in the statements of comprehensive income. The Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Fund enters into securities lending transactions in which it lends investments to counterparties, but since the Fund retains all of the risks and rewards of ownership, the investments are not derecognized. Non-cash collateral pledged by the counterparty to a securities lending transactions is not recognized as the Fund does not accept the risks and rewards of ownership of that collateral.

e) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statements of financial position only when the Fund has a legal right to offset the amounts and it intends to either settle on a net basis or realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, e.g. for gains and losses arising from a group of similar transactions, such as realized gains and losses on investments.

f) Cash and cash equivalents

Cash and cash equivalents consist of deposits with financial institutions and short-term debt instruments with original maturities of less than three months.

g) Investment transactions and income recognition

Investment transactions are recorded on the trade date. Dividend income and distributions from underlying funds are recognized on the ex-dividend or ex-distribution date. Interest for distribution purposes shown on the statements of comprehensive income represents the discount received by the Fund on its short-term debt instruments recognized on an accrual basis. Realized and unrealized gains and losses from investment transactions are calculated on an average cost basis.

h) Foreign exchange

The functional and presentation currency of the Fund is the Canadian dollar. Amounts received by the Fund on an offering of its units and amounts payable on redemption are received or paid in Canadian dollars. Any currency other than the Canadian dollar represents foreign currency to the Fund. Purchases and sales of investments in foreign currencies are translated into the Fund's reporting currency using the exchange rate prevailing on the trade date. Income on foreign investments is recorded net of withholding tax and is translated at the prevailing exchange rate on the transaction date. The quoted fair value of investments and other assets and liabilities denominated in foreign currencies is translated at the period-end exchange rate.

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2014 (continued)

i) Increase (decrease) in net assets from operations per unit

Increase (decrease) in net assets from operations per unit represents the increase (decrease) in net assets from operations for the period divided by the weighted average number of units outstanding during the period.

j) Distributions

Income and net realized capital gains (reduced by loss carryforwards, if any) earned by the Fund are distributed to participants through a regular monthly distribution. Any excess income and net realized capital gains not so distributed during the year are distributed in December of each year to unitholders. Any excess of regular monthly distributions over actual income and net realized capital gains is characterized as a return of capital.

k) Transaction costs on investment transactions

Transaction costs on purchases and sales of investments are expensed and are included in ‘Transaction costs’ in the statements of comprehensive income. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The final version of IFRS 9, *Financial instruments* (IFRS 9) was issued by the IASB in July 2014 and will replace IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). IFRS 9 is effective for annual periods beginning on or after January 1, 2018, however is available for early adoption. IFRS 9 has not yet been adopted by the Fund but is expected to be relevant to the Fund. The Fund has not yet begun the process of assessing the impact that the standard will have on its financial statements or whether it will early adopt any of the new requirements.

IFRS 9 introduces a model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements:

Classification and measurement of investments and application of the fair value option

In classifying and measuring the financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39. The most significant judgment made is the determination that the fair value option can be applied to the Fund’s investments.

Classification of obligation to unitholders

The Manager is also required by IAS 32, *Financial Instruments: Presentation* to make significant judgments about whether or not the obligation to unitholders represents a liability of the Fund or equity of the Fund. The most significant of these judgments are: that the Fund does not have any obligation, other than on redemption of the units, to deliver cash or other financial instruments to the unitholders; that total expected cash flows attributable to the units over each of their lives are based substantially on net income, the change in net assets or the change in the fair value of assets over that time; and that as a result of these and other judgments, the obligation to unitholders is classified as equity.

6. TAXATION

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada) and accordingly is subject to income tax on its income, including net realized capital gains, which is not paid or payable to the Fund’s unitholders. The Fund’s taxation year end is December 31. No provision for income taxes has been recorded in the accompanying financial statements as all

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2014 (continued)

net income and net realized capital gains of the Fund for the year are distributed to the unitholders to the extent necessary to reduce income taxes payable to nil.

Non-capital loss carryforwards may be applied against future years' taxable income, and may be carried forward for 20 years from the year in which they are realized. As at June 30, 2014, the Fund had no non-capital losses carried forward (December 31, 2013 and January 1, 2013 – nil). Capital losses incurred by the Fund may be carried forward indefinitely to apply against capital gains realized in future years. As at June 30, 2014, the Fund had \$1,663,003 in capital losses available for carryforward (December 31, 2013 – \$1,663,003; January 1, 2013 – \$34,207).

Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the statements of financial position as a deferred income tax asset.

7. CASH AND CASH EQUIVALENTS

The Fund's cash and cash equivalents as at June 30, 2014, December 31, 2013 and January 1, 2013 comprised the following:

	June 30, 2014	December 31, 2013	January 1, 2013
Cash	\$ 871,329	\$ 94,253	\$ 1,204,939
Cash equivalents	1,998,914	499,115	3,997,730
	\$ 2,870,243	\$ 593,368	\$ 5,202,669

Cash equivalents as at June 30, 2014 comprised:

Type	Issuer	Par value	Maturity date	Yield	Fair value
Banker's acceptance	HSBC Bank Canada	2,000,000	July 18, 2014	1.17%	\$1,998,914

Cash equivalents as at December 31, 2013 comprised:

Type	Issuer	Par value	Maturity date	Yield	Fair value
Banker's acceptance	HSBC Bank Canada	500,000	February 25, 2014	1.18%	\$ 499,115

Cash equivalents as at January 1, 2013 comprised:

Type	Issuer	Par value	Maturity date	Yield	Fair value
Banker's acceptance	HSBC Bank Canada	3,000,000	January 22, 2013	1.18%	\$2,997,968
Banker's acceptance	TD Bank	1,000,000	January 9, 2013	1.09%	999,762
		4,000,000			\$3,997,730

8. UNITHOLDERS' EQUITY

The Fund is authorized to issue an unlimited number of a single class of transferable and redeemable units each of which represents an equal, undivided interest in the net asset value ("NAV") 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 surrendered for redemption annually at the option of the unitholder during the period from September 15 until 5.00 p.m. (Toronto time) on the last business day in September, subject to the Fund's right to suspend redemptions in certain circumstances. Units properly surrendered for redemption will be redeemed on the second last business day in October of each year (the Annual Redemption Date) and the redeeming unitholder will receive a redemption price per unit equal to 100% of the NAV per unit as determined on the Annual Redemption Date, less any costs and expenses incurred by the Fund in order to fund such redemption. For the purpose of calculating the NAV used in connection with the redemption of units, the value of the securities held by the Fund will be equal to the weighted average trading price of such securities over the last three business days preceding the Annual Redemption Date.

BLOOM SELECT INCOME FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2014

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2014 (continued)

The Fund has received approval from the TSX for normal course issuer bid (NCIB) programs between specified dates, allowing the Fund to purchase units for cancellation on the TSX if they trade below Net Asset Value per unit. The maximum number of units which can be purchased and cancelled is specified for each NCIB. Units purchased and cancelled by the Fund for the six months ended June 30, 2014 and 2013 were as follows:

Approval date	Start date	End date	Maximum units	Units purchased and cancelled	
				2014	2013
May 10, 2012	May 14, 2012	May 13, 2013	537,281	–	151,600
May 10, 2013	May 14, 2013	May 13, 2014	516,641	34,400	32,200
May 20, 2014	May 22, 2014	May 21, 2015	371,326	9,800	–
Total				44,200	183,800

When units of the Fund are redeemed or purchased for cancellation at a price per unit which is lower than the average cost per unit, the difference is included in contributed surplus on the statements of net assets. If the redemption or purchase price is greater than the average cost per unit, the difference is first charged to contributed surplus until the entire account is eliminated, and the remaining amount is charged to retained earnings (deficit) in the statements of net assets.

Unit transactions and movements in unitholders' equity of the Fund for the six months ended June 30, 2014 and 2013 were as follows:

	Number of Units	Unitholders' capital	Contributed surplus	Retained earnings	Total
Six months ended June 30, 2014					
Beginning of period	3,844,984	\$ 33,095,830	\$ –	\$ 5,018,373	\$ 38,114,203
Increase in net assets from operations	–	–	–	4,480,871	4,480,871
Distributions to unitholders from return of capital	–	(956,359)	–	–	(956,359)
Reinvestment of distributions	10,011	101,820	–	–	101,820
Repurchase and cancellation of units	(44,200)	(375,505)	–	(60,555)	(436,060)
End of period	3,810,795	\$ 31,865,786	\$ –	\$ 9,438,689	\$ 41,304,475
Six months ended June 30, 2013					
Beginning of period	5,404,932	\$ 48,818,077	\$ 68,891	\$ 125,374	\$ 49,012,342
Increase in net assets from operations	–	–	–	366,826	366,826
Distributions to unitholders from return of capital	–	(1,324,140)	–	–	(1,324,140)
Reinvestment of distributions	13,240	123,408	–	–	123,408
Repurchase and cancellation of units	(32,100)	(1,645,729)	(20,428)	–	(1,666,157)
End of period	5,386,072	\$ 45,971,616	\$ 48,463	\$ 492,200	\$ 46,512,279

9. CAPITAL MANAGEMENT

Units issued and outstanding are considered to be the capital of the Fund. The Fund's capital therefore comprises net assets of \$41,304,475 (December 31, 2013: \$38,114,203; January 1, 2013 – \$49,012,342). 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 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.

10. DISTRIBUTIONS TO UNITHOLDERS

Distributions, as declared on the Fund's behalf by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month, payable by the fifteenth business day of the following month. For the six months ended June 30, 2014, the Fund declared total distributions of \$0.25 (2013 – \$0.25) per unit, which amounted to \$956,359 (2013 – \$1,324,140). Under the Fund's distribution reinvestment plan (DRIP[®]), unitholders may elect to reinvest monthly

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2014 (continued)

distributions in additional units of the Fund which are issued from treasury. In the six months ended June 30, 2014, distributions of \$101,820 were reinvested in 10,011 units of the Fund which were issued from treasury (six months ended June 30, 2013 – distributions of \$123,409 were reinvested in 13,240 units of the Fund which were issued from treasury).

11. EXPENSES

Management fees and other reasonable expenses incurred in the operations of the Fund are charged as expenses in the statements of comprehensive income of the Fund, and include expenses paid by the manager on behalf of the Fund and subsequently recharged to the Fund as described in note 12.

The Fund pays for all other expenses incurred in connection with the operation and administration of the Fund, including: all costs of portfolio transactions, fees payable to third party services providers, custodial fees, legal, accounting, audit and valuation fees and expenses, expenses of the members of the IRC, expenses related to compliance with NI 81-107, fees and expenses relating to the voting of proxies by a third party, costs of reporting to unitholders, registrar, transfer and distribution agency costs, printing and mailing costs, listing fees and expenses and other administrative expenses and costs incurred in connection with the continuous public filing requirements, taxes, brokerage commissions, costs and expenses relating to the issue of units of the Fund, costs and expenses of preparing financial and other reports, costs and expenses arising as a result of complying with all applicable laws, regulations and policies and all amounts paid on account of indebtedness.

12. RELATED PARTY TRANSACTIONS

In accordance with the Declaration of Trust, the Manager is entitled to an annual management fee aggregating to 1.75% per annum of the Net Asset Value of the Fund, comprised of 1.25% per annum of the Net Asset Value of the Fund, calculated weekly and paid monthly in arrears, plus an amount to be paid by the Manager to registered dealers equal to the service fee of 0.50% per annum of the Net Asset Value of the Fund, calculated quarterly and paid as soon as practicable after the end of each calendar quarter, plus applicable taxes.

For the six months ended June 30, 2014, the Fund expensed management fees of \$375,477 (2013 – \$472,757). As at June 30, 2014, the Fund had management fees payable of \$102,405 (December 31, 2013 – \$94,839; January 1, 2013 – \$123,314) included in accrued liabilities.

On an ongoing basis, the Manager pays on behalf of the Fund, and subsequently recharges to the Fund, certain expenses of the Fund. For the six months ended June 30, 2014 the Fund expensed independent review committee fees of \$16,860 (2013 – \$16,860), and investor relations costs of \$10,616 (2013 – \$16,727) and insurance premiums of \$297 (2013 – \$661) (both included in “other administrative expenses”) which were paid and recharged by the manager. As at June 30, 2014 the Fund owed the Manager \$1,965 for recharged expenses (December 31, 2013 – \$1,682; January 1, 2013 – \$2,749)

Units held by the Manager and its affiliates represent 2.9% of the units outstanding at June 30, 2014 (December 31, 2013 – 2.0%; January 1, 2013 – 1.9%).

13. BROKERAGE COMMISSIONS ON SECURITIES TRANSACTIONS

During the six months ended June 30, 2014 the Fund paid \$8,740 (2013 – \$21,049) in brokerage commissions and other transaction costs for portfolio transactions. There are no soft dollar commissions.

14. SECURITIES LENDING

The Fund has entered into a securities lending program with CIBC Mellon Global Securities Services Company, which has a DBRS credit rating of AA/R-1/Stable and a Moody’s credit rating of A1/P-1/Stable, as lending agent. Securities lending transactions involve the temporary exchange of securities for collateral with a commitment to deliver the same securities and collateral on a specified future date. Income is earned in the form of fees paid by the counterparty and is recognised on the accrual basis in the statement of comprehensive income.

The Fund receives collateral of at least 102% of the value of securities on loan. Collateral may comprise: cash; debt that is issued or guaranteed by the Government of Canada or a province thereof, by the Government of the United States of America or of one of the states of the United States of America or of a sovereign state of the G7 countries, or of Austria, Belgium, Denmark, Finland, Netherlands, Sweden or Switzerland, or a permitted supranational agency of Organisation for Economic Coordination and Development countries; debt that is issued or guaranteed by a financial institution whose

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2014 (continued)

short-term debt is rated A-1 or R-1 or equivalent and includes bankers acceptances, banker bearer deposit notes, or irrevocable letters of credit; corporate debt or corporate commercial paper; or convertible securities.

The aggregate market value of securities loaned and collateral held under securities lending transactions as at June 30, 2014 and 2013 and January 1, 2013 are as follows:

As at June 30, 2014		As at December 31, 2013		As at January 1, 2013	
Securities Loaned	Collateral held	Securities Loaned	Collateral held	Securities Loaned	Collateral held
\$ 4,685,276	\$ 4,923,714	\$ 4,252,531	\$ 4,483,759	\$ 13,695,346	\$ 14,453,487

15. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

a) Risk factors

The Fund’s investment activities expose it to a variety of risks associated with financial instruments.

The Manager seeks to maximize the returns derived for the level of risk to which the Fund is exposed and to minimize potential adverse effects on the Fund’s performance by employing professional and experienced portfolio managers, by daily monitoring of the Fund’s positions and market events, and by diversifying the investment portfolio within the constraints of the investment objectives and restrictions. The Manager also maintains a governance structure that oversees the Fund’s investment activities and monitors compliance with the Fund’s stated investment objectives and restrictions, internal guidelines and securities regulations.

b) Credit risk

The Fund is exposed to credit risk, which 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 assets represents the maximum credit risk exposure as at June 30, 2014, December 31, 2013 and January 1, 2013.

All transactions in listed securities are settled upon delivery using approved brokers. The trade will fail if either party fails to meet its obligations. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker.

The Fund enters into securities lending transactions with counterparties whereby the Fund temporarily exchanges securities for collateral with a commitment by the counterparty to deliver the same securities at a future date. All counterparties are subject to a stringent examination of creditworthiness which includes a financial assessment of the company, a review of qualitative factors including management and corporate governance, comparison to similar companies and consideration of ratings assigned by external ratings agencies, and the value of collateral must be at least 102% of the fair value of the securities loaned. Therefore credit risk associated with these transactions is considered minimal.

The Fund limits its exposure to credit loss by dealing with counterparties, including the lending agent, of high credit quality. To maximize the credit quality of its investments, the Fund’s Manager performs ongoing credit evaluations based upon factors surrounding the credit risk of counterparties, historical trends and other information. Given that the Fund is primarily invested in equities, credit risk is not considered significant.

c) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because 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 investments present a risk of loss of capital. The Manager aims to moderate this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Fund’s investment objectives and strategy. The maximum other price risk 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 June 30, 2014, had the prices of these securities increased or decreased by 10%, with all other variables held constant, net assets would have increased or decreased by approximately \$3,849,912 (December 31, 2013 – \$3,762,538, January 1, 2013 – \$4,436,235) or

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2014 (continued)

9.3% (December 31, 2013 – 9.9%; January 1, 2013 – 9.0%) of total net assets. In practice, the actual trading results may differ and the impact could be material.

d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to liquidity risk through the annual redemption of its units, because there may be insufficient trade volumes in the markets for the securities of the Fund or because the securities may be subject to legal or contractual restrictions on their resale. The Fund receives notice of at least 22 business days prior to the date of redemption of units and has up to 10 business days after the redemption date to settle the redemptions, which provides the Manager time to liquidate securities to fund the redemptions, although there remains a risk that the required funds cannot be obtained. All of the liabilities of the Fund mature in six months or less. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed of. The Fund aims to retain sufficient cash and cash equivalent positions to maintain liquidity; therefore, the liquidity risk for the Fund is considered minimal.

e) Interest rate risk

Interest rate risk arises on interest-bearing financial instruments. The Fund is exposed to interest rate risk on its short-term debt instruments. Fluctuations in interest rates have a direct effect on the Fund's ability to earn interest income. As at June 30, 2014, December 31, 2013 and January 1, 2013, the Fund had no significant exposure to interest rate risk due to the short term nature of its short-term debt instruments, which had maturities of less than three months.

f) Currency risk

Currency risk arises on financial instruments denominated in foreign currencies. Fluctuations in foreign exchange rates impact the valuation of assets and liabilities denominated in foreign currencies. As at June 30, 2014, December 31, 2013 and January 1, 2013, the Fund had no direct exposure to currency risk since none of its financial instruments were denominated in foreign currencies.

g) Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk, expressed in terms of percentage of net assets invested by sector, as at June 30, 2014, December 31, 2013 and January 1, 2013:

Market segment	June 30, 2014	December 31, 2013	January 1, 2013
Consumer staples and discretionary	15.2%	16.9%	14.7%
Financial services	13.3%	14.3%	15.1%
Healthcare	–	–	4.4%
Industrial	3.6%	3.1%	9.6%
Materials	9.0%	10.5%	9.4%
Oil and Gas	7.9%	7.2%	7.0%
Pipes, power, utilities and infrastructure	27.7%	26.8%	15.1%
Real estate	11.7%	12.3%	11.0%
Technology	3.2%	5.1%	–
Telecom and media	1.6%	2.6%	4.2%

g) Fair value hierarchy

The Fund classifies fair value measurements within a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Manager has the ability to access at the measurement date;
- Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2014 (continued)

Level 3 Inputs that are unobservable. The determination of fair value require significant management judgment or estimation.

If inputs of different levels are used to measure an asset's of liability's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The following fair value hierarchy table presents information about the Fund's financial instruments measured at fair value as of June 30, 2014, December 31, 2013 and January 1, 2013:

June 30, 2014

	Level 1		Level 2		Level 3		Total
Investments	\$ 38,499,116	\$	–	\$	–	\$	38,499,116
	\$ 38,499,116	\$	–	\$	–	\$	38,499,116

December 31, 2013

	Level 1		Level 2		Level 3		Total
Investments	\$ 37,625,378	\$	–	\$	–	\$	37,625,378
	\$ 37,625,378	\$	–	\$	–	\$	37,625,378

January 1, 2013

	Level 1		Level 2		Level 3		Total
Investments	\$ 44,362,350	\$	–	\$	–	\$	44,362,350
	\$ 44,362,350	\$	–	\$	–	\$	44,362,350

There were no transfers between the levels during the six months ended June 30, 2014 and 2013.

16. FINANCIAL INSTRUMENTS BY CATEGORY

All of the Fund's assets and liabilities other than prepaid expenses and other assets are financial instruments. As at June 30, 2014, December 31, 2013 and January 1, 2013, all of the Fund's financial instruments other than investments were carried at amortized cost, and investments were carried at FVTPL having been designated as such on transition to IFRS.

For the six months ended June 30, 2014, net gains on financial instruments at FVTPL were \$4,968,757 (2013 – \$969,818).

17. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

This note summarizes the effects of the Fund's transition to IFRS.

Transition elections

The only voluntary exemption adopted by the Fund upon transition was the ability to designate a financial asset or financial liability at fair value through profit and loss (FVTPL) 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.

NOTES TO FINANCIAL STATEMENTS (unaudited)

June 30, 2014 (continued)

Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

Equity

	<u>December 31, 2013</u>	<u>January 1, 2013</u>
Unitholders' equity as reported under Canadian GAAP	\$ 38,064,316	\$ 48,864,383
Revaluation of investments at FVTPL	49,887	147,959
Unitholders' equity	<u>\$ 38,114,203</u>	<u>\$ 49,012,342</u>

Comprehensive income

	<u>Year ended December 31, 2013</u>	<u>Period ended June 30, 2013</u>
Increase in net assets from operations as reported under Canadian GAAP	\$ 6,282,515	\$ 415,652
Revaluation of investments at FVTPL	(98,072)	(48,827)
Increase in net assets from operations	<u>\$ 6,184,443</u>	<u>\$ 366,825</u>

Revaluation of investments at FVTPL

Under Canadian GAAP, the Fund measured the fair value 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 are 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 \$147,959 at January 1, 2013 and \$49,887 at December 31, 2013. The impact of this adjustment was to decrease the Fund's increase in net assets by \$48,827 for the six months ended June 30, 2013 and by \$98,072 for the year ended December 31, 2013.

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