



MANAGED BY BLOOM INVESTMENT COUNSEL, INC.

## **BLOOM SELECT INCOME FUND**

# **INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2018**

**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, unless otherwise indicated, and we assume no obligation to update or revise them to reflect new events or circumstances.*

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### **MANAGEMENT REPORT OF FUND PERFORMANCE**

This interim management report of fund performance for Bloom Select Income Fund (the "Fund") contains financial information 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 annual or interim reports, at no cost, by calling 1-855-BLOOM18 or by sending a request to Unitholder Information, Bloom Investment Counsel, Inc., Suite 1710, 150 York Street, Toronto, Ontario, M5H 3S5, or by visiting our website at [www.bloomfunds.ca](http://www.bloomfunds.ca) or SEDAR at [www.sedar.com](http://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. The remaining figures presented in the Financial Highlights section are based on net assets calculated using previously applicable Canadian generally accepted accounting principles which required the use of the last bid price for investment valuation, which differed 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. This Fund has a distribution reinvestment plan (“DRIP”) allowing unitholders to automatically reinvest their monthly distributions in additional units of the Fund.

### **INVESTMENT MANAGER**



The manager was established in 1985 and specializes in the management of segregated investment portfolios for wealthy individuals, foundations, 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, for four TSX listed closed end funds.

### **INVESTMENT MANAGER’S REPORT**

July 6, 2018

#### **Fund performance**

The Fund demonstrated a negative 5.2% return in the six months ended June 30, 2018, compared to 1.9% for its benchmark index, the S&P/TSX Composite Total Return Index. This continues the underperformance seen over the one year, three year, five year, and since inception periods to June 30, 2018 (see “Past Performance” below).

Positions in Transcontinental Inc., Premium Brands Holding Corporation, Parkland Fuel Corp. and Superior Plus Corp. were the greatest contributors to performance since the beginning of the year. The Fund’s holding in Corus Entertainment Inc. was a particular detractor to performance. We do not believe that Corus’s recently reported results nor their dividend cut confirmation were responsible for the stock’s decline in value, but rather Shaw Communications Inc.’s recent indication that it wants to monetize its significant Corus shareholding and to a lesser degree the increase in the short interest in the stock.

On a sector basis, the Fund’s holdings in the Energy, Consumer Staples and Utilities sectors were the greatest contributors to performance over the period, offset primarily by the Fund’s Consumer Discretionary sector holdings.

#### **The Canadian Economy**

Canadian real GDP increased 0.1% in April, following a 1.3% increase during the first quarter of 2018. The April increase was slightly above an expectation for flat real GDP for the month partially due to the negative impact weather had on retail, residential construction and food services. Interestingly, real estate was a positive contributor in April, showing the first such increase since the federal mortgage qualification-tightening (B-20) guidelines. This could help bolster the Bank of Canada’s (BoC) confidence in the stability of the housing market and lead to a rate hike of 0.25% later this month. With that said, Canadian real GDP growth is expected to decelerate to 1.9% later this year, and it is therefore unlikely at present that there will be a further BoC rate hike this year.

We reiterate Governor Poloz’s concerns surrounding NAFTA and note that an acknowledgement that “a deal will be reached” (with the U.S.) has yet to materialize, and we do not expect any progress with negotiations to be straight forward. However, despite all the rhetoric on protectionism, the BoC’s most recent Business Outlook Survey (BOS) remained “robust”, as businesses are still generally expecting a somewhat faster pace of sales activity in the near-term, with an even larger balance towards more hiring. The BOS suggests that the second quarter will show decent GDP growth, but tells us little about the more distant outlook for the Canadian economy.

After 15 years of Liberal rule in Ontario, it is worth thinking about the economic implications of the PC party taking power. Ontario, which generates nearly 40% of Canada’s GDP, is already close to full employment, and has a debt burden

that reflects the legacy of weaker years. Premier Doug Ford's package of major tax relief, including reductions in gasoline levies and personal tax rates, would likely on their own swing the province into a larger deficit. It would also add a hefty dose of fiscal stimulus that might push the BoC into additional rate hikes over time. However, the BoC's view that the Canadian economy no longer needs stimulus isn't likely to change very quickly.

While overall capacity utilization rates remain fairly tight, inflationary pressures have been building as core inflation increased to 1.9% in May, from 1.8% in December 2017. This core measure does not include energy prices, which drove Canada's headline inflation rate of 2.2% in May (significantly below expectations of 2.6%), compared to 1.7% in December 2017. It should also be noted that April retail sales disappointed with a 1.2% decline versus a flat consensus expectation.

Employment growth has turned negative over the last couple of months, however, Canada's jobless rate remains at its lowest level since the early 1970s. Wage growth continues to show strength, accelerating significantly in May to 3.9% year-on-year (from 3.3% in April). As highlighted in the most recent May employment report, the Canadian labour market lost 16,900 jobs during the first five months of the year. Combined with a stabilization of people willing and able to work (the participation rate), the unemployment rate remained at 5.8%, which is close to the lowest level we have seen in 40 years, unchanged from the end of 2017. We continue to expect employment growth to be negatively impacted later this year owing to the minimum wage increases recently implemented in Ontario, and pending in Alberta with an October commencement date.

An additional data point we track, benchmark Canadian home prices, posted a 1.4% increase in the first 5 months of the year, however Canadian annualized housing starts decelerated sharply in May to 196,000, the third monthly decline in a row, compared to 216,000 in December 2017. Policies such as the foreign buyers' taxes in B.C. and Ontario implemented over the last couple of years by both the Federal and Provincial governments have continued to help cool the price of homes. The impact from the January 1, 2018 start of the B-20 guidelines and higher interest rates have also had the desired impact on over-heated markets in Southern Ontario and British Columbia since the beginning of this year.

On that note, higher short-term (i.e. the Canadian 5-year) interest rates have put upward pressure on mortgage (and other lending) rates and we remain somewhat concerned with the levels of both personal and mortgage debt of Canadian consumers. Consequently, this reinforces our view that the BoC will increase rates at most, one more time (likely this month) for the remainder of the year, allowing consumers to naturally adjust their spending, and focus on debt reduction as their top financial priority. We have already seen this dynamic starting to play out, with a reduction in the debt-to-disposable income ratio suggesting the era of household leveraging could well be behind us.

Lastly, as we highlighted in our previous update, the flattening of the yield curve is something we have been keeping a close eye on. By way of background, an inverted yield curve (short-term yields greater than longer-term yields) has been the best predictor of recessions over the last 70 years. In Canada, the 2-10 years spread has flattened again over the past month and is closer to ~25 bps as 10-year Government of Canada maturities are barely yielding above 2%, suggesting that expectations of a recession have increased for the near-term.

### **Market Performance**

The S&P/TSX Composite Total Return Index for the six months returned 1.9%. The best performing sectors were Information Technology (up 22.2%), Industrials (up 6.6%) and Real Estate (up 5.3%) and the worst performing sectors for the quarter were Utilities (down 6.2%), Telecommunication Services (down 5.0%) and Consumer Staples rounding out the bottom three (down 2.6%).

The Canadian dollar during the last six months decreased by 4.7% against the U.S. dollar, and on a longer-term basis, the trailing 12-month performance of the Loonie versus the U.S. dollar was negative 1.5%. Material Canadian dollar strength is unlikely anytime soon with BoC rate hikes more likely to be gradual over the near-term, creating further interest rate divergence from likely several further Fed rate hikes during the remainder of this year.

### **Outlook**

The S&P/TSX has delivered one of the worst year-to-date results in the G7 on a currency-adjusted basis. However, it has finally begun to narrow the performance gap with global markets over the past quarter, recently hitting a record high, pushing above levels last seen at the start of this year. This is all the more impressive given that it comes alongside news flow that is not particularly bullish for the Canadian economy and equity market. First, the escalation in trade tensions would hit Canada disproportionately hard, given its status as a small open economy strongly tied to the U.S. market, and

the potential impact of tariffs on the auto sector could significantly hurt several industrial-related names. Second, we see continued evidence that soft housing market conditions are reducing credit growth more meaningfully, which could lead to less future overall consumer purchasing activity.

While this recent performance seems counter-intuitive, we note that the dominant sectors within the S&P/TSX are not especially vulnerable to protectionism. After last year's frustration – when Canada led the G7 in economic growth, but trailed on equity returns – this year is one of those occasions where it is actually not a bad thing that the S&P/TSX is not particularly representative of the Canadian economy.

Despite our disciplined valuation approach, we remain active on finding bright spots in the market that we believe will be able to prosper in most economic environments and maintain a positive outlook for the Canadian equity market for the remainder of the year.

## **RESULTS OF OPERATIONS**

### **Distributions**

During the six months ended June 30, 2018 distributions totaled \$0.25 per unit. The 2018 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 on April 20, 2012 the Fund has paid total cash and reinvested distributions of \$3.134566 per unit.

### **Increase in Net Assets from Operations**

The Fund's net investment loss was \$0.9 million (\$0.45 per unit) for the six months ended June 30, 2018, arising from average portfolio investments during the period of \$19.3 million. The loss was comprised primarily of \$1.4 unrealized loss on investments arising during the period, offset by \$0.4 million in dividend and distribution income and \$0.1 million in net realized gains on sales of investments during the period.

Expenses were \$0.2 million (\$0.12 per unit) for the period, the major components being management fees of \$137,814 and other administrative expenses of \$39,577.

### **Net Asset Value**

The net asset value per unit of the Fund was \$9.93 at June 30, 2018, down by 7.5% from \$10.74 at December 31, 2017. The aggregate net asset value of the Fund decreased from \$21.5 million at December 31, 2017 to \$19.6 million as at June 30, 2018, primarily due to net investment losses of \$0.9 million, cash distributions to unitholders of \$0.5 million (net of reinvested distributions) and expenses of \$0.2 million.

### **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 18, 2017 for a normal course issuer bid program from May 24, 2017 to May 23, 2018, allowing the Fund to purchase for cancellation up to 217,623 units on the TSX if they trade below net asset value per unit. 27,400 units were purchased and cancelled by the Fund under this normal course issuer bid in the six months ended June 30, 2018 at a cost of \$273,047 or \$9.97 per unit.

The Fund received approval from the TSX on May 18, 2018 for a normal course issuer bid program from May 24, 2018 to May 23, 2019, allowing the Fund to purchase for cancellation up to 179,729 units on the TSX if they trade below net asset value per unit. 9,900 units were purchased and cancelled by the Fund under this normal course issuer bid in the six months ended June 30, 2018 at a cost of \$96,978 or \$9.80 per unit.

### **Investment Portfolio**

The Fund has established a portfolio comprised primarily of Canadian equities, income trusts and real estate investment trusts (REITs), 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.

Over the six months to June 30, 2018 the Fund's investment in the Energy Infrastructure sector has decreased from 11.5% of the portfolio (equities, cash and cash equivalents) to 5.0%, due to the sale of the Fund's position in AltaGas Ltd. as well

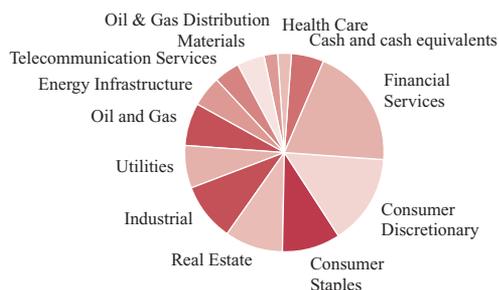
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as part of the Fund's positions in Keyera Corp. and Gibson Energy Inc. The Fund's Financial Services sector holdings have increased from 13.9% of the portfolio to 19.9%, mainly due to the purchase of a new position in Manulife Financial Corp. The Fund's cash position has increased from 2.0% of the portfolio to 5.1%, since proceeds from investment sales outweighed the cost of investment purchases. In addition to the purchase of Manulife Financial Corp., the Fund has added to its position in Corus Entertainment Inc. Class 'B'.

The Fund had net unrealized appreciation of \$2.3 million in its portfolio as at June 30, 2018, with significant unrealized gains of \$1.0 million in each of the Consumer Staples and Real Estate sectors and \$0.9 million in the Financial Services sector. There were unrealized losses of \$0.8 and \$0.6 million in the Materials and Oil and Gas sectors respectively.

The Fund also had net realized gains of \$0.1 million primarily from the sale of holdings in Premium Brands Holdings Corporation, Superior Plus Corp. and Boralex Inc., offset by a loss on the sale of the Fund's position in AltaGas Ltd.

### Portfolio Sectors



Sector	Value (thousands)	% of Total
Financial Services	\$ 3,905	19.9%
Consumer Discretionary	2,868	14.6%
Consumer Staples	1,874	9.5%
Real Estate	1,867	9.5%
Industrial	1,838	9.3%
Utilities	1,419	7.2%
Oil and Gas	1,351	6.9%
Energy Infrastructure	987	5.0%
Telecommunication Services	830	4.2%
Materials	826	4.2%
Oil & Gas Distribution	462	2.4%
Health Care	434	2.2%
Cash and cash equivalents	1,007	5.1%
<b>Total</b>	<b>\$ 19,668</b>	<b>100.0%</b>

### RECENT DEVELOPMENTS

There were no recent developments to report.

### 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 of 1.25% per annum of the net asset value of the Fund, calculated weekly and payable monthly in arrears, plus applicable taxes.

The management fee is intended to compensate the Manager for providing portfolio advisory and certain administrative services to the Fund. During the six months ended June 30, 2018, management fees amounted to \$137,814.

Services received by the Fund in consideration of the management fee, as an approximate percentage of the management fee, comprise portfolio advisory services (86%) and administrative services (14%). Administrative services include: appointment and monitoring of service providers; administration related to the payment of fund expenses and the deposit of fund receipts; administrative services provided to the Independent Review Committee ("IRC"); review and filing of tax returns; preparation, dissemination and filing of annual and interim reports; maintenance of proxy voting records and the voting of proxies; preparation of quarterly portfolio summaries; administration of the Fund's normal course issuer bid; regulatory reporting; and maintenance of the information on the Fund's website.

#### 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, 2018 the Fund expensed IRC fees of \$17,143, unitholder information costs of

\$10,753, legal fees of \$211 and premiums for insurance coverage for members of the IRC of \$335 which were paid and recharged by the Manager.

The Fund pays for all other 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 (“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, extraordinary expenses that the Fund may incur and all amounts paid on account of indebtedness.

#### **INDEPENDENT REVIEW COMMITTEE**

Prior to the Fund’s launch, the 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, 2018 the IRC consisted of three members, all of whom are independent of the Manager.

The Manager has received two standing instructions 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.

All past performance for periods prior to the Fund’s merger with Bloom Income & Growth Canadian Fund on October 23, 2015 are for the Fund only.

#### **Annual Compound Returns**

The following table shows the Fund’s annual compound return for the one, three and five year periods ended June 30, 2018 and 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

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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.

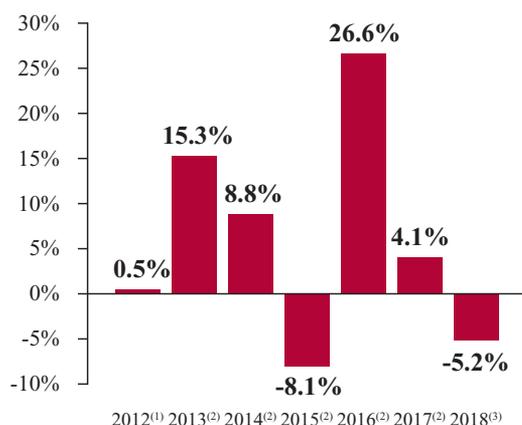
	<b>One year</b>	<b>Three years</b>	<b>Five years</b>	<b>Since inception<sup>(1)</sup></b>
<b>Bloom Select Income Fund (net of fees and expenses)</b>	-2.6%	5.5%	7.4%	6.2%
<b>S&amp;P/TSX Composite Total Return Index</b>	10.4%	6.9%	9.2%	8.0%

<sup>(1)</sup> Period from April 20, 2012 (commencement of operations) to June 30, 2018

During the one, three and five year periods ended June 30, 2018 and since inception, the Fund has 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 six months to June 30, 2018 the Fund was overweight compared to the Index in the Cash, Real Estate and Consumer Discretionary sectors, and was underweight compared to the Index in the Materials, Oil and Gas 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 each fiscal period since inception. It shows, in percentage terms, how an investment held on the first day of the fiscal period would have changed by the last day of the fiscal period.



<sup>(1)</sup> Period from April 20, 2012 (commencement of operations) to December 31, 2012

<sup>(2)</sup> Year from January 1 to December 31 of the year indicated

<sup>(3)</sup> Six months from January 1 to June 30, 2018

**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 fiscal periods indicated. *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 weighted average units outstanding during the period, and all other numbers are based on actual units outstanding at the relevant point in time.*

All financial highlights for periods prior to the Fund's merger with Bloom Income & Growth Canadian Fund on October 23, 2015 are for the Fund only.

**Net Assets Per Unit<sup>(1)</sup>**

	<b>Six months ended June 30, 2018</b>	<b>Year ended December 31, 2017</b>	<b>Year ended December 31, 2016</b>	<b>Year ended December 31, 2015</b>	<b>Year ended December 31, 2014</b>
<b>Net assets per unit, beginning of period<sup>(1)(2)</sup></b>	\$ 10.74	\$ 10.81	\$ 8.98	\$ 10.28	\$ 9.91
<b>Increase from operations:<sup>(2)</sup></b>					
Total revenue	0.21	0.42	0.43	0.46	0.46
Total expenses	(0.12)	(0.23)	(0.22)	(0.25)	(0.27)
Net realized gains (losses)	0.07	0.40	1.19	0.48	0.73
Net unrealized gains (losses)	(0.73)	(0.18)	0.89	(1.60)	0.05
<b>Total increase in net assets from operations<sup>(2)</sup></b>	\$ (0.57)	\$ 0.41	\$ 2.29	\$ (0.91)	\$ 0.97
<b>Distributions to unitholders<sup>(2)(3)</sup></b>					
From net investment income	–	(0.03)	–	–	–
From return of capital	(0.25)	(0.47)	(0.50)	(0.50)	(0.50)
<b>Total distributions to unitholders</b>	\$ (0.25)	\$ (0.50)	\$ (0.50)	\$ (0.50)	\$ (0.50)
<b>Net assets per unit, end of period<sup>(1)(2)</sup></b>	\$ 9.93	\$ 10.74	\$ 10.81	\$ 8.98	\$ 10.28

<sup>(1)</sup> This information is derived from the Fund's audited annual financial statements. The Fund adopted International Financial Reporting Standards (IFRS) on January 1, 2014 and has applied IFRS to its comparative financial statements. Under IFRS, the net assets per unit present in the financial statements is generally the same as the net asset value per unit calculated 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. The increase in net assets from operations per unit is based on the weighted average number of units outstanding over the fiscal period.

<sup>(3)</sup> \$36,649 (2017: \$94,184; 2016: \$112,769; 2015: \$134,344; 2014: \$186,465) of distributions were reinvested in units under the Fund's distribution reinvestment plan (DRIP). The remainder of the distributions were paid in cash.

**Ratios and Supplemental Data**

<b>For the fiscal period ended</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Net asset value (000s) <sup>(1)</sup>	\$ 19,579	\$ 21,537	\$ 25,807	\$ 28,343	\$ 25,864
Number of units outstanding <sup>(1)</sup>	1,970,929	2,004,625	2,386,883	3,155,539	2,514,948
Management expense ratio ("MER") <sup>(2)</sup>	2.37%	2.08%	2.16%	2.46%	2.44%
Trading expense ratio <sup>(3)</sup>	0.07%	0.05%	0.09%	0.09%	0.11%
Portfolio turnover rate <sup>(4)</sup>	5.42%	11.72%	15.07%	14.18%	3.42%
Net Asset Value per Unit <sup>(1)</sup>	\$ 9.93	\$ 10.74	\$ 10.81	\$ 8.98	\$ 10.28
Closing market price <sup>(1)</sup>	\$ 9.73	\$ 10.40	\$ 10.20	\$ 8.35	\$ 9.62

<sup>(1)</sup> As at the period end date shown

<sup>(2)</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 period. Total expenses are expressed as an annualized percentage of the average net asset value during the period.

<sup>(3)</sup> 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.

<sup>(4)</sup> 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.

**Management Expense Ratio**

The MER of the Fund was 2.37% for the six months ended June 30, 2018, up from an MER of 2.08% in the year ended December 31, 2017. The increase is primarily due to the decrease in net asset value over the period.

**SUMMARY OF INVESTMENT PORTFOLIO**

As at June 30, 2018

Total Net Assets (including Cash, Short Term Investments and Other Net Assets)	\$19,578,725
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<b>Portfolio Composition</b>	<b>% of Portfolio</b>	<b>% of Total Net Assets</b>
Financial Services	19.9%	20.0%
Consumer Discretionary	14.6%	14.7%
Consumer Staples	9.5%	9.6%
Real Estate	9.5%	9.5%
Industrial	9.3%	9.4%
Utilities	7.2%	7.3%
Oil and Gas	6.9%	6.9%
Energy Infrastructure	5.0%	5.0%
Telecommunication Services	4.2%	4.2%
Materials	4.2%	4.2%
Oil & Gas Distribution	2.4%	2.4%
Health Care	2.2%	2.2%
Cash	5.1%	5.1%
Total Investment Portfolio	100.0%	100.5%
Other Non-Debt Net Assets (Liabilities)		(0.5%)
Total Net Assets		100.0%

<b>Top 25 Holdings</b>	<b>% of Portfolio</b>	<b>% of Total Net Assets</b>
TD Bank Group	6.7%	6.7%
Premium Brands Holdings Corporation	5.6%	5.7%
Bank of Nova Scotia	5.5%	5.6%
EnerCare Inc.	5.5%	5.5%
Cash	5.1%	5.1%
Altus Group Ltd.	5.1%	5.1%
Vermilion Energy Inc.	4.9%	4.9%
Manulife Financial Corp.	4.8%	4.9%
Transcontinental Inc. Class 'A'	4.6%	4.6%
Allied Properties REIT	4.4%	4.5%
Shaw Communications Inc. Class 'B'	4.2%	4.2%
Northland Power Inc.	4.2%	4.2%
Loblaw Companies Limited	3.9%	3.9%
Superior Plus Corp.	3.6%	3.6%
Keyera Corp.	3.4%	3.5%
Intertape Polymer Group Inc.	3.2%	3.2%
Boralex Inc.	3.0%	3.0%
Sun Life Financial Inc.	2.9%	2.9%
K-Bro Linen Inc.	2.6%	2.6%
Cineplex Inc.	2.5%	2.5%
Chemtrade Logistics Income Fund	2.4%	2.4%
Parkland Fuel Corp.	2.4%	2.4%
Extencicare Inc.	2.2%	2.2%
Corus Entertainment Inc. Class 'B'	2.1%	2.1%
Bonterra Energy Corp.	2.0%	2.0%

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

**BLOOM SELECT INCOME FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2018**

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**NOTICE**

The accompanying unaudited financial statements of Bloom Select Income Fund (the “Fund”) have been prepared by Bloom Investment Counsel, Inc. (the “Manager” of the Fund) and approved by the Board of Directors of the Manager. The statements have not been reviewed by the external auditors of the Fund.

Signed



**M. Paul Bloom**  
*President and Chief Executive Officer*  
*Bloom Investment Counsel, Inc.*

Signed



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

July 31, 2018

**BLOOM SELECT INCOME FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2018**

**STATEMENTS OF FINANCIAL POSITION (unaudited)**

As at	June 30, 2018	December 31, 2017
<b>Assets</b>		
<b>Current assets</b>		
Investments	\$ 18,661,390	\$ 21,198,105
Cash and cash equivalents (note 6)	1,006,909	439,509
Dividends and distributions receivable	64,466	68,633
Prepaid expenses and other assets	16,666	20,380
<b>Total assets</b>	<b>19,749,431</b>	<b>21,726,627</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Distributions payable to unitholders	82,121	83,541
Accrued liabilities (note 11)	88,585	105,654
<b>Total liabilities</b>	<b>170,706</b>	<b>189,195</b>
<b>Unitholders' equity (note 7)</b>		
Unitholders' capital	13,827,897	14,554,488
Retained earnings	5,750,828	6,982,944
<b>Net assets representing unitholders' equity</b>	<b>\$ 19,578,725</b>	<b>\$ 21,537,432</b>
<b>Net assets per unit</b>	<b>\$ 9.93</b>	<b>\$ 10.74</b>

Approved on behalf of Bloom Select Income Fund by the Board of Directors of Bloom Investment Counsel, Inc., the Manager

Signed



**M. Paul Bloom**  
Director

Signed



**Beverly Lyons**  
Director

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

**BLOOM SELECT INCOME FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2018**

**STATEMENTS OF COMPREHENSIVE INCOME (unaudited)**

For the six months ended	June 30, 2018	June 30, 2017
<b>Income</b>		
Net gain (loss) on investments		
Dividend and distribution income	\$ 411,971	\$ 493,962
Interest for distribution purposes	4,513	9,722
Net realized gain on sale of investments	140,427	554,695
Net change in unrealized appreciation or depreciation on investments	(1,446,681)	(456,219)
<b>Total net gain (loss) on investments</b>	<b>(889,770)</b>	602,160
Other income		
Securities lending income (note 13)	3,435	2,091
<b>Total other income</b>	<b>3,435</b>	2,091
<b>Total income (loss)</b>	<b>(886,335)</b>	604,251
<b>Expenses (Note 10)</b>		
Management fees (note 11)	137,814	174,368
Independent Review Committee fees (note 11)	17,143	17,157
Unitholder reporting costs	15,488	17,908
Audit fees	14,377	14,080
Custody fees	9,207	8,370
Legal fees	3,256	9,749
Transaction costs (note 12)	5,867	5,321
Other administrative expenses	39,577	35,713
<b>Total expenses</b>	<b>242,729</b>	282,666
<b>Increase (decrease) in net assets from operations</b>	<b>\$ (1,129,064)</b>	\$ 321,585
<b>Weighted average units outstanding during the period</b>	<b>1,990,449</b>	2,368,557
<b>Increase (decrease) in net assets from operations per unit (note 4(i))</b>	<b>\$ (0.57)</b>	\$ 0.14

**STATEMENTS OF CHANGES IN NET ASSETS (unaudited)**

For the six months ended June 30, 2018 and 2017	Unitholders' capital	Retained earnings	Total
Balance at January 1, 2017	\$ 18,431,233	\$ 7,375,796	\$ 25,807,029
Increase in net assets from operations	–	321,585	321,585
Distributions to unitholders from return of capital	(590,611)	–	(590,611)
Reinvestment of distributions	50,824	–	50,824
Repurchase and cancellation of units	(357,414)	(131,696)	(489,110)
Balance at June 30, 2017	\$ 17,534,032	\$ 7,565,685	\$ 25,099,717
<b>Balance at January 1, 2018</b>	<b>\$ 14,554,488</b>	<b>\$ 6,982,944</b>	<b>\$ 21,537,432</b>
<b>Decrease in net assets from operations</b>	<b>–</b>	<b>(1,129,064)</b>	<b>(1,129,064)</b>
<b>Distributions to unitholders from return of capital</b>	<b>(496,267)</b>	<b>–</b>	<b>(496,267)</b>
<b>Reinvestment of distributions</b>	<b>36,649</b>	<b>–</b>	<b>36,649</b>
<b>Repurchase and cancellation of units</b>	<b>(266,973)</b>	<b>(103,052)</b>	<b>(370,025)</b>
<b>Balance at June 30, 2018</b>	<b>\$ 13,827,897</b>	<b>\$ 5,750,828</b>	<b>\$ 19,578,725</b>

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

**BLOOM SELECT INCOME FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2018**

**STATEMENTS OF CASH FLOWS (unaudited)**

For the six months ended	<b>June 30, 2018</b>	June 30, 2017
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets from operations	\$ (1,129,064)	\$ 321,585
Adjustment for:		
Net realized gain on sale of investments	(140,427)	(554,695)
Net change in unrealized appreciation or depreciation on investments	1,446,681	456,219
Decrease in dividends and distributions receivable	4,167	5,529
Decrease in prepaid expenses and other assets	3,714	14,072
(Increase) in accrued liabilities	(17,069)	(13,787)
Operating cash flows:		
Purchases of investments	(1,044,745)	(1,073,860)
Proceeds from sale of investments	2,260,366	2,406,645
Return of capital received	14,287	13,396
Capital gains distributions received	553	504
<b>Net cash from operating activities</b>	<b>1,398,463</b>	1,575,608
<b>Cash flows used in financing activities</b>		
Repurchase of units for cancellation	(370,025)	(489,110)
Distributions paid to holders of redeemable units, net of reinvestments	(461,038)	(541,544)
<b>Net cash used in financing activities</b>	<b>(831,063)</b>	(1,030,654)
Net increase in cash and cash equivalents	567,400	544,954
Cash and cash equivalents at beginning of period (note 6)	439,509	3,334,784
<b>Cash and cash equivalents at end of period (note 6)</b>	<b>\$ 1,006,909</b>	\$ 3,879,738
Interest received	\$ 4,411	\$ 10,870
Dividends and distributions received	\$ 416,138	\$ 499,491

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

**BLOOM SELECT INCOME FUND – INTERIM REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2018**

**SCHEDULE OF INVESTMENT PORTFOLIO (unaudited)**

As at June 30, 2018

No. of Units/ Shares		Cost	Fair Value
	<b>Canadian Equities</b>		
	<b>Consumer Discretionary</b>		
16,500	Cineplex Inc.	\$ 743,272	\$ 481,470
81,600	Corus Entertainment Inc. Class 'B'	867,383	404,736
59,800	EnerCare Inc.	724,730	1,075,204
29,700	Transcontinental Inc. Class 'A'	534,511	906,741
		<b>2,869,896</b>	<b>2,868,151</b>
	<b>Consumer Staples</b>		
11,300	Loblaw Companies Limited	651,844	763,880
9,800	Premium Brands Holdings Corporation	171,368	1,110,144
		<b>823,212</b>	<b>1,874,024</b>
	<b>Energy Infrastructure</b>		
17,700	Gibson Energy Inc.	345,722	310,281
18,500	Keyera Corp.	547,587	676,730
		<b>893,309</b>	<b>987,011</b>
	<b>Financial Services</b>		
14,600	Bank of Nova Scotia	826,219	1,086,824
40,200	Manulife Financial Corp.	1,006,816	949,524
10,600	Sun Life Financial Inc.	415,149	559,998
17,200	TD Bank Group	737,985	1,308,748
		<b>2,986,169</b>	<b>3,905,094</b>
	<b>Health Care</b>		
59,900	Extencicare Inc.	507,441	434,275
		<b>507,441</b>	<b>434,275</b>
	<b>Industrial</b>		
34,500	Intertape Polymer Group Inc.	658,244	623,415
13,600	K-Bro Linen Inc.	528,602	509,592
55,500	Superior Plus Corp.	505,555	705,405
		<b>1,692,401</b>	<b>1,838,412</b>
	<b>Materials</b>		
31,300	Chemtrade Logistics Income Fund	529,673	468,561
270,800	Noranda Income Fund Class 'A'	1,099,952	357,456
		<b>1,629,625</b>	<b>826,017</b>
	<b>Oil and Gas</b>		
23,000	Bonterra Energy Corp.	1,062,724	392,840
20,200	Vermilion Energy Inc.	924,497	957,682
		<b>1,987,221</b>	<b>1,350,522</b>
	<b>Oil and Gas Distribution</b>		
14,300	Parkland Fuel Corp.	370,672	461,890
		<b>370,672</b>	<b>461,890</b>
	<b>Real Estate</b>		
20,800	Allied Properties REIT	602,710	870,480
34,000	Altus Group Ltd.	256,321	996,540
		<b>859,031</b>	<b>1,867,020</b>
	<b>Telecommunication Services</b>		
31,000	Shaw Communications Inc. Class 'B'	775,456	830,180
		<b>775,456</b>	<b>830,180</b>
	<b>Utilities</b>		
28,000	Boralex Inc.	391,336	589,680
33,800	Northland Power Inc.	565,469	829,114
		<b>956,805</b>	<b>1,418,794</b>
	<b>Total Canadian equities</b>	<b>\$ 16,351,238</b>	<b>\$ 18,661,390</b>
	<b>Embedded broker commissions</b>	<b>(20,558)</b>	
	<b>Total investments</b>	<b>\$ 16,330,680</b>	<b>\$ 18,661,390</b>

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

June 30, 2018

**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 declaration of trust was amended and restated as of October 23, 2015 at the time of the Fund’s merger with Bloom Income & Growth Canadian Fund. The Fund is listed on the Toronto Stock Exchange (“TSX”) 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 Fund’s investment objectives are to provide unitholders with an investment in an actively managed portfolio comprised primarily of Canadian equity securities that exhibit low volatility at the time of investment, monthly cash distributions that have a large component of Canadian eligible dividends, and the opportunity for capital appreciation.

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 July 31, 2018.

**2. BASIS OF PRESENTATION**

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as published by the International Accounting Standards Board (“IASB”) as applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Statements*.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit and loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the funds significant accounting policies. Actual results could differ from those estimates and the results could be material.

**3. ADOPTION OF NEW ACCOUNTING STANDARD**

Effective January 1, 2018, the Fund adopted IFRS 9 Financial Instruments – Classification and Measurement (“IFRS 9”). The new standard requires financial instruments to be recognized initially at their fair value and then classified as subsequently measured at amortized cost, measured at fair value with changes in fair value taken through other comprehensive income or measured at fair value with changes in fair value recognized in profit and loss (“FVTPL”) based on the entity’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Assessment and decision on the business model approach used is an accounting judgment.

The adoption of IFRS 9 has been applied retrospectively and did not result in a change to the classification or measurement of financial instruments, in either the current or prior period.

The portfolio of investments is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess performance and to make decisions. The Fund’s financial assets and liabilities previously classified as FVTPL continue to be classified as FVTPL. The Fund holds investments which had previously been designated at FVTPL. On adoption of IFRS 9 these investments are mandatory classified as FVTPL.

Other financial assets which were held for collection will continue to be measured at amortized cost. The classification and measurement of financial liabilities remain generally unchanged and they continue to be measured at amortized cost.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Financial instruments**

The Fund’s financial instruments include, where applicable, investments, cash and cash equivalents, dividends and distributions receivable, receivable for investments sold, payable for investments purchased, distributions payable to unitholders, accrued liabilities, and redemptions payable.

The Fund recognizes, classifies and measures financial instruments in accordance with IFRS 9.

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

*June 30, 2018 (continued)*

The Fund recognizes financial instruments at fair value, plus transaction costs in the case of financial instruments measured at amortized cost, upon initial recognition. Purchases and sales of financial instruments are recognized on their respective trade dates.

The Fund's investments are measured at FVTPL. All other financial instruments are measured at amortized cost (which is the amount to be received or paid, discounted where appropriate at the contract's effective interest rate). Amortization and changes in fair value are recognized in the Statements of Comprehensive Income.

**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 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.

**c) 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 maturities of less than three months from the date of acquisition that are highly liquid, readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

*June 30, 2018 (continued)*

**g) Investment transactions and income recognition**

Investment transactions are recorded on the trade date. Dividend and distribution income are recognized on the ex-dividend or ex-distribution date. Interest for distribution purposes shown in 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 functional currency using the exchange rate prevailing on the trade date. Income on foreign investments 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.

**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. Any distributable net realized capital gains in a year may be allocated for tax purposes to redeeming unitholders in that year, as permitted by the Fund's declaration of trust.

**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.

**l) Classification of redeemable units**

The Manager is required by IAS 32, *Financial Instruments: Presentation* ("IAS 32") to assess whether the redeemable units represent a liability of the Fund or equity of the Fund. The Fund does not have any obligation, other than on redemption of the units, to deliver cash or other financial instruments to the unitholders, since the Fund may pay its regular monthly distributions and any distributions it is required by its Declaration of Trust to make so that it does not become liable for income tax, in units rather than cash. Total expected cash flows attributable to the units over 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. As a result of these facts, the redeemable units meet the criteria of IAS 32 to be classified as equity.

**m) Net assets per unit**

The net assets per unit is calculated by dividing the net assets representing unitholders' equity by the total number of units outstanding at the end of the period.

**5. 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, less any income that can be retained by the use of tax credits available to the Fund. The Fund's taxation year end is December 31. No provision for income taxes has been recorded in the accompanying financial statements as the Fund has determined that it is in substance not taxable since all 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.

Since the Fund does not record income taxes, the tax assets or liabilities related to capital and non-capital losses and other temporary differences have not been reflected in the Statements of Financial Position as a deferred income tax asset or liabilities.

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

*June 30, 2018 (continued)*

Non-capital loss carry forwards 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, 2018, the Fund had no non-capital losses carried forward (December 31, 2017 – 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, 2018, the Fund had \$1,663,003 capital losses available for carryforward (December 31, 2017 – \$1,663,003).

**6. CASH AND CASH EQUIVALENTS**

The Fund's cash and cash equivalents as at June 30, 2018 and December 31, 2017 comprised the following:

	<b>June 30, 2018</b>	December 31, 2017
Cash	<b>208,855</b>	439,509
Cash equivalents	<b>798,054</b>	–
	<b>1,006,909</b>	439,509

Cash equivalents at June 30, 2018 comprised:

<b>Type</b>	<b>Issuer</b>	<b>DBRS, credit rating of issuer</b>	<b>Par value \$</b>	<b>Maturity date</b>	<b>Yield</b>	<b>Fair value \$</b>
Banker's acceptance	Bank of Nova Scotia	AA/R-1/Stable	800,000	August 27, 2018	1.53%	798,054

**7. 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.

If a significant number of units are redeemed, the trading liquidity of the units could be significantly reduced. In addition, the expenses of the Fund would be spread among fewer units resulting in a potentially lower distribution per unit. The Manager has the ability to terminate the Fund if, in its opinion, it would be in the best interests of the unitholders to do so. The Manager may also suspend the redemption of units in certain circumstances.

The 2017 annual redemption took place on October 30, 2017 and consisted of 289,840 units for redemption proceeds of \$3,127,336 payable on November 20, 2017.

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 NAV per unit. The maximum number

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

*June 30, 2018 (continued)*

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, 2018 and 2017 were as follows:

<b>Approval date</b>	<b>Start date</b>	<b>End date</b>	<b>Maximum units</b>	<b>Units purchased and cancelled</b>	
				<b>2018</b>	<b>2017</b>
May 19, 2016	May 24, 2016	May 23, 2017	292,752	–	36,200
May 18, 2017	May 24, 2017	May 23, 2018	217,623	<b>27,400</b>	10,700
May 18, 2018	May 24, 2018	May 23, 2019	179,729	<b>9,900</b>	–
<b>Total</b>				<b>37,300</b>	46,900

When units of the Fund are redeemed or purchased for cancellation at a price per unit which is lower than the weighted average cost per unit, the difference is included in contributed surplus in the Statements of Financial Position. If the redemption or purchase price is greater than the weighted 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.

Unit transactions of the Fund for the six months ended June 30, 2018 and 2017 were as follows:

	<b>2018</b>	2017
Units outstanding at beginning of period	<b>2,004,625</b>	2,386,883
Reinvestment of distributions	<b>3,604</b>	4,731
Repurchase and cancellation of units	<b>(37,300)</b>	(46,900)
Units outstanding at end of period	<b>1,970,929</b>	2,344,714

**8. CAPITAL MANAGEMENT**

Units issued and outstanding are considered to be the capital of the Fund. The Fund’s capital therefore comprises net assets of \$19,578,725 (December 31, 2017 – \$21,537,432). 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 if applicable, or purchase units for cancellation.

**9. 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, 2018, the Fund declared total distributions of \$0.25 (2017 – \$0.25) per unit, which amounted to \$496,267 (2017 – \$590,611). Under the Fund’s distribution reinvestment plan (“DRIP”), unitholders may elect to reinvest monthly distributions in additional units of the Fund which are issued from treasury. In the six months ended June 30, 2018, distributions of \$36,649 were reinvested in 3,604 units of the Fund which were issued from treasury (six months ended June 30, 2017 – distributions of \$50,824 were reinvested in 4,731 units of the Fund which were issued from treasury).

In conjunction with the annual redemption described in note 8, the Fund made distributions of capital gains to redeeming unitholders in the amount of \$370,654.

**10. 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 Independent Review Committee (“IRC”), expenses related to compliance with National Instrument 81-107, fees and expenses relating to the voting of proxies by a third party, costs of

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

*June 30, 2018 (continued)*

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.

**11. RELATED PARTY TRANSACTIONS**

In accordance with the Declaration of Trust, the Manager is entitled to an annual management fee aggregating to 1.25% per annum of the Net Asset Value (“NAV”) of the Fund, calculated weekly and paid monthly in arrears.

For the six months ended June 30, 2018 the Fund expensed management fees of \$137,814 (2017 – \$174,368). As at June 30, 2018, the Fund had management fees payable of \$22,569 (December 31, 2017 – \$24,543) 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, 2018 the Fund expensed IRC fees of \$17,143 (2017 – \$17,157) and legal fees of \$211 (2017 – \$nil), as well as unitholder information costs of \$10,753 (2017 – \$8,466) and insurance premiums of \$335 (2017 – \$163) (both included in ‘other administrative expenses’) which were paid and recharged by the Manager. As at June 30, 2018 the Fund owed the Manager \$1,476 for recharged expenses (December 31, 2017 – \$1,492) included in accrued liabilities.

Units held by the Manager and its affiliates represent 9.5% of the units outstanding at June 30, 2018 (December 31, 2017 – 9.3%).

**12. BROKERAGE COMMISSIONS ON SECURITIES TRANSACTIONS**

During the six months ended June 30, 2018 the Fund paid \$5,867 (2017 – \$5,321) in brokerage commissions and other transaction costs for portfolio transactions. There are no soft dollar commissions.

**13. SECURITIES LENDING**

The Fund has entered into a securities lending program with CIBC Mellon Global Securities Services Company, (as administrator), which has a DBRS credit rating of AA / R-1 / Stable and a Moody’s credit rating of A1 / P-1 / Stable, and BNY Mellon (as lending agent), which has DBRS credit rating of AA / R-1 / Stable and a Moody’s credit rating of Aa1 / P-1 / Stable. 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 Statements of Comprehensive Income. The Fund retains the risks and rewards of ownership of the securities loaned, and therefore these securities do not qualify for derecognition and therefore remain in the Statements of Financial Position of the Fund during the loan period. The risks and rewards of ownership include any gains or losses in market value of the securities, the ability to sell the securities, and any dividends or distributions on the securities for which the ex-dividend dates fall within the loan period.

The Fund receives collateral of at least 102% of the value of securities on loan. Should a borrower default on a securities loan, the Fund is entitled to the associated collateral. The Fund is not exposed to the risks and rewards of ownership of the collateral therefore the collateral is not included in the Fund’s Statements of Financial Position. 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, the Netherlands, Spain, Sweden, Switzerland, or a permitted supranational agency of Organisation for Economic Co-ordination and Development countries; debt that is issued or guaranteed by a financial institution whose 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.

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

June 30, 2018 (continued)

The aggregate fair value of securities loaned (which equals their carrying amount) and the aggregate fair value of the collateral under securities lending transactions as at June 30, 2018 and December 31, 2017 are as follows:

June 30, 2018		December 31, 2017	
Fair value of securities loaned	Fair value of collateral	Fair value of securities loaned	Fair value of collateral
<b>\$1,535,050</b>	<b>\$1,615,725</b>	\$2,597,056	\$2,729,677

As at June 30, 2018, the collateral consisted of debt that is issued or fully and unconditionally guaranteed as to the principal and interest by government of Canada or a province of Canada (December 31, 2017 – the collateral consisted of debt that is issued or fully and unconditionally guaranteed as to the principal and interest by the government of Canada or a province of Canada).

The table below sets out a reconciliation of the gross amounts generated from securities lending transactions to the securities lending income disclosed in the Statements of Comprehensive Income for the six months ended June 30, 2018 and 2017:

	June 30, 2018		June 30, 2017	
	\$	% of gross income	\$	% of gross income
Securities lending income	<b>3,435</b>	<b>70.0%</b>	2,091	70.0%
Agent fees paid to the lending agent	<b>1,471</b>	<b>30.0%</b>	895	30.0%
Gross securities lending income	<b>4,906</b>		2,986	

**14. 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, 2018 and December 31, 2017.

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.

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

*June 30, 2018 (continued)*

The Fund limits its exposure to credit loss by dealing with counterparties, including the lending agent and the issuers of short-term debt instruments, of high credit quality (see notes 6 and 13). 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 Fund's investment objectives include the requirement that its portfolio securities must exhibit low price volatility at the time of purchase, which may further reduce other price risk. The maximum risk of loss resulting from financial instruments is equivalent to their fair value.

The Fund is exposed to price risk from its investment in income trusts and equity securities. As at June 30, 2018, 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 \$1,866,139 (December 31, 2017 – \$2,119,811) or 9.5% (December 31, 2017 – 9.8% of total net assets). In practice, the actual 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 and its redeemable units. 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 15 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, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, the Fund had no direct exposure to currency risk since none of its financial instruments were denominated in foreign currencies.

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

June 30, 2018 (continued)

**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, 2018 and December 31, 2017:

<b>Market Segment</b>	<b>June 30, 2018</b>	December 31, 2017
Consumer Discretionary	14.7%	16.0%
Consumer Staples	9.6%	8.8%
Energy Infrastructure	5.0%	11.6%
Financial Services	20.0%	13.9%
Health Care	2.2%	2.5%
Industrial	9.4%	10.4%
Materials	4.2%	4.7%
Oil and Gas	6.9%	5.9%
Oil and Gas Distribution	2.4%	1.8%
Real Estate	9.5%	10.7%
Telecommunication Services	4.2%	4.1%
Utilities	7.3%	8.1%

**h) 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
- 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 or 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, 2018 and December 31, 2017:

**June 30, 2018**

	<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>		<b>Total</b>
<b>Equities</b>	\$ 18,661,390	\$	–	\$	–	\$	18,661,390
	\$ 18,661,390	\$	–	\$	–	\$	18,661,390

December 31, 2017

	Level 1		Level 2		Level 3		Total
Equities	\$ 21,198,105	\$	–	\$	–	\$	21,198,105
	\$ 21,198,105	\$	–	\$	–	\$	21,198,105

There were no transfers between the levels during the periods ended June 30, 2018 and December 31, 2017.

**CORPORATE  
INFORMATION**

**Independent Review Committee**

**Anthony P. L. Lloyd (Chair)**,  
BSc (Hons), MBA, ICD.D

**Lea M. Hill**, BCom, FCSI

**Cameron Goodnough**, BCom, LLB,  
MBA

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

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

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

**Beverly Lyons**, BCom, FCPA, FCA, ICD.D  
Independent Director

**Fiona E. Mitra**, BA (Hons), CPA, CA  
Chief Financial Officer

**Eli Papakirykos**, BA (Hons), CFA  
Vice President, Portfolio Manager

**Trustee**

Bloom Investment Counsel, Inc.

**Custodian**

CIBC Mellon Trust Company

**Auditor**

PricewaterhouseCoopers LLP

**Website**

[www.bloomfunds.ca](http://www.bloomfunds.ca)

**Mailing Address**

Suite 1710, 150 York Street  
Toronto, ON M5H 3S5

Unitholder Information: 416-861-9941  
Toll Free: 1-855-BLOOM18  
Website: [www.bloomfunds.ca](http://www.bloomfunds.ca)