BLOOM FUNDS

MANAGED BY BLOOM INVESTMENT COUNSEL, INC.

BLOOM SELECT INCOME FUND

2012 ANNUAL REPORT

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 annual management report of fund performance for Bloom Select Income Fund (the "Fund") contains financial information but does not contain the audited annual financial statements of the Fund. The audited annual financial statements follow this report. You may obtain a copy of any of the Fund's annual or interim 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 Canadian generally accepted accounting principles which require the use of the last bid price for investment valuation.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

For the period from commencement of operations on April 20, 2012 to December 31, 2012

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, RRIF, RESP, RDSP and TFSA eligible.

INVESTMENT OBJECTIVES AND STRATEGIES

The Fund's investment objectives are to provide unitholders with in 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.

RISK

Risks associated with an investment in units of the Fund are discussed in the Fund's 2012 annual information form, which is available on the Fund's website at **www.bloomfunds.ca** or on SEDAR at www.sedar.com. Changes to the Fund which have affected certain of these risks are discussed below.

Composition of Portfolio

The composition of the Fund's investment portfolio has changed over the period ended December 31, 2012, due to the investment over the initial months of the Fund of the proceeds of the initial public offering. The Fund retains a portion of these proceeds in short-term investments, but has added investments in nine sectors. This mitigates the risks associated with the composition of the portfolio in terms of diversification.

Trading at a Discount

During the period ended December 31, 2012 the Fund's units have traded at a discount to net asset value, but on average have traded at par.

No Assurances on Achieving Objectives

The weighted average current cash yield on the Fund's equity portfolio was 7.51% as at December 31, 2012, compared with a projected 7.23% at the time of the Initial Public Offering. Thus the Fund is required to generate less than expected in additional returns (for instance, capital gains and securities lending income) in order for the Fund to achieve its targeted monthly distributions to Unitholders.

RECENT DEVELOPMENTS

In October 2012, the International Accounting Standards Board ("IASB") issued Investment Entities (Amendments to International Financial Reporting Standard ("IFRS") 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and International Accounting Standard ("IAS") 27 Separate Financial Statements). The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments allow an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The amendments also introduce new disclosure requirements for investment entities. The Fund will adopt the amendments upon adoption of IFRS for its fiscal year beginning January 1, 2014.

INVESTMENT MANAGER

BLOOM
INVESTMENT COUNSEL, INC.

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, real estate investment trusts and limited partnerships.

INVESTMENT MANAGER'S REPORT

January 4, 2013

The Canadian Economy

Canadian Real GDP rose 0.1% in October, the most recent data available, which was in line with consensus expectations. Year-over-year, output is now tracking towards a 1.1% rate, well below the Bank of Canada's 2.0% target. Manufacturing fell for the third consecutive month after a solid summer period primarily impacted by weak machinery and food processing results. Overall, the goods-producing sector has fallen 0.1% year-over-year and it is the services-producing sectors that are carrying the economic load, delivering a positive 1.7% year-over-year. The outlook for 2013 appears to be another period of moderate growth, especially now that the housing market is starting to show some signs of weakness.

Headline CPI for the month of November, the latest statistic available, fell to 0.8% and Core CPI readings fell by 0.2% to sit at 1.2%, both much weaker than the consensus expectations. These weak numbers were last seen in 2009 and are well below the Q4 expectations of a 1.5% average and also well below the Bank of Canada's 2.0% annualized target. The weak inflation numbers result from declines across multiple sectors. Household shelter costs fell by 0.1%, health and personal care costs were flat and transportation costs fell by 1.2% primarily due to lower gasoline prices. Food price inflation fell by 1.7%.

November existing home sales data was weak after a brief Fall recovery that was not sustained. National sales were down 1.7% for the month and down 11.9% year-over-year. However, national home prices continue to remain steady, though increases in value were very modest. The MLS Home Price Index eased off for the month but is still up 3.5% from last year. Vancouver saw the largest drop, 6.3% from last year. The results suggest that the Federal Government policy changes invoked in July are having the expected softening effect on the housing market.

Consensus expectations for the Canadian unemployment rate turned out to be much too dire as the December figures improved to 7.1%, significantly better than the 7.3% consensus. December job gains increased dramatically by 40K, well above the 4K expected. Normally these results would be attributed to seasonal hires for the holiday season but the hiring was focused on full-time private paid work across all sectors. Construction and factory employment was very strong, followed by retail and wholesale trade, transportation and healthcare. The energy sector had weaker results coming off from strong results in the prior month. Wages continued a positive trend, up 2.5%, but still not enough to trigger fears of inflation. These results, therefore, are considered to be very robust and bode well for 2013.

During the last year, the price of oil, as measured by the one year forward strip for WTI in Canadian dollars, fell by 7.5% from $100.81 to $93.24. The Canadian AECO natural gas 12-month forward strip price was stronger last year, rising by 7.7% from $2.77 to $2.99. Canadian spot oil and gas prices at year-end stood at $91.40/barrel and $2.97/GL respectively.

Market Performance

For the full 2012 year, the S&P/TSX Equity Income Index on a total return basis provided a return of 7.6% while the broad market S&P/TSX Composite Index on the same basis returned 7.2%. See comments under "Past Performance" relating to the Fund's performance relative to the S&P/TSX Composite Total Return Index.

Outlook

While there may be periods of strength during the year our outlook for the Canadian equity markets for all of 2013 remains somewhat subdued. Total investment returns that include dividend income should, however, provide for a positive overall return. Our relatively strong currency continues to hinder our economic growth despite signs of improvement south of the border. The housing market is clearly showing the impact of last summer's changes in mortgage lending rules with declining prices and demand occurring in many parts of the country. Perhaps this is not a disappointing result considering the levels of debt being carried by the Canadian consumer.

RESULTS OF OPERATIONS

The Fund commenced operations on April 20, 2012 so there is no comparative information presented.

Distributions

During the period from inception on April 20, 2012 to December 31, 2012, distributions totaled $0.34861 per unit. The 2012 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.

Increase in Net Assets from Operations

Total revenue from the Fund's portfolio was $1.8 million ($0.34 per unit) for the period ended December 31, 2012, comprised primarily of dividend income. Expenses were $0.9 million ($0.16 per unit) for the period, the major components being management fees of $665,497 and other administrative expenses of $77,966.

In addition, the Fund had net realized losses of $0.03 million and net unrealized losses of $0.8 million, totaling $0.16 per unit, from average portfolio investments during the period of $33.5 million.

Net Asset Value

The Net Asset Value per unit of the Fund was $9.07 at December 31, 2012, down by 3.3% from $9.38 (issue price per unit less issue costs per unit) at inception. The aggregate Net Asset Value of the Fund increased from $46.9 million at April 20, 2012 to $49.0 million as of December 31, 2012, primarily due to a net increase in capital of $4.5 million through the overallotment option granted by the Fund to its Agents as part of its Initial Public Offering and net income of $1.0 million, offset by losses of $0.8 million on the portfolio and distributions to unitholders of $1.9 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. 80,600 units were purchased and cancelled by the Fund under this normal course issuer bid in the period ended December 31, 2012 at a cost of $720,838, including commissions, or $8.94 per unit.

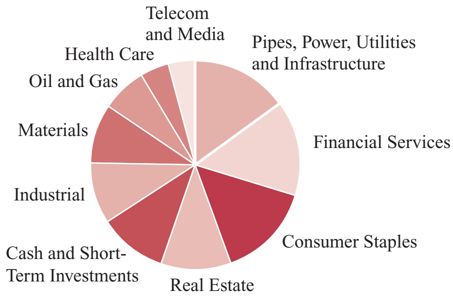
Investment Portfolio

Since inception, the Fund has established a portfolio of which 90% by market value at December 31, 2012 was invested in Canadian equities and income trusts, each of which was selected to achieve the investment objectives of the Fund. 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 pipes, power, utilities and infrastructure, financial services and consumer staples sectors. The Fund's largest individual holdings by market value as at December 31, 2012 are in cash and short term investments, Superior Plus Corp. (industrial), Chemtrade Logistics Income Fund (materials), Retrocom Mid-Market REIT (real estate) and Veresen Inc. (pipes, power, utilities and infrastructure). 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 losses of $0.8 million in its portfolio as at December 31, 2012, with the consumer staples sector and pipes, power, utilities and infrastructure sector holdings contributing $1.0 million of the total loss, and the financial services sector holdings contributing gains of $0.7 million. The Fund also had net realized losses of $0.03 million from the sale of holdings in CML Healthcare Inc. in the health care sector.

Portfolio Sectors



Sector		Value (thousands)	% of Total
Pipes, Power, Utilities and Infrastructure	$	7,414	15.0%
Financial Services		7,384	14.9%
Consumer Staples		7,228	14.6%
Real estate		5,384	10.9%
Cash and Short-Term Investments		5,203	10.5%
Industrial		4,734	9.5%
Materials		4,602	9.3%
Oil and gas		3,432	6.9%
Health Care		2,142	4.3%
Telecom and Media		2,042	4.1%
Total	$	49,565	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 Trailer 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 used by the Manager to cover the cost to administer the Fund. The Manager pays the Trailer Fee 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 period ended December 31, 2012, management fees amounted to $665,497 including Trailer Fees of $190,183.

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 year ended December 31, 2012 the Fund expensed investor relations costs of $22,001 and insurance premiums of $5,077 which were paid and recharged by the Manager.

INDEPENDENT REVIEW COMMITTEE

Prior to the Fund's launch, the Independent Review Committee ("IRC") for the Fund was established pursuant to National Instrument 81-107 ("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 December 31, 2012 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.

2012 TAX INFORMATION

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

The following table outlines the breakdown in the Fund's distributions declared in 2012 on a per unit basis.

Record Date	Payment Date	Return of Capital	Total Distribution
May 31, 2012	Jun. 15, 2012	$ 0.056944	$ 0.056944
Jun. 29, 2012	Jul. 16, 1012	$ 0.041666	$ 0.041666
Jul. 31, 2012	Aug. 15, 2012	$ 0.041666	$ 0.041666
Aug. 31, 2012	Sep. 17, 2012	$ 0.041666	$ 0.041666
Sep. 28, 2012	Oct. 15, 2012	$ 0.041666	$ 0.041666
Oct. 31, 2012	Nov. 15, 2012	$ 0.041666	$ 0.041666
Nov. 30, 2012	Dec. 17, 2012	$ 0.041666	$ 0.041666
Dec. 31, 2012	Jan. 15, 2013	$ 0.041666	$ 0.041666
Total		**$ 0.348606**	**$ 0.348606**

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

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 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. Since the Fund is actively managed, the sector weightings differ from those of the Index. In addition, the Fund's portfolio contains predominantly low volatility, high dividend paying securities, whereas the Index does not necessarily focus on this type of investment. For these reasons it is not expected that the Fund's performance will mirror that of the Index. Further, the Index is calculated without the deduction of fees and fund expenses, whereas the performance of the Fund is calculated after deducting all applicable fees and expenses.

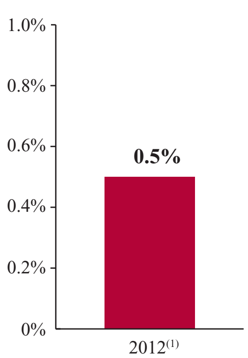
	Since inception[1]
Bloom Select Income Fund	0.5%
S&P/TSX Composite Total Return Index	4.6%

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

During the period ended December 31, 2012 the Fund has underperformed relative to the Index, after taking into account the expenses of the Fund. This reflects the differences in average sector weightings between the Fund's portfolio and the Index over the year, particularly in the cash and short-term and the industrials sectors, where the Fund was overweight compared to the Index and the energy, materials and financials sectors, where the Fund was underweight compared to the Index. Most significantly, the Fund's investment in its equity portfolio did not reach 90% of its total assets until well into the fourth quarter of the year. 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

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)

	For the period from April 20, 2012 to December 31, 2012
Net Assets per unit, beginning of period(1)(2)	$ 10.00
Unit issue expense(3)	(0.61)
Increase from operations:(2)	
Total revenue	0.34
Total expenses	(0.16)
Realized losses	(0.03)
Unrealized losses	(0.15)
Total increase in Net Assets from operations(1)	$ 0.00
Distributions to unitholders(2)(4)	
From return of capital	$ (0.35)
Total distributions to unitholders	$ (0.35)
Net Assets per unit, end of period(1)(2)	$ 9.04

(1) This information is derived from the Fund's financial statements. The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for weekly Net Asset Value purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for weekly Net Asset Value purposes.
(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) $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

For the fiscal period ended December 31	2012(1)
Net Asset Value (000s)(2)	$ 49,012
Number of units outstanding(2)	5,404,932
Management expense ratio ("MER")(3)	9.22%
Trading expense ratio(4)	0.32%
Portfolio turnover rate(5)	2.91%
Net Asset Value per Unit(2)	$ 9.07
Closing market price(2)	$ 8.87

(1) Period from inception on April 20, 2012 to December 31, 2012
(2) As at December 31 of the year 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 one-time unit issue expense relating to the Fund's initial public offering. 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. The MER excluding unit issue expense, which is more representative of the ongoing efficiency of the Fund, is 2.50%.
(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 December 31, 2012

Total Net Asset Value (including Cash, Short-Term Investments and Other Net Assets)	$49,012,342

Portfolio Composition	% of Equity Portfolio	% of Total Net Asset Value
Pipes, Power, Utilities and Infrastructure	16.8%	15.1%
Financial	16.6%	15.0%
Consumer Staples	16.3%	14.7%
Real Estate	12.1%	11.0%
Industrial	10.7%	9.7%
Materials	10.4%	9.4%
Oil and Gas	7.7%	7.0%
Health Care	4.8%	4.4%
Telecom and Media	4.6%	4.2%
Total Investment Portfolio	100.0%	90.5%
Cash and Short-Term Investments		10.6%
Other Non-Debt Net Assets (Liabilities)		(1.1%)
Total Net Asset Value		100.0%

Top 25 Holdings	% of Equity Portfolio	% of Total Net Asset Value
Cash and Short-Term Investments	N/A	10.6%
Superior Plus Corp.	7.2%	6.5%
Chemtrade Logistics Income Fund	5.9%	5.3%
Retrocom Mid-Market REIT	5.7%	5.2%
Veresen Inc.	5.3%	4.8%
Extendicare Inc.	4.8%	4.4%
InnVest REIT	4.6%	4.2%
EnerCare Inc.	4.6%	4.2%
Noranda Income Fund Priority Units	4.5%	4.1%
Colabor Group Inc.	4.2%	3.8%
Bonterra Energy Corp.	4.1%	3.7%
Premium Brands Holdings Corporation	4.1%	3.7%
Just Energy Group Inc.	3.6%	3.3%
TD Bank Group	3.6%	3.2%
Altus Group Limited	3.0%	2.7%
Davis + Henderson Corporation	3.0%	2.7%
Thomson Reuters Corporation	2.9%	2.6%
Great-West Lifeco Inc.	2.7%	2.5%
Scotiabank	2.5%	2.2%
Keyera Corp.	2.4%	2.2%
IBI Group Inc.	2.3%	2.1%
Capstone Infrastructure Corporation	2.3%	2.1%
Vermilion Energy Inc.	2.1%	1.9%
CIBC	1.9%	1.7%
AltaGas Ltd.	1.9%	1.7%

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.

MANAGEMENT RESPONSIBILITY STATEMENT

The 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 Manager is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

The Manager maintains appropriate procedures to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in note 2 to the financial statements.

The Board of Directors of the Manager is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements.

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

Signed

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

Signed

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

March 5, 2013

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of Bloom Select Income Fund (the "Fund"):

We have audited the accompanying financial statements of the Fund, which comprise the statements of investments and net assets as at December 31, 2012 and the statements of operations and deficit and changes in net assets for the period from April 20, 2012 (commencement of operations) to December 31, 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2012 and the results of its operations and the changes in its net assets for the period from April 20, 2012 (commencement of operations) to December 31, 2012, in accordance with Canadian generally accepted accounting principles.

Signed

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

March 5, 2013

STATEMENT OF NET ASSETS

As at December 31		2012
Assets		
Investments at fair value (cost: $45,064,756)	$	**44,214,391**
Cash and short-term investments		**5,202,669**
Investment income receivable		**304,683**
Prepaid expenses and other assets		**31,913**
Total Assets		**49,753,656**
Liabilities		
Distributions payable to unitholders		**225,202**
Accrued liabilities		**196,755**
Amounts due to investment dealers		**467,316**
Total Liabilities		**889,273**
Unitholders' equity		
Unitholders' capital (note 5)		**48,818,077**
Contributed surplus (note 5)		**68,891**
Deficit		**(22,585)**
Net Assets representing unitholders' equity	**$**	**48,864,383**
Net Assets per Unit (note 3)	**$**	**9.04**

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

STATEMENT OF OPERATIONS AND DEFICIT

For the period from April 20 (commencement of operations) to December 31		2012
Investment income		
Dividend income	$	1,689,675
Interest income		126,885
Securities lending income		17,529
		1,834,089
Expenses (Note 8)		
Management fees (note 9)		665,497
Unitholder reporting costs		37,363
Audit fees		32,969
Independent review committee fees		22,999
Legal fees		20,879
Custody fees		9,890
Other administrative expenses		77,966
		867,563
Net investment income		966,526
Transaction costs		(110,639)
Net realized loss on sale of investments		(28,107)
Change in unrealized depreciation of investments		(850,365)
Decrease in net assets from operations		(22,585)
Retained earnings, beginning of period		–
Accumulated deficit, end of period	$	(22,585)
Decrease in net assets from operations per unit	$	–

STATEMENT OF CHANGES IN NET ASSETS

For the period from April 20 (commencement of operations) to December 31		2012
Net assets, beginning of period	$	–
Decrease in net assets from operations		(22,585)
Distribution to unitholders		
From return of capital		(1,900,454)
		(1,900,454)
Capital unit transactions (note 5)		
Proceeds from units issued (net of issuance costs of $3,340,911)		51,407,219
Repurchase and cancellation of units		(787,310)
Surplus of par value over repurchase cost of units cancelled		68,891
Reinvestment of distributions		98,622
		50,787,422
Increase in net assets for the period		48,864,383
Net assets, end of period	$	48,864,383

The accompanying notes are an integral part of these financial statements

STATEMENT OF INVESTMENTS

As at December 31, 2012		Cost	Fair Value	% of net assets
No. of Units/ Shares				
	Canadian Equities			
	Consumer Staples and Discretionary			
240,000	Colabor Group Inc.	$ 1,913,752	$ 1,852,800	
250,000	EnerCare Inc.	2,431,932	2,037,500	
80,000	Pizza Pizza Royalty Income Fund	798,793	800,000	
105,000	Premium Brands Holdings Corporation	1,838,358	1,791,300	
60,000	Reitmans (Canada) Ltd. Class A	813,151	721,800	
		7,795,986	**7,203,400**	14.74%
	Financial Services			
160,000	Altus Group Limited	1,157,726	1,321,600	
10,500	CIBC	759,826	839,685	
61,100	Davis + Henderson Corporation	1,105,672	1,313,039	
50,000	Great-West Lifeco Inc.	1,205,716	1,215,500	
19,100	Scotiabank	993,200	1,096,722	
19,000	TD Bank Group	1,507,232	1,589,350	
		6,729,372	**7,375,896**	15.09%
	Health Care			
280,000	Extendicare Inc.	2,198,240	2,142,000	
		2,198,240	**2,142,000**	4.38%
	Industrial			
160,000	IBI Group Inc.	2,282,688	1,017,600	
310,000	Superior Plus Corp.	2,338,724	3,165,100	
47,300	Transcontinental Inc.	443,305	526,449	
		5,064,717	**4,709,149**	9.64%
	Materials			
160,000	Chemtrade Logistics Income Fund	2,527,643	2,598,400	
420,000	Noranda Income Fund Priority Units	2,266,799	1,969,800	
		4,794,442	**4,568,200**	9.36%
	Oil and Gas			
40,000	Bonterra Energy Corp.	1,848,216	1,817,200	
260,000	Twin Butte Energy Ltd.	729,872	668,200	
18,000	Vermilion Energy Inc.	819,806	932,760	
		3,397,894	**3,418,160**	7.00%
	Pipes, Power, Utilities and Infrastructure			
25,000	AltaGas Ltd.	759,625	837,500	
250,000	Capstone Infrastructure Corporation	1,000,708	1,005,000	
18,000	Gibson Energy Inc.	378,620	431,460	
170,000	Just Energy Group Inc.	1,963,343	1,613,300	
21,600	Keyera Corp.	901,811	1,059,480	
4,400	Mullen Group Ltd.	90,816	91,916	
200,000	Veresen Inc.	2,754,246	2,352,000	
		7,849,169	**7,390,656**	15.12%
	Real Estate			
35,000	Cominar REIT	769,802	789,250	
500,000	InnVest REIT	2,283,993	2,065,000	
450,000	Retrocom Mid-Market REIT	2,260,513	2,511,000	
		5,314,308	**5,365,250**	10.98%
	Telecom and Media			
23,000	Manitoba Telecom Services Inc.	757,188	746,580	
45,000	Thomson Reuters Corporation	1,265,561	1,295,100	
		2,022,749	**2,041,680**	4.18%
	Total Canadian Equities	**$ 45,166,877**	**$ 44,214,391**	90.49%
	Embedded Broker Commissions	**(102,121)**		
	Total Portfolio	**$ 45,064,756**	**$ 44,214,391**	
	Short-term Investments(1)		**3,997,730**	8.18%
	Other Assets, Net of Liabilities		**652,262**	1.33%
	Total		**$ 48,864,383**	100.00%

(1) Short-term investments comprise of the following banker's acceptances issued by Canadian chartered banks with a Standard & Poor's credit rating of A or higher:

Par value	Issuer	Maturity date	Yield	Value
3,000,000	HSBC Bank Canada	January 22, 2013	1.18%	$ 2,997,968
1,000,000	TD Bank	January 9, 2013	1.09%	999,762
				$ 3,997,730

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS
December 31, 2012

1. ESTABLISHMENT OF THE FUND
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 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.

The Fund is listed on the Toronto Stock Exchange under the symbol BLB.UN and commenced operations on April 20, 2012.

2. SIGNIFICANT ACCOUNTING POLICIES
These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and include estimates and assumptions made by management that may affect the reported amounts of assets, liabilities, income and expenses during the reporting periods. Actual results could vary from these estimates.

National Instrument 81-106 – "Investment Fund Continuous Disclosure" ("NI 81-106") requires all investment funds to calculate the net asset value for all purposes other than for financial statements in accordance with part 14.2, which differs in some respects from the requirements of Section 3855 of Canadian GAAP. Canadian GAAP includes the requirement that the fair value of financial instruments listed on a recognized public stock exchange be valued at their last bid price for securities held in a long position and at their last ask price for securities held in a short position, instead of their close price or the last sale price of the security for the day as required by NI 81-106. This results in differences between net assets calculated based on Canadian GAAP ("Net Assets") and net asset value calculated based on NI 81-106 ("Net Asset Value"). A comparison between Net Assets per unit and Net Asset Value per unit is provided in Note 3.

a) Valuation of investments
For financial reporting purposes, investments are deemed held for trading and are valued at estimated fair value. Investments held that are traded in an active market through recognized public stock exchanges, over-the-counter markets, or through recognized investment dealers, are valued at their bid prices. Investments held with no available bid or ask prices are valued at their closing sale prices.

Investments held that are not traded in an active market are valued based on the results of valuation techniques using observable market inputs where possible, on such basis and in such manner established by the Manager.

b) Cash and short-term investments
Cash and short-term investments consist of cash and short-term debt instruments with original maturities of less than three months. Short-term investments are valued at amortized cost.

c) 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 and interest income is recognized on an accrual basis. Realized and unrealized gains and losses from investment transactions are calculated on an average cost basis.

d) Foreign exchange
The functional currency of the Fund is the Canadian dollar. 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.

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 (continued)

f) 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 participants. Any excess of regular monthly distributions over actual income and net realized capital gains is characterized as a return of capital.

g) Transaction costs

Transaction costs are expensed and are included in 'Transaction costs' in the statement of operations. 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.

h) Financial instruments

Investment income receivable and amounts due from investment dealers are designated as loans and receivables and recorded at amortized cost. Similarly, distributions payable, accrued liabilities and amounts due to investment dealers are designated as financial liabilities and are recorded at amortized cost. Given their short-term nature, amortized cost approximates fair value for these assets and liabilities.

i) Issuance costs

Issuance costs incurred in connection with the offering of units, which include agents' fees and other expenses of the offering, are charged to equity.

3. COMPARISON OF NET ASSETS PER UNIT AND NET ASSET VALUE PER UNIT

In accordance with NI 81-106, the Net Assets per unit and the Net Asset Value ("NAV") per unit as at December 31, 2012 is as follows:

Net Assets per unit	$ 9.04
Net Asset Value per unit	$ 9.07

4. INCOME TAXES

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 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. Any non-capital losses that are realized in the taxation year 2006 and after may be carried forward for 20 years. As at December 31, 2012, the Fund had no non-capital losses carried forward. Capital losses incurred by the Fund cannot be allocated to unitholders but may be carried forward indefinitely to apply against capital gains realized in future years. As at December 31, 2012, the Fund had $34,207 in net capital losses available for carryforward.

5. 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.

Commencing in 2013, units may be surrendered for redemption annually at the option of the unitholder during the period from September 15 to 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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 (continued)

On April 20, 2012, the Fund issued 5,000,000 units at $10 per unit for proceeds, net of issuance costs, of $46,875,000. On May 9, 2012, the Fund exercised its over-allotment option for the issuance of an additional 474,813 units at $10 per unit for proceeds, net of issuance costs, of $4,532,219. Total issuance costs were $3,340,911.

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. During the period ended December 31, 2012, 80,600 units were purchased for cancellation.

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 statement 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 statement of net assets.

Unit transactions of the Fund for the period ended December 31, 2012 were as follows:

	2012	
	Number of Units	**Amount**
Units outstanding – beginning of period	–	–
Initial public offering, net of issuance costs	5,474,813	51,407,219
Distributions from return of capital	–	(1,900,454)
Repurchase and cancellation of units	(80,600)	(787,310)
Reinvestment of distributions	10,719	98,622
Units outstanding – end of period	5,404,932	48,818,077

Units held by the Manager and its affiliates represent 1.9% of the units outstanding at December 31, 2012.

6. CAPITAL MANAGEMENT

The Fund's objectives in managing its capital are to provide unitholders with monthly cash distributions and the opportunity to participate in gains in the value of the investment portfolio. The Fund's capital includes unitholder's equity of $48,864,383. The Fund manages its capital taking into consideration the risk characteristics of its holdings. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to unitholders, return capital to unitholders, increase or decrease its level of borrowing, or purchase units for cancellation.

7. DISTRIBUTIONS PAYABLE 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 day of each month, payable by the fifteenth business day of the following month. For the period ended, December 31, 2012, the Fund declared total distributions of $ 0.35 per unit, which amounted to $1,900,454.

8. EXPENSES

Management fees and other reasonable expenses incurred in the operations of the Fund are charged as expenses in the statement of operations of the Fund and include the costs of the Independent Review Committee and compliance with National Instrument 81-107, the costs of preparing and distributing financial statements and other reports to unitholders, accounting, valuation, custodial, transfer agent and registrar, audit, legal, regulatory and other professional fees, insurance premiums and other expenses as described in the Declaration of Trust.

9. 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 NAV of the Fund, comprised of 1.25% per annum of the NAV 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 trailer fee of 0.50% per annum of the NAV of the Fund, calculated quarterly and paid as soon as practicable after the end of each calendar quarter, plus applicable taxes.

For the period to December 31, 2012 the Fund expensed management fees of $665,497. As at December 31, 2012, the Fund had management fees payable of $ 123,314 included in accrued liabilities.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 (continued)

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 year ended December 31, 2012 the Fund expensed investor relations costs of $22,001 and insurance premiums of $5,077 which were paid and recharged by the Manager.

10. BROKERAGE COMMISSIONS ON SECURITIES TRANSACTIONS

The Fund paid $110,639 in brokerage commissions and other transaction costs for portfolio transactions. There are no soft dollar commissions.

11. SECURITIES LENDING

The Fund has entered into a securities lending program with CIBC Mellon Global Securities Services Company, which has an S&P credit rating of A+ / A− / 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 operations.

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, Spain, 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 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 December 31, 2012 are as follows:

As at December 31, 2012	
Securities Loaned	**Collateral held**
$ 13,695,346	$ 14,453,487

12. FINANCIAL INSTRUMENTS

a) Risk management

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

The Manager seeks to minimize potential adverse effects of these risks 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.

The Fund's investment portfolio is comprised primarily of Canadian equities and income trusts.

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 December 31, 2012.

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

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 (continued)

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 December 31 2012, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, net assets would have increased or decreased by approximately $4,421,439 or 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 investments held by the Fund cannot be readily converted into cash when required. 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. The majority of the liabilities of the Fund mature in three 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 investments. Fluctuations in interest rates have a direct effect on the Fund's ability to earn interest income. As at December 31, 2012, the Fund had no significant exposure to interest rate risk due to the short term nature of its short-term investments, 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 December 31 2012, the Fund had no direct exposure to currency risk since none of its financial instruments were denominated in foreign currencies.

g) Fair value hierarchy

CICA Handbook Section 3862, "Financial Instruments – Disclosures" ("Section 3862") establishes 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.

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 (continued)

Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are considered to be less active.

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

The Fund's investments and short-term investments recorded at fair value have been categorized based upon this fair value hierarchy. The following fair value hierarchy table presents information about the Fund's investments and short-term investments measured at fair value as of December 31 2012:

December 31, 2012

	Level 1	Level 2	Level 3	Total
Equities	$ 44,214,391	$ –	$ –	$ 44,214,391
Short-term investments	–	3,997,730	–	3,997,730
Total Investments	**$ 44,214,391**	**$ 3,997,730**	**$ –**	**$ 48,212,121**

There were no transfers between the levels during the period.

13. CHANGE IN THE BASIS OF ACCOUNTING – TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Fund will adopt IFRS as published by the International Accounting Standards Board ("IASB") for the fiscal period beginning January 1, 2014 and will issue its initial financial statements in accordance with IFRS, including comparative financial information, for the interim period ending June 30, 2014.

Management has been monitoring developments in the IFRS conversion program and has been assessing the likely impacts on implementation decisions, internal controls, information systems and training.

In May 2011, the IASB issued IFRS 13 Fair Value Measurement ("IFRS 13"), which defines fair value, sets out a single framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 only applies when IFRS requires or permits fair value measurement. If an asset or a liability measured at fair value has a bid price and an ask price, IFRS 13 requires valuation to be based on a price within the bid-ask spread that is most representative of fair value. IFRS 13 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. This may result in elimination of the differences, if any, between the Net Assets per unit and NAV per unit at the financial statements reporting dates.

In October 2012, the IASB issued Investment Entities (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and International Accounting Standard ("IAS") 27 Separate Financial Statements). The amendments define an investment entity and introduce an exception to consolidating particular subsidiaries for investment entities. These amendments allow an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IAS 39 Financial Instruments: Recognition and Measurement. The amendments also introduce new disclosure requirements for investment entities. Entities are required to apply the amendments for annual periods beginning on or after January 1, 2014.

In addition, a Statement of Cash Flows will now be included in the financial statements in accordance with the requirements of IFRS 1 First-time adoption of International Financial Reporting Standards, and prepared in line with IAS 7 Statement of Cash Flows. The criteria contained within IAS 32 — Financial Instruments Presentation may also require security holders' equity to be classified as a liability within the Fund's Statements of Net Assets unless certain conditions are met. The Manager is currently assessing the Fund's security holders' structure to confirm classification.

Other than the impact due to IFRS 13 noted above, management has determined that the impact of IFRS to the financial statements would be limited to additional note disclosures and potential modifications to presentation including unitholders' equity. However, this present determination is subject to change resulting from the issuance of new standards and/or new interpretations of existing standards.

CORPORATE INFORMATION

Independent Review Committee

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

Lea M. Hill, BCom, FCSI

Helen M. Kearns

Directors and Officers of Bloom Investment Counsel, Inc.

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

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

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

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

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

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

Trustee

Bloom Investment Counsel, Inc.

Custodian

CIBC Mellon Trust Company

Auditors

PricewaterhouseCoopers LLP

Website

www.bloomfunds.ca

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

Investor Relations: 416-861-9941
Toll Free: 1-855-BLOOM18
Website: www.bloomfunds.ca