



## **Brand Leaders Income Fund**

### **Annual Financial Statements**

**December 31, 2013**

The Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure, can be obtained at your request, and at no cost, by calling us at 866 998 8298; by writing to us at Harvest Portfolios Group, 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; by visiting our website at [www.harvestportfolios.com](http://www.harvestportfolios.com); or on SEDAR at [www.sedar.com](http://www.sedar.com).



# Brand Leaders Income Fund

## MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements have been prepared by Harvest Portfolios Group Inc. in its capacity as Manager of the Fund and approved by the Board of Directors of the Manager. The Fund's Manager is responsible for the information and representation contained in these financial statements.

The Manager maintains appropriate processes to ensure that relevant and reliable financial information is produced. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments made by the Manager. The significant accounting policies, which the Manager believes are appropriate, are described in Note 2 to the financial statements.

PricewaterhouseCoopers LLP is the external auditor of the Fund. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the unitholders their opinion on the financial statements. Their report is included as an integral part of the financial statements.

On behalf of Harvest Portfolios Group Inc.,

(Signed) "Michael Kovacs"

Michael Kovacs  
President and Chief Executive Officer

(Signed) "Townsend Haines"

Townsend Haines  
Chief Financial Officer

Oakville, Canada  
March 19, 2014



March 19, 2014

## **Independent Auditor's Report**

### **To the Unitholders of Brand Leaders Income Fund (the Fund)**

We have audited the accompanying financial statements of the Fund, which comprise the statement of investments as at December 31, 2013, the statements of financial position as at December 31, 2013 and 2012 and the statements of operations, changes in financial position and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

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

#### **Auditor's responsibility**

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

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

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

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2013 and 2012 and the results of its operations, the changes in its financial position and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants, Licensed Public Accountants**

*PricewaterhouseCoopers LLP*

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

## Brand Leaders Income Fund

STATEMENTS OF FINANCIAL POSITION			
As at December 31,		2013	2012
<b>Assets</b>			
Investments, at fair value (cost \$22,118,908; 2012 - \$25,069,489)	\$	29,907,200	\$ 27,430,666
Cash and cash equivalents		75,415	824,009
Dividends receivable		44,307	9,443
		<b>30,026,922</b>	<b>28,264,118</b>
<b>Liabilities</b>			
Distributions payable		155,769	165,534
Payable for options contracts written (cost \$Nil; 2012 - \$75,003)		-	70,142
Unrealized depreciation on foreign currency forward contracts (Note 5)		98,521	298,367
		<b>254,290</b>	<b>534,043</b>
<b>Net assets representing unitholders' equity</b>	<b>\$</b>	<b>29,772,632</b>	<b>\$ 27,730,075</b>
<b>Unitholders' equity</b> (Note 3)			
Unitholders' capital		22,040,889	25,598,748
Contributed surplus		16,390	38,421
Retained earnings (deficit)		7,715,353	2,092,906
<b>Unitholders' equity</b>	<b>\$</b>	<b>29,772,632</b>	<b>\$ 27,730,075</b>
<b>Number of units outstanding</b> (Note 3)			
		<b>2,396,448</b>	<b>2,546,678</b>
<b>Net assets per unit</b> (Note 9)	<b>\$</b>	<b>12.42</b>	<b>\$ 10.89</b>

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

## Brand Leaders Income Fund

<b>STATEMENTS OF OPERATIONS</b>			
<b>For the year ended December 31,</b>	<b>2013</b>		<b>2012</b>
<b>Investment income</b>			
Dividends	\$	830,926	\$ 729,142
Less: foreign withholding taxes		(104,747)	(98,863)
		<b>726,179</b>	<b>630,279</b>
<b>Expenses (Note 4)</b>			
Management fees		281,618	289,460
Service fees		124,550	128,382
Unitholder reporting costs		191,923	128,383
Audit fees		21,120	23,588
Transfer agency fees		9,942	10,307
Custodian fees and bank charges		49,215	52,976
Independent review committee fees		7,668	8,821
Filing fees		25,811	19,645
Legal fees		21,133	6,697
		<b>732,980</b>	<b>668,259</b>
<b>Net investment gain (loss)</b>		<b>(6,801)</b>	<b>(37,980)</b>
<b>Realized and unrealized gain (loss) on investments and foreign currencies</b>			
Realized gain (loss) on sale of investments		1,821,912	434,885
Realized gain (loss) on foreign exchange		(1,788,726)	1,461,192
Transaction costs (Note 6)		(23,542)	(30,396)
Change in unrealized appreciation (depreciation) of foreign exchange		197,350	(748,481)
Change in unrealized appreciation (depreciation) of investments		5,422,254	2,123,572
<b>Net gain (loss) on investments</b>	\$	<b>5,629,248</b>	\$ <b>3,240,772</b>
<b>Increase (decrease) in net assets from operations</b>	\$	<b>5,622,447</b>	\$ <b>3,202,792</b>
<b>Increase (decrease) in net assets from operations per unit</b>	\$	<b>2.33</b>	\$ <b>1.25</b>

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## Brand Leaders Income Fund

STATEMENTS OF CHANGES IN FINANCIAL POSITION			
For the year ended December 31,	2013		2012
Net assets, beginning of the year	\$	27,730,075	\$ 26,868,364
Increase (decrease) in net assets from operations		5,622,447	3,202,792
<b>Unitholders' transactions</b>			
Redemption and cancellation of units		(1,699,589)	(343,908)
<b>Net unitholders' transactions</b>	\$	<b>(1,699,589)</b>	\$ <b>(343,908)</b>
<b>Distributions to unitholders</b>			
Return of capital		(1,880,301)	(1,997,173)
<b>Total distributions to unitholders</b>		<b>(1,880,301)</b>	<b>(1,997,173)</b>
Net assets, end of the year	\$	29,772,632	\$ 27,730,075
<b>Retained earnings (deficit), beginning of the year</b>	\$	<b>2,092,906</b>	\$ <b>(1,109,886)</b>
Increase (decrease) in net assets from operations		5,622,447	3,202,792
<b>Retained earnings (deficit), end of the year</b>	\$	<b>7,715,353</b>	\$ <b>2,092,906</b>
<b>Contributed surplus, beginning of the year</b>	\$	<b>38,421</b>	\$ <b>35,048</b>
Cost of units repurchased at less (greater) than average cost of unit (Note 3)		(22,031)	3,373
<b>Contributed surplus, end of the year</b>	\$	<b>16,390</b>	\$ <b>38,421</b>

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

## Brand Leaders Income Fund

STATEMENTS OF CASH FLOWS			
For the year ended December 31,		2013	2012
<b>Operating activities</b>			
Increase (decrease) in net assets from operations	\$	5,622,447	\$ 3,202,792
<b>Add (deduct) items not affecting cash</b>			
Realized (gain) loss on sale of investments		(1,821,912)	(434,885)
Change in unrealized (appreciation) depreciation of investments		(5,422,254)	(2,123,572)
Proceeds from sale of investments		8,656,908	5,690,945
Purchases of investments		(3,959,419)	(4,542,572)
Net change in non-cash assets and liabilities		(234,709)	795,744
<b>Net cash flow provided by (used in) operating activities</b>		<b>2,841,061</b>	<b>2,588,452</b>
<b>Financing activities</b>			
Payments on cancellation of units		(1,699,589)	(353,938)
Distribution to unitholders		(1,890,066)	(1,999,318)
<b>Net cash flow provided by (used in) financing activities</b>	\$	<b>(3,589,655)</b>	\$ <b>(2,353,256)</b>
<b>Net increase (decrease) in cash and cash equivalents during the year</b>		<b>(748,594)</b>	<b>235,196</b>
Cash and cash equivalents, beginning of the year		824,009	588,813
<b>Cash and cash equivalents, end of the year</b>	\$	<b>75,415</b>	\$ <b>824,009</b>

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

## Brand Leaders Income Fund

STATEMENT OF INVESTMENTS				
As at December 31, 2013				
Number of Shares	Security	Average Cost(\$)	Fair Value (\$)	% of Net Assets
<b>EQUITIES</b>				
<b>Banking and Other Financial Issuers</b>				
21,900	American Express Company	1,300,325	2,110,941	7.1
32,200	HSBC Holdings PLC ADR	1,521,625	1,884,767	6.3
		2,821,950	3,995,708	13.4
<b>Consumer Discretionary Issuers</b>				
26,400	The Walt Disney Company	1,064,162	2,142,739	7.2
		1,064,162	2,142,739	7.2
<b>Consumer Staple Issuers</b>				
17,400	Anheuser-Busch InBev NV ADR	1,270,592	1,969,103	6.6
27,800	Kellogg Co.	1,468,672	1,803,855	6.0
46,100	The Coca-Cola Company	1,541,437	2,022,436	6.8
		4,280,701	5,795,394	19.4
<b>Energy Issuers</b>				
25,400	Royal Dutch Shell PLC Cl. A ADR	1,757,696	1,922,050	6.5
		1,757,696	1,922,050	6.5
<b>Industrials Issuers</b>				
14,500	3M Co.	1,290,578	2,160,418	7.3
20,400	Caterpillar Inc.	2,010,805	1,968,307	6.6
14,400	Siemens AG	1,572,367	2,118,132	7.1
14,800	United Parcel Service, Inc. Cl. B	1,036,569	1,652,226	5.5
		5,910,319	7,899,083	26.5
<b>Information Technology Issuers</b>				
3,400	Apple Inc.	1,378,398	2,025,962	6.8
74,100	Intel Corporation	1,654,422	2,043,076	6.9
10,300	International Business Machines Corporation	1,833,027	2,051,516	6.9
51,100	Microsoft Corporation	1,418,233	2,031,672	6.8
		6,284,080	8,152,226	27.4
<b>Total investments</b>		<b>22,118,908</b>	<b>29,907,200</b>	<b>100.4</b>
<b>Foreign currency forward contracts (Note 5)</b>			<b>(98,521)</b>	<b>(0.3)</b>
<b>Other assets less liabilities</b>			<b>(36,047)</b>	<b>(0.1)</b>
<b>Net assets</b>			<b>29,772,632</b>	<b>100.0</b>

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



## Brand Leaders Income Fund

### CONCENTRATION BY GEOGRAPHY AND SEGMENT AS AT December 31, 2013

As at	December 31, 2013		December 31, 2012	
Country of Issue	\$*	As a % of net assets	\$*	As a % of net assets
United States of America	29,772,632	100.0	27,730,075	100.0
<b>Total</b>	<b>29,772,632</b>	<b>100.0</b>	<b>27,730,075</b>	<b>100.0</b>

\*Stated in Canadian dollars

The Fund's investment portfolio is concentrated in the following segments:

	% of Net Assets as at December 31, 2013	% of Net Assets as at December 31, 2012
<b>EQUITIES</b>		
Banks and Other Financial Issuers	13.4	12.1
Consumer Discretionary Issuers	7.2	6.6
Consumer Staples Issuers	19.4	20.3
Energy Issuers	6.5	6.7
Industrial Issuers	26.5	27.7
Information Technology Issuers	27.4	25.5
<b>OPTIONS</b>		
Banks and Other Financial Issuers	-	(0.1)
Information Technology Issuers	-	(0.1)

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

# Brand Leaders Income Fund

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013

### 1. ORGANIZATION

Brand Leaders Income Fund (the “Fund”) is an investment fund established under the laws of the Province of Ontario pursuant to a Declaration of Trust dated June 29, 2011, being the inception date. There was no significant activity in the Fund from the date of inception, June 29, 2011 to commencement of operations on July 19, 2011. On June 29, 2011, the Fund completed an initial public offering of 2,500,000 units at \$12.00 per unit for gross proceeds of \$30,000,000. On August 3, 2011, an overallotment option was exercised for an additional 101,378 units at a price of \$12.00 per unit for gross proceeds of \$1,216,536.

The Fund’s investment objectives are to provide unitholders with monthly cash distributions, the opportunity for capital appreciation and lower overall volatility of Portfolio returns than would otherwise be experienced by owning Equity securities of the Brand Leaders directly. As part of the investment strategy, the Fund will invest in an equally-weighted portfolio of equity securities of 15 Brand Leaders from the Brand Leaders Investable Universe that have a market capitalization of at least US\$10 billion at the time of investment.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are presented in Canadian dollars. The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions. Such estimates and assumptions affect reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual results could differ from these estimates.

#### Valuation of investments

The fair value of investments as at the financial reporting date is as follows:

a) Investments are categorized as held for trading in accordance with CPA Canada Handbook Section 3855 Financial Instruments - Recognition and Measurement. Investments held that are traded in an active market are valued at their bid prices through recognized public stock exchanges or through recognized investment dealers on the valuation date. Investments held include equities, option contracts and foreign currency forward contracts. Investments held with no available bid prices are valued at their closing sale price.

b) Investments held that are not traded on an active market are valued using valuation techniques, on such basis and in such a manner established by the Manager. The value of any security for which, in the opinion of the Manager, the published market quotations are not readily available shall be the fair value as determined by the Manager in accordance with CPA Canada Handbook Section 3855 methodologies. The fair values of certain securities may be determined using valuation models that are based, in part, on assumptions that are not supported by observable market inputs. These methods and procedures may include, but are not limited to, performing comparisons with prices of comparable or similar securities, obtaining valuation related information from issuers and/or other analytical data relating to the investment and using other available indication of value. These values are independently assessed internally to ensure that they are reasonable. However, because of the inherent uncertainty of valuation, the estimated fair values for the aforementioned securities and interests may be materially different from the values that would be used had a ready market for the security existed. The fair values of such securities are affected by the perceived credit risks of the issuer, predictability of cash flows and length of time to maturity. At December 31, 2013 and 2012, there were no securities that required pricing using assumptions.

## Brand Leaders Income Fund

National Instrument 81-106 – “Investment Fund Continuous Disclosure” (“NI 81-106”) requires all investment funds to calculate net asset value for all purpose 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 asset value (“NAV”) calculated based on NI 81-106 and on net assets calculated based on Canadian GAAP (“Net assets”). The reconciliation between NAV per unit and Net assets per unit at the period end is provided in Note 9.

### Cash and cash equivalents

Cash is comprised of cash on deposit. Cash equivalents are comprised of highly liquid investments having terms to maturity of 90 days or less.

### Other assets and liabilities

For the purposes of categorization in accordance with CPA Canada Handbook Section 3862, accrued dividends and interest and other assets are designated as loans and receivables and recorded at cost or amortized cost. Similarly, amounts due to unitholders for distributions and redemptions and other liabilities are designated as other financial liabilities and reported at cost or amortized cost, which approximates fair value for these assets and liabilities.

### Transaction costs

Transaction costs, such as brokerage commissions, incurred on the purchase and sale of securities by the Fund are expensed in accordance with Section 3855 and are recognized in the Statements of Operations in the period in which they are incurred.

### Investment transactions and income recognition

Investment transactions are accounted for on the trade date. The cost of investments represents the amount paid for each security and is determined on an average cost basis excluding transaction costs. Realized gains (losses) from the sale of investments and unrealized appreciation (depreciation) of investments are calculated on an average cost basis.

Investment income is recorded on an accrual basis. Interest income is recorded on an accrual basis and dividend income is recorded on the ex-dividend date.

### Foreign currency translation

Purchases and sales of investments denominated in foreign currencies and foreign currency dividend and interest income are translated into Canadian dollars at the rate of exchange prevailing at the time of the transactions. Realized and unrealized foreign currency gains or losses on investments are included in the Statement of Operations in “Realized gain (loss) on sale of investments” and “Change in unrealized appreciation (depreciation) of investments”, respectively. Realized and unrealized foreign currency gains or losses on assets, liabilities, and income, other than investments denominated in foreign currencies, are included in the Statement of Operations in “Realized gain (loss) on foreign exchange” and “Change in unrealized appreciation (depreciation) of foreign exchange”. Foreign currency assets and liabilities in the Statement of Financial Position are translated into Canadian dollars on the statement date.

### Foreign currency forward contracts

The Fund may enter into foreign currency forward contracts to hedge against exposure to foreign currency fluctuations. The carrying value of these contracts is the gain or loss that would be realized if the position were closed out on the valuation date, and is recorded as an unrealized gain or loss. Upon closing of a contract, the gain or loss is recorded as a net realized gain or loss on foreign currency forward contracts.

### Securities valuation

The NAV on a particular date will be equal to the aggregate value of the assets of the Fund less the aggregate value of the liabilities of the Fund, expressed in Canadian dollars at the applicable exchange rate on such date. The NAV and NAV per unit will be calculated on each Thursday during the year (or, if a Thursday is not a Business Day, the Business Day following such Thursday) and on the last Business Day of each month, and any other time as may be determined by the Manager from time to time. “Business Day” means any day on which the TSX is open for trading.

## Brand Leaders Income Fund

### Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a pre-determined price. The seller receives a premium from the purchaser in consideration for the assumption of a future securities price.

The premium paid for purchase options is included in the “Investments, at average cost” on the Statements of Financial Position. The unrealized gain or loss is reflected in the Statement of Operations in “Change in unrealized appreciation (depreciation) of investment”.

The premium received upon writing an option is recorded at cost as “Payable for options written” in the Statement of Financial Position. As long as the position of the written option is maintained, the liability for written options is revalued at an amount equal to the current market value of the option, which would have the effect of closing the position. Any gain or loss resulting from revaluation is reflected in the Statements of Operations in “Changes in unrealized appreciation (depreciation) of investment”.

The gain or loss on sale or expiry of options is reflected in the Statements of Operations in “Realized gain (loss) on sale of investments”.

As at December 31, 2013 there were no options written in the fund.

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

“Increase (decrease) in net assets from operations per unit” in the Statement of Operations represents the increase (decrease) in net assets from operations, divided by the weighted average units outstanding for the financial period.

### Fair value of financial instruments

The table below summarizes the fair value of the Fund’s financial instruments using the following fair value hierarchy:

**Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3:** Inputs for the assets or liabilities that are not based on observable market data. Additional quantitative disclosures are required for Level 3 securities.

### Securities classification:

Investments at fair value as at December 31, 2013				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Equities</b>				
Common Stock	24,131,280	-	-	24,131,280
ADR	5,775,920	-	-	5,775,920
<b>Total equities</b>	<b>29,907,200</b>	-	-	<b>29,907,200</b>
Total written options contracts	-	-	-	-
<b>Total investments</b>	<b>29,907,200</b>	-	-	<b>29,907,200</b>
<b>Foreign currency forward contracts</b>	-	<b>(98,521)</b>	-	<b>(98,521)</b>
<b>Total investments at fair value</b>	<b>29,907,200</b>	<b>(98,521)</b>	-	<b>29,808,679</b>

## Brand Leaders Income Fund

Investments at fair value as at December 31, 2012				
	Level 1 (\$)	Level 2 (\$)	Level 3 (\$)	Totals (\$)
<b>Equities</b>				
Common Stock	19,686,666	-	-	19,686,666
ADR	7,744,000	-	-	7,744,000
<b>Total equities</b>	<b>27,430,666</b>	-	-	<b>27,430,666</b>
Total written options contracts	(70,142)	-	-	(70,142)
<b>Total investments</b>	<b>27,360,524</b>	-	-	<b>27,360,524</b>
<b>Foreign currency forward contracts</b>	-	<b>(298,367)</b>	-	<b>(298,367)</b>
<b>Total investments at fair value</b>	<b>27,360,524</b>	<b>(298,367)</b>	-	<b>27,062,157</b>

There were no Level 3 securities held by the Fund as at December 31, 2013 and 2012, and there were no significant transfers between Level 1 and Level 2 for the years ended December 31, 2013 and 2012.

### Transition to International Financial Reporting Standards (“IFRS”)

Investment entities in Canada that are publicly accountable enterprises are required to adopt IFRS for annual periods beginning on or after January 1, 2014. As a result, calendar year reporters need to prepare their comparative financial information on an IFRS basis as of January 1, 2013, the date of transition to IFRS.

The Fund will have to prepare annual financial statements for the first time as of December 31, 2014 with comparatives in accordance with IFRS and semi-annual financial statements for the first time as of June 30, 2014 with comparatives in accordance with IFRS.

The Manager has developed a plan to convert the Fund’s financial statements to IFRS by establishing a cross-functional IFRS team represented by management and the Fund’s service providers (accounting and transfer agent). The Fund does not anticipate any impact on its business arrangements.

As at December 31, 2013, the Manager believes that the major areas of difference between the Fund’s current accounting policies and those expected to apply under IFRS have been identified, including the:

- classification of redeemable instruments issued by the Fund,
- elimination of the differences between net asset value per unit and net asset per unit, and
- classification and measurement of the Fund’s investments.

The table in Note 8 summarizes the 2013 quantitative impact of the changeover from Canadian GAAP to IFRS.

### 3. UNITHOLDERS’ EQUITY

The authorized capital of the Fund consists of an unlimited number of transferable, units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. Except as provided in the Declaration of Trust, all units have equal rights and privileges. Each unit is entitled to one vote at all meetings of unitholders and is entitled to participate equally in any and all distributions made by the Fund.

The Fund renewed its normal course issuer bid program for the period from August 23, 2013 to August 22, 2014, which allows the Fund to purchase up to 239,804 trust units of the Fund for cancellation by way of a normal course issuer bid through the facilities of the Toronto Stock Exchange. During the year ended December, 2013, 5,900 units were purchased for cancellation for \$66,120 (2012 – 31,100 units for \$343,908).

## Brand Leaders Income Fund

### Contributed Surplus

Contributed surplus is recorded when units of the Fund are redeemed or repurchased at prices per unit which are below the average cost per unit of unitholders capital. If the redemption price is greater than the average cost per unit, the difference is first charged to contributed surplus until the balance in contributed surplus is eliminated and the remaining amount is charged to retained earnings.

### Redemptions

Units may be surrendered prior to 5:00 p.m. (Toronto time) on the 10th business day before the last business day of the applicable month by the holders for monthly redemption. Upon receipt by the Fund of the redemption notice, the holder of a unit shall be entitled to receive a price per unit equal to the lesser of:

(a) 95% of the “market price” of the units on the principal market on which the units are quoted for trading during the 20 trading day period ending immediately before the monthly redemption date; and

(b) 100% of the “closing market price” on the principal market on which the units are quoted for trading on the monthly redemption date.

In accordance with the Fund prospectus, in addition to the monthly redemption rights, on an annual basis, commencing in January 2013, units may be surrendered for redemption at the Fund’s NAV per unit, subject to the required redemption notice period, for the second last business day of January and the unitholder will receive payment on or before the 15th business day of the following month. On January 31, 2013 144,330 (2012 - Nil) units were redeemed and cancelled for \$1,633,469 (2012 - \$Nil).

The following units were redeemed and/or cancelled during the year:

	<b>Units outstanding</b>
<b>Total outstanding as at December 31, 2011</b>	<b>2,577,778</b>
Units cancelled	(31,100)
<b>Total outstanding as at December 31, 2012</b>	<b>2,546,678</b>
Units redeemed	(144,330)
Units cancelled	(5,900)
<b>Total outstanding as at December 31, 2013</b>	<b>2,396,448</b>

### Issue costs

Certain offering expenses such as costs of creating the Fund, the cost of printing and preparing the prospectus, legal expenses of the Fund and other out-of pocket expenses incurred by the agents together with the agents’ fees payable by the Fund are reflected as a reduction of unitholders’ equity. The expenses paid are shown in the Statement of Changes in Financial Position.

### Distributions

The Fund intends to make monthly cash distributions to unitholders of record on the last business day of each month and pay such cash distributions on or before the 15th day of the following month. Beginning in November 2011, the Fund will annually determine and announce the distribution amount for the following year based upon the prevailing market conditions. The distribution amount was \$1,880,301 or \$0.065 per unit per month (\$0.78 per unit in total) for the year ended December 31, 2013 (2012 - \$1,997,173 or \$0.78 per unit).

## 4. EXPENSES

### Management and service fees

Harvest Portfolios Group Inc. is the Manager of the Fund and is responsible for managing or arranging for managing the Fund’s overall business and operations. The Manager has retained Highstreet Asset Management Inc. (“Highstreet” or the “Investment Manager”) to provide investment management services to the Fund and pays Highstreet a fee for its portfolio advisory service, from the management fee received from the Fund, calculated on the basis of the Fund’s net assets.

## Brand Leaders Income Fund

The Manager is entitled to a fee of 0.90 % of the NAV, plus applicable taxes, per annum of the Fund. The Fund pays service fees to registered dealers at the rate on 0.40 % of the NAV, plus applicable taxes, per annum of the Fund. Service fees are accrued daily and paid monthly to the Manager, who in turn pays the dealers.

### Operating expenses

The Fund is responsible for operating expenses relating to the carrying on of its business, including custodial services, interest, taxes, legal, audit fees, transfer agency services relating to the issue and redemption of units, and the cost of financial and other reports, costs and expenses for the Fund's Independent Review Committee ("IRC"), including fees and expenses of the IRC members and compliance with applicable laws, regulations and policies. The Manager pays for such expenses on behalf of the Fund, except for certain expenses such as interest, and is then reimbursed by the Fund.

### Other expenses

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to unitholders and other unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund's continuous public offering and other obligations. These expenses were \$187,977 for the year ended December 31, 2013 (2012 - \$120,538) and are included in the unitholder reporting costs on the Statements of Operations.

## 5. FOREIGN CURRENCY FORWARD CONTRACTS

The Fund enters into foreign currency forward contracts to hedge assets and liabilities denominated in foreign currencies. Foreign currency forward contracts entered into by the Fund represent a firm commitment to buy or sell a currency at a specified value and point in time based upon an agreed or contracted quantity. The value of the foreign currency forward contract is the gain or loss that would be realized if, on the valuation date, the position in the forward contract was closed out in accordance with its terms. The unrealized gains or losses on the forward contract are reported as part of the change in unrealized appreciation or depreciation of forward foreign currency contracts in the Statement of Operations until it is closed out or partially settled.

At December 31, 2013, the Fund had entered into the following foreign currency forward contract:

Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized gain (loss)
Royal Bank of Canada credit rating AA-	January 15, 2014	CDN \$28,597,860	US \$27,000,000	(\$98,521)

At December 31, 2012, the Fund had entered into the following foreign currency forward contract:

Counterparty	Settlement Date	Purchased currency	Sold currency	Unrealized gain (loss)
Royal Bank of Canada credit rating AA-	January 15, 2013	CDN \$27,588,400	US \$28,000,000	(\$298,367)

## 6. FINANCIAL RISK MANAGEMENT

Investment activities of the Fund expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, other price risk and currency risk). The Manager seeks to minimize these risks by employing experienced portfolio managers that will manage the security portfolios of the Fund on a daily basis according to market events and the investment objectives of the Fund. To assist in managing risk, the Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and securities regulations.

## Brand Leaders Income Fund

### 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. The value of securities in the Fund's portfolio may be affected by the stock market conditions rather than each company's performance. Developments in the market are affected by general economic and financial conditions. Political, social and environmental factors can also affect the value of any investment.

As at December 31, 2013, 100.4% (December 31, 2012 – 98.9%) of the Fund's net assets were traded on public stock exchanges. If equity prices on these exchanges had increased or decreased by 5%, as at year end, with all other factors remaining constant, net assets would have increased or decreased by approximately \$1,495,360 (December 31, 2012 - \$1,371,534).

In practice, the actual trading results may differ and the difference could be material.

### Currency risk

Currency risk is the risk that the value of investments denominated in currencies other than the financial currency of the Fund will fluctuate as a result of changes in foreign exchange rates. When a Fund buys an investment priced in a foreign currency and the exchange rate between the Canadian dollar and the foreign currency changes unfavorably, it could reduce the value of the Fund's investment.

The table below summarizes the Fund's net exposure to currency risk. Amounts shown are based on the carrying value of monetary and non-monetary assets (including derivatives and the underlying principal (notional) amount of forward currency contracts, if any).

As at December 31, 2013				
Currency	Currency exposure*	Forward contracts*	Net currency exposure*	As a % of net assets
U.S. Dollars	\$29,998,109	\$28,696,381	\$1,301,728	4.4

\*In Canadian dollars

As at December 31, 2012				
Currency	Currency exposure*	Forward contracts*	Net Currency exposure*	As a % of net assets
U.S. Dollars	\$28,181,685	\$27,886,767	\$294,918	1.1

\*In Canadian dollars

As at December 31, 2013, if the Canadian dollar had strengthened or weakened by 5% in relation to all foreign currencies, with all other variables held constant, the Fund's net assets would have increased or decreased, respectively, by approximately \$65,086 (December 31, 2012 - \$14,746) or 0.2% (December 31, 2012 - 0.1%) of total net assets. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

As all of the securities in the portfolio investments are denominated in U.S. dollars and expected dividends and premiums from call options received are in U.S. dollars, the Fund has entered into a forward currency contract on substantially all of the value of the portfolio investments back to the Canadian dollar at all times.

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair value of financial instruments. Interest rate risk arises when the Fund invests in interest-bearing financial instruments. The Fund does not hold any bonds or money market instruments; therefore, the Fund has no significant exposure to interest rate risk.

### Liquidity risk

Liquidity risk is defined as the risk that a fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to redemptions as described in Note 3. Therefore in order to maintain sufficient liquidity, the Fund primarily invests in securities that are actively traded in public markets and can be readily disposed of to raise liquidity.



## Brand Leaders Income Fund

As at December 31, 2013 and 2012, all of the Fund's financial liabilities had maturities of less than three months.

### Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

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

As at December 31, 2013 and 2012, the Fund did not have significant credit rate risk exposure.

## 7. SOFT DOLLAR COMMISSIONS

Brokerage commissions paid to certain brokers may, in addition to paying for the cost of brokerage services in respect of security transactions, also provide for the cost of investment research services provided to the investment manager.

The value of such research services included in commissions paid to brokers for the years ended December 31, 2013 and 2012 amounted to \$NIL.

## 8. INCOME TAXES

The Fund qualifies as a mutual fund trust under the provisions of the Income Tax Act (Canada). The Fund is subject to tax on their income including net realized capital gains which are not paid or payable to unitholders. It is the intention of the Fund to distribute all of its net income and sufficient net realized capital gains so the Fund will not be subject to income taxes.

The amount of net realized taxable capital gains available for distribution is reduced by the amount of net capital gains to be retained in the Fund. This is done in order to enable the Fund to fully utilize any available tax credits due to application of the capital gain refund formula attributable to redemptions during the year. In certain circumstances, the fund may distribute a return of capital. A return of capital is not taxable but will generally reduce the adjusted cost of the units.

Capital losses may be carried forward indefinitely to reduce future realized capital gains. Non-capital losses may be applied against future taxable income. As at the Fund's 2013 taxation year end, the Fund had \$837,563 of non-capital losses and \$262,683 of net capital losses for income tax purposes.

### Harmonized sales tax

As the Manager is a resident of Ontario, the expenses paid by the Fund include HST of 13%. HST is calculated using the residency of unitholders in the Fund as at specific times, rather than the physical location of the Manager. A blended rate refund is filed with Revenue Canada on behalf of the Fund, in arrears, using each province's HST rate or GST rate in the case of non-participating provinces.

## 9. NET ASSET VALUE AND NET ASSETS

CPA Canada Handbook Section 3855 requires that the fair value of financial instruments which are actively traded be measured based on the bid price for long positions held and the asking price for short positions held.

The net asset value per unit for purposes of unitholder transactions (i.e. purchases, switches, redemptions) and net assets per unit calculated in accordance with Section 3855 is shown below:

Per Unit:	NAV	Net assets
As at December 31, 2013	\$12.43	\$12.42
As at December 31, 2012	\$10.89	\$10.89

## **Brand Leaders Income Fund**

### **10. SUBSEQUENT EVENTS**

Subsequent to year end, the Fund filed a short form preliminary prospectus that qualifies the Fund for distribution of warrants ("Warrant Offering"). The Warrant Offering was finalized on February 5, 2014 and issued to unitholders of record on February 18, 2014. A total of 1,917,745 warrants were issued to subscribe for 958,872 units of the fund at a subscription price of \$11.74 per unit.

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**CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest and the risks detailed from time to time in the Fund's simplified prospectus or offering memorandum. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Fund does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.