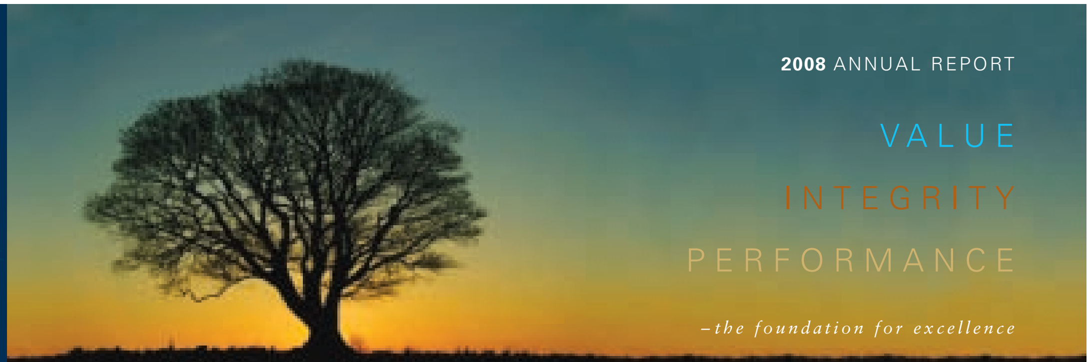


BROMPTON FUNDS

BROMPTON OIL & GAS INCOME FUND

OGF.UN, OGF.WT

Actively managed portfolio of oil and gas securities.

Management Report of Fund Performance

March 12, 2009

This annual management report of fund performance for Brompton Oil & Gas Income Fund (the "Fund"), formerly Brompton Equal Weight Oil & Gas Income Fund, contains financial highlights but does not contain the audited annual financial statements of the Fund. The audited annual financial statements follow this report. You may obtain a copy of the annual financial statements at your request, at no cost, by calling 866-642-6001 or by sending a request to Investor Relations, Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, P.O. Box 793, Toronto, Ontario, M5J 2T3, or by visiting our website at www.bromptongroup.com 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.

The Fund

Brompton Oil & Gas Income Fund is a closed-end investment trust managed by Brompton Funds Management Limited (the "Manager"). The units and the warrants of the Fund trade on the Toronto Stock Exchange ("TSX") under the symbols OGF.UN and OGF.WT, respectively. Effective June 19, 2008, the Fund is actively managed by MFC Global Investment Management (Canada) ("MFC"), a subsidiary of Manulife Financial Corp., a top-ranked manager of income fund investments with extensive experience in income trusts, other equity securities and fixed income investments. The Fund is RRSP, DPSP, RRIF, RESP and TFSA eligible.

Recent Developments

Reorganization
On June 19, 2008, Brompton Equal Weight Oil & Gas Income Fund was reorganized with a new investment mandate and renamed Brompton Oil & Gas Income Fund, as approved by unitholders at a special meeting on June 9, 2008. For further information, visit the website at www.bromptongroup.com.

Warrants
On December 8, 2008, the Fund issued 10,865,945 warrants to unitholders on the basis of one-half of one warrant for each whole unit held. Each whole warrant entitles the holder to subscribe to one unit of the Fund at a subscription price of $3.71. The warrants must be exercised prior to May 27, 2009, or they will expire worthless. This offering was designed to provide the Fund with additional capital that can be used to take advantage of attractive investment opportunities, while also increasing the trading liquidity of the units and reducing the management expense ratio of the Fund.

Investment Objectives and Strategies

The Fund was originally designed as a passively managed, equally weighted portfolio of oil and gas income trusts, with investment objectives of high monthly cash distributions and low management fees together with the opportunity for capital appreciation based on the performance of the portfolio. Following the reorganization on June 19, 2008, the investment objectives are unchanged but new strategies have been adopted to achieve those objectives. The most fundamental change was the expansion of the Fund's investment universe beyond the shrinking income trust sector to include other income-producing oil and gas securities and beyond oil and gas producers to include the energy service and pipeline sector. Effective June 19, 2008, MFC was engaged to manage the Fund's portfolio.

Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's 2008 annual information form, which is available on the Fund's website at www.bromptongroup.com or on SEDAR at www.sedar.com. There was one change to the Fund over the period that materially affected the risks associated with an investment in the units of the Fund. That change was the issuance of warrants in December 2008, which could result in a risk of dilution to existing unitholders. As disclosed in the prospectus of the warrant offering, if unitholders wish to retain their current percentage ownership in the Fund, and assuming that all warrants are exercised, then the unitholders should purchase all of the units for which they may subscribe pursuant to the warrants delivered under the offering. If a unitholder does not do so, and other holders of warrants exercise any of their warrants, that unitholder's current percentage in the Fund will be diluted by the issue of units under the offering.

In accordance with investment fund industry practice, all figures presented in this management report of fund performance are based on the Fund's calculation of its weekly Net Asset Value ("Net Asset Value"), which is exempted from the application of Canadian Institute of Chartered Accountants ("CICA") Section 3855, except for the figures presented in the Net Assets per Unit table, which can be found under Financial Highlights. In accordance with National Instrument ("NI") 81-106, the figures in this table must be derived from the financial statements ("Net Assets").

Results of Operations

Distributions
During the year ended December 31, 2008, the Fund declared monthly cash distributions to unitholders which totaled $0.85 per unit, compared to $1.06 per unit the previous year. Since inception in October 2004, the Fund has paid total cash distributions of $5.61 per unit. The lower distribution rate in 2008 was due to reduced distribution rates from several underlying trusts since the second quarter of 2007.

Revenues and Expenses
The Fund's investments generated distribution income of $0.96 per unit in the year ended December 31, 2008, a decline from $1.05 per unit in 2007. The decline in income was largely due to declines in distribution rates from underlying trusts. Total expenses of the Fund for 2008 were $0.13 per unit versus $0.12 per unit in 2007. The higher expenses per unit were due to the one-time costs related to the warrants issuance and an increase in management fees following the Fund's investment mandate change in June 2008.

The Fund has a distribution reinvestment plan which allows participating unitholders to automatically reinvest monthly distributions in additional units of the Fund. For the year ended December 31, 2008, 59,718 units were acquired in the market through this plan at an average price of $6.83 per unit.

Net Asset Value
The value of the Fund's portfolio declined in the last quarter of 2008, as oil prices fell sharply and natural gas prices declined. As a result, Net Asset Value per unit fell from $6.49 at December 31, 2007 to $3.88 at December 31, 2008. The aggregate Net Assets of the Fund declined from $203.0 million on December 31, 2007 to $84.3 million on December 31, 2008 due to redemptions of $79.6 million in August 2008, as well as for the reasons given above.

Investment Portfolio
Following the reorganization in June 2008, the Portfolio Manager began repositioning the portfolio to meet the Fund's investment objectives. To this end, the Portfolio Manager sold down its position in certain income trusts, primarily those with higher debt levels, and began to allocate a portion of the Fund to dividend-paying equities to provide additional diversification benefits. For further information on changes to the portfolio since the mandate change, please refer to the Statement of Investments and the Portfolio Manager's Report. As of December 31, 2008, the oil and gas investment portfolio held by the Fund included a total of 15 oil and gas income trusts and two dividend-paying oil and gas equities, which is a decrease of seven issuers since the end of 2007. The oil and gas investment portfolio recorded net losses (realized and unrealized) of $94.6 million during the year.

Liquidity and Capital Resources
As of December 31, 2008, the Fund had borrowings of $24.9 million under a revolving credit facility, which represented 22.4% of total assets or 29.5% of Net Asset Value. During the year, the Fund replaced its term credit and revolving loan facilities with a single revolving credit facility. The 364-day revolving credit facility is used principally to invest in additional portfolio investments to increase the overall distributions paid by the Fund with an interest rate at either the prime rate of interest or the bankers' acceptance rate plus a fixed percentage. During the period, the minimum and maximum amounts of borrowings under the Fund's facilities were $26.0 million and $63.9 million, respectively.

To provide liquidity, units and warrants of the Fund are listed on the TSX under the symbols OGF.UN and OGF.WT, respectively. The Fund's normal course issuer bid program allows it to purchase its units on the TSX for cancellation when they trade below Net Asset Value per unit. As a result, purchases under the issuer bid are accretive to the Net Asset Value per unit. A total of 393,600 units were purchased under this program during the year ended December 31, 2008, at an average price of $6.88 per unit. During the year, units of the Fund traded at an average discount to Net Asset Value of 4.7%. Investors may also redeem their units in accordance with the Fund's redemption provisions.

Related Party Transactions

Related party transactions consist of services provided by the Manager pursuant to a management agreement. See the Management Fees section below.

Management Fees

Commencing on June 19, 2008, the Fund pays management fees equal to 0.85% per annum of the Net Asset Value of the Fund, plus applicable taxes. The Manager is responsible for fees payable to MFC, the Portfolio Manager. All of the management fee is used by the Manager to cover its general administration expenses, the cost of portfolio management services and for profit. The Fund also pays a service fee equal to 0.40% per annum of the Net Asset Value. The service fee is in turn paid by the Manager to the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter.

Until June 19, 2008, pursuant to a management agreement, the Manager provided management and administrative services to the Fund, for which it was paid a management fee equal to 0.45% per annum of the Net Asset Value of the Fund plus applicable taxes. The management fee could be paid in cash or units at the option of the Manager. To the extent that units were issued from treasury for this purpose, they were issued at the Net Asset Value per unit. The Manager was also responsible for paying fees to Brompton Capital Advisors Inc., which is an affiliate of the Manager and the previous Portfolio Manager of the Fund.

During the year ended December 31, 2008, the entire management fee was paid in cash, with management and service fees amounting to $1.3 million and $0.7 million, respectively.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the fiscal periods indicated. This information is derived from the Fund's audited annual financial statements. *The information in the following tables is presented in accordance with NI 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets per unit.* The increase (decrease) in Net Assets from operations is based on average units outstanding during the period, and all other numbers are based on actual units outstanding at the relevant point in time.

Net Assets per Unit(1)

For the year/period ended December 31	2008	2007	2006	2005	2004(2)
Net Assets, beginning of year/period(2)(3)(4)	$ **6.46**	$ 8.07	$ 12.28	$ 9.53	$ 9.45
Increase (decrease) from operations:(5)					
Total revenue	**0.99**	1.07	1.55	1.41	0.33
Total expenses	**(0.13)**	(0.12)	(0.16)	(0.15)	(0.03)
Realized gain (loss) for the year/period	**(1.01)**	(2.13)	0.01	1.11	—
Unrealized gain (loss) for the year/period	**(0.32)**	0.60	(4.12)	1.73	0.07
Total increase (decrease) in Net Assets from operations	$ **(0.47)**	$ (0.58)	$ (2.72)	$ 4.10	$ 0.37
Distributions to unitholders:(4)					
Cash distributions:					
From net investment income (excluding dividends)	$ **0.62**	$ 0.76	$ 1.11	$ 0.95	$ 0.18
From net realized gain on investments	—	—	—	0.43	—
Return of capital	**0.23**	0.30	0.35	—	0.11
Total cash distributions	**0.85**	1.06	1.46	1.38	0.29
Unit distributions:					
From net realized gain on investments	—	—	—	0.57	—
Total distributions to unitholders	$ **0.85**	$ 1.06	$ 1.46	$ 1.95	$ 0.29
Net Assets, end of year/period(3)(4)	$ **3.84**	$ 6.46	$ 8.10	$ 12.28	$ 9.53

(1) This information is derived from the Fund's audited annual financial statements. The Net Assets per unit presented in the financial statements differ from the Net Asset Value calculated for weekly Net Asset Value purposes. An explanation of these differences can be found in the notes to the financial statements.

(2) Period from October 7, 2004 (commencement of operations) to December 31, 2004.

(3) The Net Assets per unit from the beginning of 2007 are for financial reporting purposes. The Net Assets per unit and the component of increase (decrease) from operations per unit for prior periods are based on the prior period financial statements and have not been adjusted for the new accounting standards adopted in 2007.

(4) Net Assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time.

(5) The increase (decrease) in Net Assets from operations per unit is based on the weighted average number of units outstanding over the fiscal period.

Ratios and Supplemental Data (Based on Net Asset Value)

As at December 31	2008	2007	2006	2005	2004
Net Asset Value (in 000s)	$ **84,348**	$ 203,011	$ 293,727	$ 449,986	$ 397,824
Number of units outstanding (in 000s)	**21,719**	31,301	36,250	36,654	41,747
Management expense ratio ("MER")[(1)(2)]	**1.94%**	1.54%	1.43%	1.39%	7.19%
Trading expense ratio[(3)]	**0.19%**	0.16%	0.07%	0.14%	N/A
Portfolio turnover rate[(4)]	**24.98%**	24.75%	46.90%	45.92%	N/A
Net Asset Value per unit	$ **3.88**	$ 6.49	$ 8.10	$ 12.28	$ 9.53
Closing market price	$ **3.36**	$ 6.07	$ 7.75	$ 12.06	$ 10.15

(1) Annualized for the period from October 7, 2004 (commencement of operations) to December 31, 2004.

(2) MER is based on the requirements of NI 81-106 and includes the total expenses (excluding commissions and other portfolio transaction costs) of the Fund for the stated period, including interest expense and issuance costs, and is expressed as an annualized percentage of the average Net Asset Value for the period.

(3) The trading expense ratio represents total commissions expressed as an annualized percentage of daily average Net Asset Value of the Fund during the period. This disclosure was a new requirement in 2005 under NI 81-106 and was not applied retroactively.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate was not provided when the Fund was less than one year old. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period.

Expense Ratio

The MER of the Fund increased from 1.54% as at December 31, 2007 to 1.94% as at December 31, 2008. The increase in the ratio was the result of the increased weighting of fixed costs on the lower average Net Asset Value in 2008, as well as the increase in management and service fee rates following the reorganization of the Fund in June and one-time issuance expenses of the warrants issued in December 2008. This ratio is exaggerated by the inclusion of interest expense on borrowings used to purchase additional units of portfolio investments to increase the distributions of the Fund.

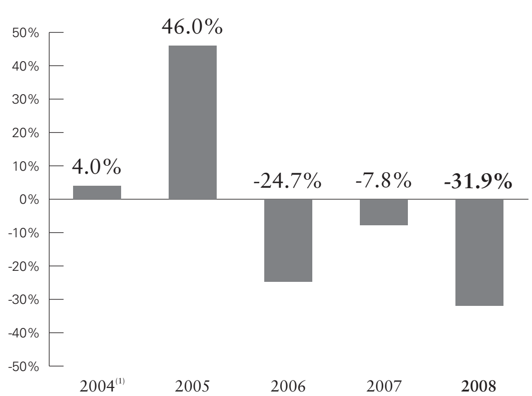
The MER, excluding interest expense and issuance costs, was 1.18% as at December 31, 2008, up from 0.90% the previous year, as a result of the increased weighting of fixed costs on the lower average Net Asset Value in 2008, and the increase in management fees. This latter ratio is more representative of the ongoing efficiency of the administration of the Fund.

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 on its units in the periods shown were reinvested (at Net Asset Value per unit) in additional units of the Fund.

The bar chart shows the Fund's return for each year/period since inception. The chart shows, in percentage terms, how an investment held on the first day of each fiscal year/period would have changed by the last day of the fiscal year/period.

Year-by-Year Returns



(1) Period from October 7, 2004 (commencement of operations) to December 31, 2004.

The following table shows the Fund's annual compound return for each period, compared with the S&P/TSX Capped Energy Trust Index ("Energy Trust Index") and the S&P/TSX Composite Index ("Composite Index"). The Energy Trust Index is a subset of the S&P/TSX Capped Income Trust Index, based on the energy sector of the Global Industry Classification Standard. Income trusts that qualify for inclusion must derive their distribution income from actual operating entities. The Composite Index tracks the performance, on a market weight basis, of approximately 300 large stocks listed on the TSX. The Energy Trust Index and the Composite Index are calculated without the deduction of fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

Annual Compound Returns

	1 Year	3 Year	Since Inception[1]
Brompton Oil & Gas Income Fund[2]	(31.9%)	(22.1%)	(7.5%)
S&P/TSX Capped Energy Trust Index	(33.9%)	(8.8%)	5.9%
S&P/TSX Composite Index	(33.0%)	(4.8%)	2.9%

(1) Period from October 7, 2004 (commencement of operations) to December 31, 2008.

(2) Based on Net Asset Value per unit and assuming that distributions made by the Fund on its units in the period shown were reinvested (at Net Asset Value per unit) in additional units of the Fund.

The Fund outperformed both indices during the year. This outperformance was primarily due to the Fund's higher weighting in natural gas securities as compared to the Energy Trust Index and also due to the Portfolio Manager's repositioning of the portfolio to oil and gas investments with lower debt levels and internally financed capital programs. Overall, performance was negative due to the steep decline in oil and gas prices during the second half of the year.

Since inception, the Fund has underperformed the Energy Trust Index due to its higher weighting in natural gas securities and the Fund administration costs, which are represented in its MER, whereas the Energy Trust Index does not include such costs in its return.

Summary of Investment Portfolio

As at December 31, 2008

Total Net Asset Value	$ 84,347,680

Portfolio Composition	% of Portfolio	% of Net Asset Value
Oil and gas	99.9%	129.7%
Cash and short-term investments	0.1%	0.1%
Total investment portfolio	100.0%	129.8%
Other net liabilities		(29.8%)
Total Net Asset Value		100.0%

Holdings	% of Portfolio	% of Net Asset Value
Zargon Energy Trust	9.3%	12.0%
Crescent Point Energy Trust	8.1%	10.5%
Progress Energy Trust	8.0%	10.3%
ARC Energy Trust	7.9%	10.3%
Vermilion Energy Trust	7.7%	10.0%
NAL Oil & Gas Trust	7.0%	9.1%
Bonavista Energy Trust	6.9%	8.9%
Enerplus Resources Fund	6.5%	8.5%
Bonterra Energy Income Trust	6.3%	8.2%
Baytex Energy Trust	6.2%	8.1%
Peyto Energy Trust	6.2%	8.1%
Daylight Resources Trust	5.6%	7.2%
Freehold Royalty Trust	5.3%	6.9%
Penn West Energy Trust	3.9%	5.1%
Nexen Inc.	2.3%	2.9%
Advantage Energy Income Fund	1.9%	2.5%
Petro-Canada	0.9%	1.1%
Cash and short-term investments	0.1%	0.1%

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end.

2008 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, RRIF or DPSP. 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 Not Investment Income) in Box 26, Capital Gains in Box 21 and Dividend Income in Box 23 and 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 of the Fund's distributions declared in 2008 on a per unit basis.

Record Date	Payment Date	Return of Capital	Investment Income	Eligible Dividends	Non-Eligible Dividends	Total Distribution
Jan. 31, 2008	Feb. 14, 2008	$ 0.02044	$ 0.05298	$ 0.00067	$ 0.00001	$ 0.0741
Feb. 29, 2008	Mar. 14, 2008	0.02044	0.05298	0.00067	0.00001	0.0741
Mar. 31, 2008	Apr. 14, 2008	0.02044	0.05298	0.00067	0.00001	0.0741
Apr. 30, 2008	May 14, 2008	0.01831	0.04748	0.00060	0.00001	0.0664
May 30, 2008	Jun. 13, 2008	0.01831	0.04748	0.00060	0.00001	0.0664
Jun. 30, 2008	Jul. 15, 2008	0.01931	0.05004	0.00064	0.00001	0.0700
Jul. 31, 2008	Aug. 15, 2008	0.01931	0.05004	0.00064	0.00001	0.0700
Aug. 29, 2008	Sep. 15, 2008	0.01931	0.05004	0.00064	0.00001	0.0700
Sep. 30, 2008	Oct. 15, 2008	0.01931	0.05004	0.00064	0.00001	0.0700
Oct. 31, 2008	Nov. 14, 2008	0.01931	0.05004	0.00064	0.00001	0.0700
Nov. 28, 2008	Dec. 12, 2008	0.01931	0.05004	0.00064	0.00001	0.0700
Dec. 31, 2008	Jan. 15, 2009	0.01931	0.05004	0.00064	0.00001	0.0700
Total		**$ 0.23311**	**$ 0.60418**	**$ 0.00769**	**$ 0.00012**	**$ 0.8451**

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.

Portfolio Manager

MFC Global Investment Management
MFC Global Investment Management (Canada) ("MFC") is the Portfolio Manager of four Brompton funds – Brompton VIP Income Fund, Brompton Advantaged VIP Income Fund, Brompton Oil & Gas Income Fund and Brompton Advantaged Oil & Gas Income Fund. MFC, a division of Elliott & Page Limited, is part of MFC Global Investment Management, the asset management division of Manulife Financial Corporation, and is a top-ranked portfolio manager of income-oriented investments, with extensive experience in income trusts, dividend-paying equities and both high-yield and investment-grade fixed income investments. MFC has more than 100 years of experience managing portfolios for the Manufacturers Life Insurance Company, John Hancock Life Insurance Company, and other major clients. MFC and related entities manage approximately $250 billion in assets under management. MFC Global Investment Management is a leading global investment management group.

MFC Global
Investment Management

Portfolio Manager's Report

Markets were extremely volatile during the year, driven by the compounding issues of the deepening financial crisis alongside an emerging global recession. Commodity prices, which performed well during the first half of the year, fell precipitously in the second half of the year as demand decreased rapidly with the onset of the global economic recession. Oil and gas prices in particular reflected this volatility. During the first half of the year, oil prices rose over 50% to a record high of US$147 per barrel in early July and then fell by nearly 70% to approximately US$40 per barrel at year-end. Natural gas prices were quite volatile over the course of the year as well, with prices rising by approximately 100% from the beginning of the year to their peak in July before falling dramatically by year-end. The price of natural gas decreased by 21% during the course of the year. The Canadian dollar also weakened during 2008 falling from parity to approximately US$0.82, offsetting some of the energy price declines for Canadian producers.

Overall, the Fund slightly outperformed the Energy Trust Index during the year, particularly due to its higher concentration in natural gas producers. Natural gas producers strongly outperformed oil-weighted income trusts in the first half of the year. In June, the Fund changed its investment mandate, following approval at the unitholder meeting, to expand the asset classes that it can invest in and to adopt active investment management. The portfolio remains quite balanced between oil and gas production, similar to the roughly 50/50 split when the Fund had a passive investment mandate. At year-end, the oil and gas split was 47% and 53%, respectively.

The portfolio continues to be positioned primarily in energy trusts. Many energy trusts offer excellent value at current prices and produce a strong stream of income. In addition, the Portfolio Manager expects that many oil and gas trusts in the portfolio will be able to distribute the majority of their income without tax beyond 2011, due to tax deductions from exploration costs. During the latter half of the year, the Portfolio Manager transitioned the income trust portfolio to higher-quality issuers, selling off those trusts with higher debt levels and depleting asset bases. The Portfolio Manager focused on income trusts with a sustainable business model, a reasonable amount of leverage in relation to production levels and expected cash flow, and an internally financed capital program. The portfolio's exposure to higher-cost oil sands production was minimal at year-end; the Fund is focused on shorter duration assets, such as conventional energy trusts with lower-cost production, which should help to buffer it if oil prices remain low. The Portfolio Manager also added a small position in two high-quality dividend-paying equities: Petro-Canada and Nexen Inc. The Portfolio Manager expects the portfolio to remain focused on high-quality income trusts in the near term, taking advantage of strategic or opportunistic additions in dividend-paying equities.

Volatility peaked during the fourth quarter through what was extraordinary selling pressure on investors from margin calls, de-leveraging of portfolios, and fear. The markets are now in a transitional period, shifting from assessing the impact of the financial crisis to assessing the impact of the global economic recession. Given the massive amount of fiscal stimulus committed by governments around the world, in addition to accommodative monetary policy, the Portfolio Manager believes that the markets may start to normalize over the near term.

Economic and company-specific results are likely to remain negative during the first half of 2009. The Portfolio Manager is more optimistic about the markets, however, given attractive valuations and yields coupled with the fact that equity markets tend to recover prior to an economic or earnings recovery. In addition, with nearly all energy companies greatly reducing their capital expenditure budgets, projected future oil and gas supplies will be greatly reduced. Energy prices will likely rebound dramatically in the coming years due to this future supply/demand imbalance, which will be supportive of higher prices for oil and gas equities and income trusts.

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's Responsibility Statement

The financial statements of Brompton Oil & Gas Income Fund (the "Fund") have been prepared by Brompton Funds Management Limited (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. Statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in note 2 to the financial statements.

The Board of Directors of the Manager is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of a majority of independent directors.

The 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 Audit Committee to discuss their findings.

(Signed)

Mark A. Caranci
President and Chief Executive Officer
Brompton Funds Management Limited
March 12, 2009

(Signed)

Craig T. Kikuchi
Chief Financial Officer
Brompton Funds Management Limited

Auditors' Report

To the Unitholders of Brompton Oil & Gas Income Fund:

We have audited the statement of investments of Brompton Oil & Gas Income Fund (the "Fund") as at December 31, 2008, the statements of Net Assets as at December 31, 2008 and 2007, and the statements of operations and deficit, changes in Net Assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's Manager. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Fund's Manager, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the investments of the Fund as at December 31, 2008, the Net Assets as at December 31, 2008 and 2007, and the results of its operations and deficit, the changes in its Net Assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed)

PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
March 12, 2009

Statements of Net Assets

As at December 31	2008	2007
Assets		
Investments, at fair value	**$ 108,576,917**	$ 239,480,811
Cash and short-term investments	**73,885**	331,204
Income receivable	**1,581,072**	2,387,160
Total assets	**110,231,874**	242,199,175
Liabilities		
Accounts payable and accrued liabilities	**344,941**	469,756
Distributions payable to unitholders (note 7)	**1,520,322**	2,450,854
Loans payable (note 11)	**24,881,631**	37,200,000
Total liabilities	**26,746,894**	40,120,610
Unitholders' equity		
Unitholders' capital (note 4)	**217,949,022**	314,183,948
Contributed surplus (note 4)	**31,835,061**	17,861,925
Deficit	**(166,299,103)**	(129,967,308)
Net Assets representing unitholders' equity	**$ 83,484,980**	$ 202,078,565
Units outstanding (note 4)	**21,718,890**	31,300,823
Net Assets per unit – basic and diluted (note 6)	**$ 3.84**	$ 6.46

Approved on behalf of Brompton Oil & Gas Income Fund by the Board of Directors of Brompton Funds Management Limited, the Manager.

(Signed)

Peter A. Braaten
Director

(Signed)

Raymond R. Pether
Director

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

Statements of Operations and Deficit

For the years ended December 31	2008	2007
Income		
Distributions and dividend income	**$ 26,950,749**	$ 37,155,332
Securities lending income (note 10)	**548,202**	822,900
Interest income	**65,183**	25,866
	27,564,134	38,004,098
Expenses		
Management fees (note 8)	**1,321,146**	1,263,701
Service fees (note 8)	**653,508**	743,109
Audit fees	**22,645**	35,388
Independent review committee and director fees	**30,904**	35,938
Trustee fees	**17,806**	22,442
Custodial fees	**18,106**	35,448
Legal fees	**140,220**	49,141
Unitholder reporting costs	**65,222**	64,073
Other administrative expenses	**112,016**	127,056
Interest and bank charges (note 11)	**1,326,961**	1,686,513
	3,708,534	4,062,809
Net investment income	**23,855,600**	33,941,289
Net realized loss on sale of investments (note 9)	**(28,105,807)**	(75,625,808)
Transaction costs (note 2)	**(381,180)**	(413,052)
Net realized loss on foreign currency transactions	**—**	(3,220)
Net change in unrealized gain/loss on investments	**(8,431,433)**	21,392,228
Decrease in Net Assets from operations	**(13,062,820)**	(20,708,563)
Deficit, beginning of year (note 3)	**(129,967,308)**	(72,054,713)
Issuance costs on warrants (note 6)	**(210,000)**	—
Distributions to unitholders (note 7)	**(23,058,975)**	(37,204,032)
Deficit, end of year	**$(166,299,103)**	$(129,967,308)
Decrease in Net Assets from operations per unit[(1)] – basic and diluted (note 6)	**$ (0.47)**	$ (0.58)

[(1)] Based on the weighted average number of units outstanding for the year (note 4).

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

Statements of Cash Flows

For the years ended December 31	2008	2007
Cash flows from operating activities:		
Decrease in Net Assets from operations	**$ (13,062,820)**	$ (20,708,563)
Adjustments to reconcile net cash provided by (used in) operations:		
Net realized (gain) loss on sale of investments (note 9)	**28,105,807**	75,625,808
Net change in unrealized gain/loss on investments	**8,431,433**	(21,392,228)
Decrease (increase) in income receivable	**806,088**	1,594,602
Increase (decrease) in accounts payable and accrued liabilities	**(124,815)**	(117,618)
Purchase of investments (note 9)	**(57,779,101)**	(74,392,801)
Proceeds from sale of investments (note 9)	**152,145,755**	126,354,289
Cash provided by operating activities	**118,522,347**	86,963,489
Cash flows from financing activities:		
Issuance costs on warrants (note 6)	**(210,000)**	—
Increase (decrease) in loans payable	**(12,318,369)**	(15,411,954)
Distributions paid to unitholders (note 7)	**(23,989,507)**	(38,776,915)
Proceeds from distribution reinvestment plan (note 7)	**73,483**	—
Repurchase of units (note 4)	**(2,708,274)**	(5,419,697)
Amounts paid for redemption of units (note 4)	**(79,626,999)**	(27,035,853)
Cash used in financing activities	**(118,779,666)**	(86,644,419)
Net increase (decrease) in cash and short-term investments	**(257,319)**	319,070
Cash and short-term investments, beginning of year	**331,204**	12,134
Cash and short-term investments, end of year	**$ 73,885**	$ 331,204
Supplemental information:		
Interest paid	**$ 1,440,434**	$ 1,721,284

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

Statements of Changes in Net Assets

For the years ended December 31	2008	2007
Net Assets, beginning of year (note 3)	**$ 202,078,565**	$ 292,446,710
Operations:		
Decrease in Net Assets from operations	**(13,062,820)**	(20,708,563)
Unitholder transactions:		
Distributions to unitholders (note 7)		
Net investment income	**(16,697,508)**	(26,829,678)
Return of capital	**(6,361,467)**	(10,374,354)
Total	**(23,058,975)**	(37,204,032)
Issuance costs on warrants (note 6)	**(210,000)**	—
Proceeds from distribution reinvestment plan (note 7)	**73,483**	—
Redemption of units (note 4)	**(79,626,999)**	(27,035,853)
Repurchase of units (note 4)	**(2,708,274)**	(5,419,697)
Total unitholder transactions	**(105,530,765)**	(69,659,582)
Net decrease in Net Assets	**(118,593,585)**	(90,368,145)
Net Assets, end of year	**$ 83,484,980**	$ 202,078,565
Distributions per unit	**$ 0.85**	$ 1.06

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

Statement of Investments

As at December 31, 2008		Cost	Fair Value	% of Portfolio
No. of Units	**Oil and Gas**			
416,813	Advantage Energy Income Fund	$ 6,913,810	$ 2,100,738	
430,830	ARC Energy Trust	7,676,040	8,638,142	
464,771	Baytex Energy Trust	6,740,051	6,729,884	
442,180	Bonavista Energy Trust	11,950,062	7,459,577	
399,521	Bonterra Energy Income Trust	12,183,972	6,923,699	
366,719	Crescent Point Energy Trust	7,201,752	8,801,256	
779,763	Daylight Resources Trust	8,875,230	6,011,973	
298,180	Enerplus Resources Fund	12,954,394	7,114,575	
556,368	Freehold Royalty Trust	10,146,184	5,786,227	
950,929	NAL Oil & Gas Trust	13,580,430	7,464,792	
115,687	Nexen Inc.	4,121,041	2,466,446	
317,835	Penn West Energy Trust	16,436,405	4,313,021	
35,110	Petro-Canada	1,856,149	934,277	
687,217	Peyto Energy Trust	13,823,611	6,748,471	
973,624	Progress Energy Trust	14,107,632	8,626,309	
335,322	Vermilion Energy Trust	7,880,569	8,393,110	
582,769	Zargon Energy Trust	16,584,282	10,064,420	
	Total Oil and Gas	**173,031,614**	**108,576,917**	**100.0%**
	Embedded Broker Commission (note 2)	**(171,675)**	**—**	
	Total	**$ 172,859,939**	**$ 108,576,917**	**100.0%**

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

Notes to the Financial Statements
December 31, 2008 and 2007

1. OPERATIONS

Brompton Oil & Gas Income Fund (the "Fund"), formerly Brompton Equal Weight Oil & Gas Income Fund, is a closed-end investment trust created under the laws of the Province of Ontario on September 28, 2004, pursuant to a declaration of trust. Computershare Trust Company of Canada is the Trustee, and Brompton Funds Management Limited (the "Manager") is responsible for managing the affairs of the Fund. RBC Dexia Investor Services Trust is the custodian of the Fund's assets and prepares the weekly valuations of the Fund. The Fund is listed on the Toronto Stock Exchange and commenced operations on October 7, 2004.

At a special meeting held on June 9, 2008, unitholders of Brompton Equal Weight Oil & Gas Income Fund approved an extraordinary resolution to make the following changes to the Fund:

i) Amend the name of the Fund to Brompton Oil & Gas Income Fund;

ii) Amend the investment strategies and restrictions of the Fund to provide exposure to a portfolio that includes income trusts, dividend-paying common equities, and convertible debt and to broaden the investment universe beyond oil and gas producers to include securities issued by energy service and pipeline entities;

iii) Adopt an active investment management strategy, with MFC Global Investment Management (Canada) being appointed as Portfolio Manager;

iv) Adopt the fees which reflect active investment management by paying a management fee of 0.85% of Net Asset Value per annum and a service fee of 0.40% of Net Asset Value per annum; and

v) Amend the redemption provisions of the Fund, including the annual redemption date.

These changes became effective on June 19, 2008.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Adoption of New Accounting Standards

Section 3862 – Financial Instruments – Disclosures

On January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3862, "Financial Instruments – Disclosures." Section 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Fund manages those risks. This standard impacts the Fund's disclosure provided but does not affect the Fund's results or financial position.

Section 3863 – Financial Instruments – Presentation

On January 1, 2008, the Fund adopted CICA Section 3863, "Financial Instruments – Presentation." Section 3863 carries forward the presentation requirements of Section 3861 with respect to financial instruments. This standard impacts the Fund's disclosure provided but does not affect the Fund's results or financial position.

Section 3855 – Financial Instruments – Recognition and Measurement

Effective January 1, 2007, the Fund adopted CICA Section 3855, "Financial Instruments – Recognition and Measurement," which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires that bid prices (for investments held) and ask prices (for investments sold short) be used in determining the fair value of investments. Prior to the adoption of this new standard, fair value was commonly based on the closing price of an investment for the day. For financial reporting purposes, on January 1, 2007, the Fund adopted the amended valuation policy for actively traded securities held by the Fund without retroactive restatement of prior periods. The impact of the initial adoption of the valuation policy on January 1, 2007 has been disclosed in note 3.

Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of investments by the Fund be expensed in the period incurred. Prior to the adoption of Section 3855, transaction costs were capitalized and included in the cost of purchases or proceeds from sale of investments.

Section 1535 – Capital Disclosures

On January 1, 2008, the Fund adopted CICA Section 1535, "Capital Disclosures," which requires that the Fund disclose information about its objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This standard impacts the Fund's disclosure provided but does not affect the Fund's results or financial position.

b) Valuation of Investments

Investments are deemed held for trading in accordance with Section 3855. The Fund's investments are valued at estimated fair value. Investments held long that are publicly traded are valued at their bid prices on the valuation date. Investments with no available bid price are valued at their closing price. Short-term investments and bonds are valued at the average bid quotations from recognized investment dealers. The cost of investments is based on their average cost.

Notes to the Financial Statements (continued)

c) Cash and Short-term Investments

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

d) Investment Transactions and Income Recognition

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

e) Transaction Costs

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

f) Income Taxes

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

g) Foreign Exchange

The fair values of investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the noon rate of exchange on each valuation date. Purchases and sales of investments and income derived from investments are translated at the rate of exchange prevailing on the date of such transactions.

h) Securities Lending

The Fund may enter into securities lending transactions. These transactions involve the temporary exchange of securities as collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the Statement of Operations and Deficit.

i) Other Assets and Liabilities

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

j) Recent Accounting Pronouncements

The Canadian Accounting Standards Board (“AcSB”) has confirmed its plan to adopt all International Financial Reporting Standards (“IFRS”), as published by the International Accounting Standards Board, on or by January 1, 2011. In accordance with Canadian GAAP and AcSB’s plan, the Fund will adopt all the IFRS.

At December 31, 2008, the Fund has developed a plan to meet the timetable published by the CICA for changeover to IFRS. Key elements of the plan include the determination of the qualitative impact and the quantitative impact, if any, on the Fund’s financial statements in accordance with IFRS. The Fund has presently determined that there will be no impact to Net Assets per unit from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of presentation of unitholders’ equity and certain items in the financial statements of the Fund.

3. RECONCILIATION OF NET ASSETS TO NET ASSET VALUE

As a result of the adoption of Section 3855 on January 1, 2007, and in accordance with National Instrument (“NI”) 81-106, an adjustment was required to the opening Net Assets of the Fund between the Net Assets for financial reporting purposes (the “Net Assets”) and the Net Asset Value for reporting other than in the financial statements (the “Net Asset Value”).

The decrease to the Net Assets and increase in deficit as at January 1, 2007, as a result of applying Section 3855, was $1,280,087. The reconciliation of the Net Assets to Net Asset Value is as follows:

As at December 31	2008		2007	
	Total	**Per Unit**	Total	Per Unit
Net Asset Value	$ 84,347,680	$ 3.88	$ 203,011,259	$ 6.49
Section 3855 adjustment	(862,700)	(0.04)	(932,694)	(0.03)
Net Assets	$ 83,484,980	$ 3.84	$ 202,078,565	$ 6.46

4. UNITS OF THE FUND

Authorized

The Fund is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal, undivided interest in the Net Asset Value of the Fund. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Fund. At a special meeting on June 9, 2008, unitholders approved a change in the annual redemption date from the second last business day in December to the second last business day of August, commencing August 2008. Units may be redeemed at the option of unitholders by tendering units of the Fund by the last business day of July for redemption on the second last business day of each August ("Redemption Valuation Date"). Redemption of tendered units will be settled based on the Net Asset Value per unit on the Redemption Valuation Date less associated costs of the redemption, including brokerage costs. Units tendered for redemption will be redeemed effective on the Redemption Valuation Date and will be settled on or before the tenth business day in September.

Units may also be redeemed at the option of unitholders by tendering the units on the last business day of the preceding month, other than the month of August. Unitholders whose units are redeemed will receive a redemption price per unit equal to the lesser of (i) 94% of the market price and (ii) 100% of the closing market price of the units on the applicable monthly redemption date, less any costs associated with the redemption, including brokerage costs.

Issued

	2008		2007	
	Number of Units	**Amount**	Number of Units	Amount
Units, beginning of year	**31,300,823**	**$ 314,183,948**	36,249,885	$ 363,871,406
Reinvestment of units	**12,847**	**73,483**	—	—
Redemption of units	**(9,201,180)**	**(92,357,774)**	(4,197,462)	(42,142,937)
Repurchase of units	**(393,600)**	**(3,950,635)**	(751,600)	(7,544,521)
Units, end of year	**21,718,890**	**$ 217,949,022**	31,300,823	$ 314,183,948

On August 28, 2008, 9,201,175 units were redeemed at $8.6540 per unit. Pursuant to the monthly redemption option, five units were redeemed at an average price of $4.19 per unit during the year.

As at December 31, 2008, the Fund had accumulated contributed surplus of $31,835,061 (2007 – $17,861,925) since inception. 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.

The Fund received approval from the Toronto Stock Exchange to undertake a normal course issuer bid program for the period from November 6, 2007 to November 5, 2008. Pursuant to the issuer bid, the Fund could purchase up to 3,562,600 of its units for cancellation when the Net Asset Value per unit exceeded its trading price. The Fund renewed the issuer bid for the period from November 6, 2008 to November 5, 2009, which allows the Fund to purchase up to 2,176,500 units. The Fund may repurchase units when the Net Asset Value per unit exceeds its trading price. During the year ended December 31, 2008, 393,600 (2007 – 751,600) units were purchased for cancellation.

The basic and diluted weighted average number of units outstanding for the year ended December 31, 2008 was 27,942,154 (2007 – 35,408,568).

5. CAPITAL MANAGEMENT

The Fund's objectives in managing its capital are to provide unitholders with a high level of monthly distributions and the opportunity for capital appreciation. The Fund's capital includes unitholders' equity and loans payable. 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.

6. WARRANTS

Unitholders received warrants on the basis of one-half of one warrant for each unit held on December 8, 2008. A warrant entitles the holder to subscribe for one unit of the Fund at a subscription price of $3.71. Warrants not exercised prior to May 27, 2009 will be void and will have no value. Upon the exercise of a warrant, the Fund will pay a fee equal to $0.06 per warrant to the dealer whose client is exercising the warrant.

The Fund issued 10,865,945 warrants to unitholders of record on December 8, 2008. No warrants were exercised during the year ended December 31, 2008. The fair value of each warrant on the date of issuance was estimated to be nil. Cost associated with the issuance of these warrants amounted to $210,000.

Diluted Net Assets per unit is calculated when the closing price on the Toronto Stock Exchange of the Fund's units on a valuation date is greater than the subscription price. To calculate diluted Net Assets per unit, Net Assets are increased by the net proceeds received from the exercise of all warrants, and units are increased by the number of units issued from the exercise of all warrants.

Diluted increase (decrease) in Net Assets from operations per unit is calculated using the treasury stock method.

Notes to the Financial Statements (continued)

7. DISTRIBUTIONS PAYABLE TO UNITHOLDERS

Distributions, as declared by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month. The distributions are payable by the tenth business day of the following month. For the year ended December 31, 2008, the Fund declared total distributions of $0.85 (2007 – $1.058) per unit, which amounted to $23,058,975 (2007 – $37,204,032). Pursuant to the Fund's distribution reinvestment plan, unitholders may elect to reinvest monthly distributions in additional units of the Fund, which may be issued from treasury or purchased in the open market. For the year ended December 31, 2008, 12,847 units (2007 – nil) were issued by the Fund pursuant to the reinvestment plan.

8. MANAGEMENT AND SERVICE FEES

Commencing on June 19, 2008, the Fund pays a management fee equal to 0.85% per annum of the Net Asset Value of the Fund, plus applicable taxes. The Manager is responsible for fees payable to MFC Global Investment Management (Canada), the Portfolio Manager. The Fund also pays a service fee equal to 0.40% per annum of the Net Asset Value. The service fee is in turn paid by the Manager to the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter.

Until June 19, 2008, pursuant to a management agreement, the Manager provided management and administrative services to the Fund, for which it was paid a management fee equal to 0.45% per annum of the Net Asset Value of the Fund, plus applicable taxes. The management fee may be paid in cash or units at the option of the Manager. To the extent that units are issued from treasury for this purpose, they will be issued at the Net Asset Value per unit. The Manager is responsible for paying fees to Brompton Capital Advisors Inc. for its services to the Fund.

9. INVESTMENT TRANSACTIONS

Investment transactions for the years ended December 31 were as follows:

	2008	2007
Proceeds from sale of investments	**$ 152,145,755**	$ 126,354,289
Less cost of investments sold:		
Investments at cost, beginning of year	**295,332,400**	422,919,696
Investments purchased during the year	**57,779,101**	74,392,801
Investments at cost, end of year	**(172,859,939)**	(295,332,400)
Cost of investments sold during the year	**180,251,562**	201,980,097
Net realized loss on sale of investments	**$ (28,105,807)**	$ (75,625,808)

The brokerage commissions paid to dealers included $1,359 (2007 – nil) that was available for payment to third party vendors, of which $874 (2007 – nil) was used for research and $485 (2007 – nil) was used for market data services by the Portfolio Manager.

10. SECURITIES LENDING

The Fund entered into a securities lending program in September 2006 with its custodian, RBC Dexia Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or the United States Government or its agencies, or a permitted supranational agency as defined in NI 81-102. The market values of the securities on loan and the related collateral for the year ended December 31, 2008, were $43.3 million (2007 – $98.8 million) and $46.0 million (2007 – $105.9 million), respectively.

11. LOANS PAYABLE

Pursuant to an agreement with a Canadian chartered bank, the Fund has a 364-day renewable revolving credit facility. The revolving credit facility provides for maximum borrowings of $58.8 million at either the prime rate of interest or the bankers' acceptance rate plus a fixed percentage. There was $24.9 million outstanding under this facility as at December 31, 2008. The credit facility is secured by a first-priority security interest over all of the Fund's assets. During the year ended December 31, 2008, the minimum and maximum amounts of borrowings were nil (2007 – $26.0 million) and $63.9 million (2007 – $54.4 million), respectively.

12. FINANCIAL RISK MANAGEMENT

The Fund's investment activities expose it to a variety of financial risks. The Statement of Investments presents the securities held by the Fund as at December 31, 2008. Significant risks that are relevant to the Fund are discussed below.

The Manager attempts to minimize potential adverse effects of these risks on the Fund's performance by employing a professional, experienced Portfolio Manager. Commencing on June 19, 2008, these risks are managed by diversifying the investment portfolio within the constraints of the investment objectives. Prior to June 19, 2008, the Fund was passively managed with periodic rebalancing. To assist in managing risks, 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 restrictions, internal guidelines, and securities regulations.

The investment portfolio is primarily comprised of income trusts and Canadian equity securities.

a) Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments. The Fund is exposed to interest rate risk on its variable interest rate, 364-day revolving credit facility. Fluctuations in interest rates have a direct impact on the interest payments the Fund makes on its loans.

As at December 31, 2008, the Fund had no significant exposure to interest rate risk.

b) Other Price Risk

Other price risk is the risk that the fair value or the future cash flows of financial instruments will fluctuate as a result of changes in market prices, other than those arising from interest rate risk or currency risk, whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Portfolio Manager attempts to moderate this risk through the careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk of loss resulting from financial instruments is equivalent to their fair value.

The Fund is exposed to other price risk from its investment in income trusts and/or equity securities. As at December 31, 2008, 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 $10.9 million (approximately 13.0% of total Net Assets). In practice, the actual trading results may differ, and the difference could be material.

c) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The carrying amount of income receivable and amounts receivable for investments sold also represent the maximum credit risk exposure, as they will be settled in the short term.

All transactions 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. The trade will fail if either party fails to meet its obligation.

The Fund has entered a securities lending program with its custodian; see note 10. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient, approved credit rating and the value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned.

As at December 31, 2008, the Fund had no significant exposure to credit risk.

d) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to liquidity risk primarily through its annual redemptions and loans payable. For the annual redemption, the Fund receives notice by the last business day in July and has up to the tenth business day in September to settle the redemptions, which gives the Portfolio Manager time to sell securities, although there may not be sufficient time to sell the securities at a reasonable price.

The Fund also has a 364-day revolving credit facility, which can be used to fund redemptions or finance investments; see note 11. The credit facility contains several financial covenants that require the Fund to meet certain financial ratios and financial condition tests. The Fund is within its financial covenants with respect to the credit facility. The Manager monitors the use of the credit facility on a regular basis.

13. INCOME TAXES

The Fund had accumulated capital losses as at December 31, 2008 of $105,823,384 (2007 – $78,817,879). The capital losses can be carried forward for an indefinite period.

Corporate Information

Independent Review Committee

James W. Davie, BComm, MBA

Arthur R.A. Scace, QC, CM

Ken S. Woolner, BSc, PEng

Directors and Officers

Peter A. Braaten, BA, MBA
Director

Raymond R. Pether, BA, MBA
Director

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

Craig T. Kikuchi, BA, CA, CFA
Chief Financial Officer

David E. Roode, BA, CA, MBA
Senior Vice President

Moyra E. MacKay, BA
Vice President and Corporate Secretary

Lorne J. Zeiler, BA, MBA, CFA
Vice President

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

Christopher Cullen, BASc, MBA, CFA
Vice President

Continuous Disclosure Manager

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Trustee

Computershare Trust Company
of Canada

Custodian

RBC Dexia Investor Services Trust

Auditors

PricewaterhouseCoopers LLP

Banker

Royal Bank of Canada

Website

www.bromptongroup.com

BROMPTON FUNDS

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