BROMPTON FUNDS

BROMPTON OIL & GAS INCOME FUND

OGF.UN, OGF.WT.A

Actively managed portfolio of oil and gas securities.

Management Report of Fund Performance

March 11, 2010

This annual management report of fund performance for Brompton Oil & Gas Income Fund (the "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 interim or annual financial statements, 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.

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.

The Fund

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

Investment Objectives and Strategies

The Fund is designed to achieve a high level of monthly distributions and the opportunity for capital appreciation by investing in a diversified portfolio of oil and gas income trusts, oil and gas dividend-paying equities and convertible debt of oil and gas producers, energy service companies and pipelines.

Recent Developments

Warrants

On November 16, 2009, the Fund issued 11.0 million TSX-listed warrants to unitholders on the basis of one-half warrant for each unit held, with each warrant entitling the holder to subscribe to one unit of the Fund at a subscription price of $4.74, if exercised before the expiry date of April 15, 2010. The 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 ongoing management expense ratio ("MER") of the Fund.

Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's 2009 annual information form, which is available on the Fund's website at www.bromptongroup.com or on SEDAR at www.sedar.com. A change to the Fund in 2009 that has materially affected the risks associated with an investment in the units of the Fund is set out below.

Warrants

The issuance of warrants in November 2009 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. The exercise of warrants may also have a dilutive impact on the Fund's distributable income.

Results of Operations

Distributions

During the year ended December 31, 2009, the Fund declared monthly cash distributions to unitholders which totaled $0.50 per unit, down from $0.85 per unit during the same period the previous year. This reflects the reduction in the monthly distribution rate from $0.07 per unit to $0.04 per unit announced in February 2009, which was due to distribution cuts by a large number of the resource-related income trusts included in the portfolio in response to the steep decline in commodity prices in the first quarter of the year. In October 2009, the Fund reduced the rate from $0.04 per unit to $0.035 per unit, due to distribution cuts or conversions to corporate structures by a number of income trusts in the portfolio during the period and a greater portfolio weighting to dividend-paying equities, which pay lower distributions. Since inception in October 2004, the Fund has paid total cash distributions of $6.11 per unit.

Revenues and Expenses

The Fund's investments generated distribution income of $0.41 per unit in the year ended December 31, 2009, down from $0.96 per unit in the same period in 2008. The decline in income was due to decreases in distribution rates from several oil and gas income trusts in the Fund's portfolio, reflecting lower average oil and gas prices during 2009; the average oil price was US$61.70 per barrel in 2009, compared to US$99.60 per barrel the previous year. For natural gas, the average price was US$3.70/mmbtu in 2009, compared to US$7.71/mmbtu in 2008. As well, a number of income trusts converted to corporate structures during the year; there was a higher number of dividend-paying equities in the portfolio; and the level of leverage was lower in 2009 than in 2008.

Total expenses of the Fund in 2009 were $0.07 per unit, down by 49% from $0.13 per unit in 2008. This decline was primarily due to the significant increase in the number of units due to the exercise of warrants in May 2009, as well as lower interest expense, with lower average loans outstanding during 2009. Net investment income of the Fund was less than the amount distributed over the period; however, the Fund had a net realized and unrealized gain of $1.50 per unit in 2009. 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, 2009, 67,859 units were acquired in the market through this plan at an average price of $3.96 per unit.

Net Asset Value

During the year ended December 31, 2009, the value of the Fund's portfolio increased as equity markets recovered. Net Asset Value per unit increased by 31.7% to $5.11 at December 31, 2009, from $3.88 at December 31, 2008. The aggregate Net Asset Value of the Fund increased by over 33.4% from $84.3 million in 2008 to $112.5 million at December 31, 2009, due to the reasons given above as well as the net proceeds of $37.2 million raised from the exercise of warrants. These factors more than offset redemptions of $40.9 million that were paid out in 2009.

Investment Portfolio

As of December 31, 2009, the oil and gas investment portfolio held by the Fund included a total of 17 investments, including 10 oil and gas income trusts and seven dividend-paying oil and gas equities, compared to 15 income trusts and two equities at the end of 2008. During the year, three income trusts converted to corporations: Bonterra Oil & Gas Ltd., Progress Energy Resources Corp. and Crescent Point Energy Corp. The Fund also sold three income trusts (Advantage Energy Income Fund, Daylight Resources Trust, Penn West Energy Trust) and one corporation (Petro-Canada), and purchased one income trust (Inter Pipeline Fund) and three corporations (Imperial Oil Limited, OPTI Canada Inc., TransCanada Corporation). The oil and gas investment portfolio recorded net gains (realized and unrealized) of $36.2 million in 2009.

Liquidity and Capital Resources

As of December 31, 2009, the Fund had borrowings of $15.2 million under its 364-day revolving credit facility, amounting to 11.8% of total assets and 13.5% of Net Asset Value. During 2009, the minimum and maximum amounts of borrowings by the Fund were nil and $25.9 million, respectively. To provide liquidity, units and warrants of the Fund are listed on the TSX under the symbols OGF.UN and OGF.WT.A, respectively. The Fund's normal course issuer bid program allows it to purchase its units on the TSX for cancellation if 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 253,300 units were purchased under this program during the year ended December 31, 2009, at an average price of $4.04 per unit. During the year, units of the Fund traded at an average discount to the diluted Net Asset Value of 4.3%. 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

Since June 19, 2008, the Fund has paid 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 the Portfolio Manager. The management fee is used by the Manager to cover its costs to obtain the Fund's assets, the cost to administer the Fund, the cost of the Portfolio Manager 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 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, the Fund's portfolio was passively managed, and, as a result, 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 Manager was also responsible for paying fees to Brompton Capital Advisors Inc.

During the year ended December 31, 2009, management and service fees amounted to $0.9 million and $0.3 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 and unaudited interim 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 years ended December 31		**2009**		2008		2007		2006		2005
Net Assets, beginning of year(2)(3)(4)	$	**3.84**	$	6.46	$	8.07	$	12.28	$	9.53
Increase (decrease) from operations:(5)										
Total revenue		**0.43**		0.99		1.07		1.55		1.41
Total expenses		**(0.07)**		(0.13)		(0.12)		(0.16)		(0.15)
Realized gain (loss) for the year		**(1.14)**		(1.01)		(2.13)		0.01		1.11
Unrealized gain (loss) for the year		**2.64**		(0.32)		0.60		(4.12)		1.73
Total increase (decrease) in Net Assets from operations	$	**1.86**	$	(0.47)	$	(0.58)	$	(2.72)	$	4.10
Distributions to unitholders:(3)										
Cash distributions:										
From net investment income (excluding dividends)	$	**0.29**	$	0.62	$	0.76	$	1.11	$	0.95
From dividends		**0.05**		—		—		—		—
From net realized gain on investments		**—**		—		—		—		0.43
Return of capital		**0.16**		0.23		0.30		0.35		—
Total cash distributions		**0.50**		0.85		1.06		1.46		1.38
Unit distributions:										
From net realized gain on investments		**—**		—		—		—		0.57
Total distributions to unitholders	$	**0.50**	$	0.85	$	1.06	$	1.46	$	1.95
Net Assets, end of year(2)(3)(4)	$	**5.09**	$	3.84	$	6.46	$	8.10	$	12.28

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

(2) 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.

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

(4) Represents basic Net Assets per unit.

(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	2009	2008	2007	2006	2005
Net Asset Value (in 000s)	$ **112,469**	$ 84,348	$ 203,011	$ 293,727	$ 449,986
Number of units outstanding (in 000s)	**22,003**	21,719	31,301	36,250	36,654
Management expense ratio ("MER")[1]	**1.74%**	1.94%	1.54%	1.43%	1.39%
Trading expense ratio[2]	**0.09%**	0.19%	0.16%	0.07%	0.14%
Portfolio turnover rate[3]	**23.10%**	24.98%	24.75%	46.90%	45.92%
Net Asset Value per unit – basic and diluted	$ **5.11**	$ 3.88	$ 6.49	$ 8.10	$ 12.28
Closing market price – units	$ **4.72**	$ 3.36	$ 6.07	$ 7.75	$ 12.06
Closing market price – warrants[4]	$ **0.15**	$ 0.09	$ N/A	$ N/A	$ N/A

(1) 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 of the period.

(2) The trading expense ratio represents total commissions expressed as an annualized percentage of daily average Net Asset Value of the Fund during the period.

(3) 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. 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.

(4) The closing price for warrants is for the class of warrants then outstanding.

Expense Ratio

The MER of the Fund decreased slightly from 1.94% as at December 31, 2008 to 1.74% as at December 31, 2009. The decrease was primarily due to lower interest expense resulting from a lower level of loans outstanding and lower interest rates during the year, which more than offset the increase in management and service fee rates following the reorganization of the Fund in June 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.

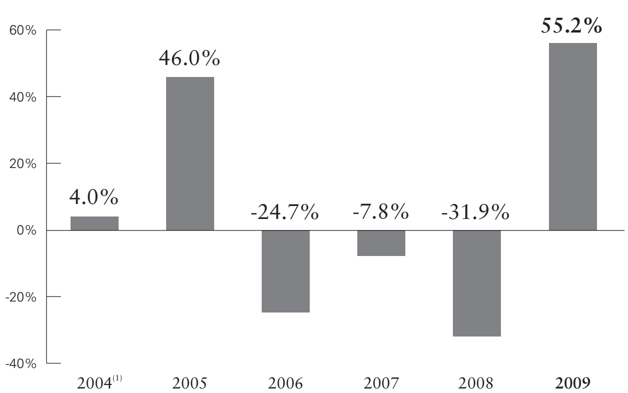
The MER, excluding interest expense and issuance costs, was 1.40% as at December 31, 2009, up from 1.18% the previous year, as a result of the increase in management fees from June 2008. This latter ratio is more representative of the ongoing efficiency of the administration of the Fund.

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 (including deemed distributions based on the intrinsic value of the warrants at the exercise dates of the warrants) 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 period since inception to December 31, 2009. The chart shows, in percentage terms, how an investment held on the first day of each fiscal period would have changed by the last day of the fiscal 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 compound return for each period indicated, 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 management 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	5 Year	Since Inception[1]
Brompton Oil & Gas Income Fund	55.2%	(0.9%)	1.4%	2.1%
S&P/TSX Composite Index	35.1%	(0.2%)	7.7%	8.4%
S&P/TSX Capped Energy Trust Index	39.5%	(0.1%)	11.6%	11.7%

(1) Period from October 7, 2004 (commencement of operations) to December 31, 2009.

The Fund provided a high return of approximately 55.2% over the year ended December 31, 2009, as securities markets improved, and outperformed both the Energy Trust Index and the Composite Index. This outperformance was due to the benefits of leverage (which enhances positive returns in rising markets but exacerbates negative returns in declining markets) and also as a result of the active management of the Fund by the Portfolio Manager.

SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2009

Total Net Asset Value	$ 112,468,520

Portfolio Composition	% of Portfolio	% of Net Asset Value
Oil and gas	99.8%	113.6%
Cash and short-term investments	0.2%	0.2%
Total investment portfolio	100.0%	113.8%
Other net liabilities		(13.8%)
Total Net Asset Value		100.0%

Holdings	% of Portfolio	% of Net Asset Value
Bonterra Oil & Gas Ltd.	9.2%	10.4%
Baytex Energy Trust	8.8%	10.0%
Crescent Point Energy Corp.	8.6%	9.8%
NAL Oil & Gas Trust	8.3%	9.5%
Bonavista Energy Trust	7.7%	8.8%
Vermilion Energy Trust	7.6%	8.6%
Peyto Energy Trust	7.5%	8.6%
Zargon Energy Trust	6.9%	7.9%
ARC Energy Trust	6.7%	7.6%
Progress Energy Resources Corp.	5.7%	6.5%
Imperial Oil Limited	5.7%	6.5%
Enerplus Resources Fund	5.0%	5.7%
Freehold Royalty Trust	4.1%	4.6%
Inter Pipeline Fund	2.4%	2.8%
Nexen Inc.	2.3%	2.6%
TransCanada Corporation	1.7%	1.9%
OPTI Canada Inc.	1.6%	1.8%
Cash and short-term investments	0.2%	0.2%

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.

2009 TAX INFORMATION

The following information is applicable to holders who, for the purpose of the Income Tax Act (Canada), are resident in Canada and hold shares as capital property outside of an RRSP, DPSP, RRIF, RESP or TFSA. Unitholders should receive a T3 slip from their investment dealer providing this information.

T3 supplementary slips for holdings of the Fund will indicate Other Income (Investment Income and Not Investment Income) in Box 26, Capital Gains in Box 21 and Eligible Dividend Income in Box 49. Dividend income is subject to the standard gross-up and federal dividend tax credit rules.

The return of capital component is a non-taxable amount that serves to reduce the adjusted cost base of Fund units and is reported on the T3 supplementary slips in Box 42.

The following table outlines the breakdown in the Fund's distributions declared in 2009 on a per unit basis.

Record Date	Payment Date	Return of Capital	Other Taxable Income	Eligible Dividend Income	Total Distribution
Jan. 30, 2009	Feb. 13, 2009	$ 0.02148	$ 0.04107	$ 0.00745	$ 0.0700
Feb. 27, 2009	Mar. 13, 2009	0.01228	0.02346	0.00426	0.0400
Mar. 31, 2009	Apr. 15, 2009	0.01228	0.02346	0.00426	0.0400
Apr. 30, 2009	May 14, 2009	0.01228	0.02346	0.00426	0.0400
May 29, 2009	Jun. 12, 2009	0.01228	0.02346	0.00426	0.0400
Jun. 30, 2009	Jul. 15, 2009	0.01228	0.02346	0.00426	0.0400
Jul. 31, 2009	Aug. 17, 2009	0.01228	0.02346	0.00426	0.0400
Aug. 31, 2009	Sep. 15, 2009	0.01228	0.02346	0.00426	0.0400
Sep. 30, 2009	Oct. 15, 2009	0.01228	0.02346	0.00426	0.0400
Oct. 30, 2009	Nov. 13, 2009	0.01073	0.02054	0.00373	0.0350
Nov. 30, 2009	Dec. 14, 2009	0.01073	0.02054	0.00373	0.0350
Dec. 31, 2009	Jan. 15, 2010	0.01073	0.02054	0.00373	0.0350
Total		**$ 0.15191**	**$ 0.29037**	**$ 0.05272**	**$ 0.4950**

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 (Canada)

MFC Global Investment Management (Canada) ("MFC") is the Portfolio Manager of five Brompton funds – Brompton VIP Income Fund, Brompton Advantaged VIP Income Fund, Brompton Oil & Gas Income Fund, Brompton Advantaged Oil & Gas Income Fund and Manulife Brompton Advantaged Bond Fund. MFC Global Investment Management ("MFC GIM") is the asset management division of Manulife Financial Corporation. MFC GIM's diversified group of companies and affiliates provide comprehensive asset management solutions for institutional investors in key markets around the world. This investment expertise extends across a full range of asset classes including equity, fixed income and alternative assets, with investment offices in the US, Canada, the UK, Japan, Hong Kong, and throughout Asia.

MFC Global Investment Management®

Portfolio Manager's Report

Equity markets generated positive returns during the quarter and closed out 2009 with stellar results after dismal performance in 2008. The S&P/TSX Capped Energy Trust Index returned 8.9% for the quarter and 39.5% for the year. Stocks were particularly weak during the first quarter of 2009, as the impact from the global recession and credit crisis drove investors out of the market. Since March 9, however, equity markets advanced mostly uninterrupted from the low through the end of the year. Improving investor sentiment was propelled by record stimulus and economic data that showed the recession was abating. In the second half of the year, the US and Canadian economies started to recover. GDP growth was mixed during the summer but nudged up over the last few months with October showing growth of 0.3% following 0.5% in September.

Commodity prices generally gained alongside the economic and market recovery. Oil ended 2008 at US$44.60, and nearly doubled to close 2009 at US$79.36. Natural gas, though, was little changed for the year, gaining 0.4% from US$5.63 to US$5.83. The portfolio is currently weighted more heavily towards oil producers. Oil companies benefited as the price of crude recovered through 2009. While gas prices recovered from the lows earlier in the summer, we continue to believe that natural gas has limited upside. Storage levels are above their five-year average, and rig count, a good indicator of future production, has been climbing over the past few months. With natural gas in a contango position, producers are locking in favourable forward prices and increasing production.

As an income and growth portfolio, we have focused our attention on those companies that are profitable and generate strong free cash flow within the oil and gas sector. We have positioned the portfolio with a greater focus on oil companies over natural gas, consistent with our views on the commodities. During the year, we added to oil-weighted names and pipelines, such as Inter Pipeline Fund, OPTI Canada Inc., TransCanada Corporation and Imperial Oil Limited, to sustain the high distribution rate and to generate growth.

Where 2009 was a year of extremes – extreme pessimism by some investors, extremely low valuations and extreme market lows, followed by a very strong rebound – 2010 is likely to be a year of relatives. The fiscal and monetary stimulus committed by governments and central banks around the world managed to steer the global economy away from what could have been a much deeper and prolonged recession. Relatively speaking, however, the US and Canadian economic recoveries will be slower than what we have seen coming out of prior recessions. That is, where a typical recovery would see economic growth in the quarters that follow a recession in the range of 5% to 12% annualized, we are likely to see growth in the US in 2010 of 3% to 4%, with similar results in Canada. As oil and gas demand and prices are somewhat linked to economic growth, we are cautiously optimistic on near-term prospects for the Fund. Our portfolio remains focused on businesses with strong debt adjusted cash flows, sustainable or growing reserves and reasonable valuation metrics.

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

The Fund 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 Fund 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 Fund, 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

Signed

Craig T. Kikuchi
Chief Financial Officer
Brompton Funds Management Limited

March 11, 2010

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, 2009, the statements of Net Assets as at December 31, 2009 and 2008 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 financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations, 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 11, 2010

Statements of Net Assets

As at December 31	**2009**	2008
Assets		
Investments, at fair value	**$ 127,408,008**	$ 108,576,917
Cash and short-term investments	**216,851**	73,885
Income receivable	**780,824**	1,581,072
Total assets	**128,405,683**	110,231,874
Liabilities		
Accounts payable and accrued liabilities	**347,763**	344,941
Distributions payable to unitholders (note 7)	**770,073**	1,520,322
Loans payable (note 11)	**15,206,998**	24,881,631
Total liabilities	**16,324,834**	26,746,894
Unitholders' equity		
Unitholders' capital (note 4)	**175,815,708**	217,949,022
Warrants (note 5)	**730,935**	—
Contributed surplus (note 4)	**69,241,499**	31,835,061
Deficit	**(133,707,293)**	(166,299,103)
Net Assets representing unitholders' equity	**$ 112,080,849**	$ 83,484,980
Units outstanding (note 4)	**22,002,584**	21,718,890
Net Assets per unit – basic and diluted (note 5)	**$ 5.09**	$ 3.84

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

Mark A. Caranci
Director

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

Statements of Operations and Deficit

For the years ended December 31	2009	2008
Income		
Distributions and dividend income	**$ 10,056,390**	$ 26,950,749
Securities lending income (note 10)	**360,842**	548,202
Interest income	**19,197**	65,183
	10,436,429	27,564,134
Expenses		
Management fees (note 8)	**896,898**	1,321,146
Service fees (note 8)	**266,497**	653,508
Audit fees	**24,340**	22,645
Independent review committee fees	**30,833**	30,904
Trustee fees	**14,445**	17,806
Custodial fees	**7,353**	18,106
Legal fees	**12,849**	140,220
Unitholder reporting costs	**50,770**	65,222
Other administrative expenses	**100,116**	112,016
Interest and bank charges (note 11)	**243,063**	1,326,961
	1,647,164	3,708,534
Net investment income	**8,789,265**	23,855,600
Net realized loss on sale of investments (note 9)	**(27,887,834)**	(28,105,807)
Transaction costs (note 2)	**(91,677)**	(381,180)
Net change in unrealized gain/loss on investments and short-term investments	**64,652,668**	(8,431,433)
Increase (decrease) in Net Assets from operations	**45,462,422**	(13,062,820)
Deficit, beginning of year	**(166,299,103)**	(129,967,308)
Issuance costs on warrants (note 5)	**43.894**	(210,000)
Issuance of Class A warrants, net (note 5)	**(881,539)**	—
Distributions to unitholders (note 7)	**(12,032,967)**	(23,058,975)
Deficit, end of year	**$(133,707,293)**	$(166,299,103)
Increase (decrease) in Net Assets from operations per unit – basic and diluted (note 5)[1]	**$ 1.86**	$ (0.47)

[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	2009	2008
Cash flows from operating activities:		
Increase (decrease) in Net Assets from operations	$ 45,462,422	$ (13,062,820)
Adjustments to reconcile net cash provided by operations:		
Net realized loss on sale of investments (note 9)	27,887,834	28,105,807
Net change in unrealized gain/loss on investments	(64,652,680)	8,431,433
Decrease (increase) in income receivable	800,248	806,088
Increase (decrease) in accounts payable and accrued liabilities	(3,591)	(124,815)
Purchase of investments (note 9)	(25,667,003)	(57,779,101)
Proceeds from sale of investments (note 9)	43,600,758	152,145,755
Cash provided by operating activities	27,427,988	118,522,347
Cash flows from financing activities:		
Issuance costs on warrants (note 5)	(106,106)	(210,000)
Increase (decrease) in loans payable	(9,674,633)	(12,318,369)
Distributions paid to unitholders (note 7)	(12,783,216)	(23,989,507)
Proceeds from issuance of units upon exercise of warrants (note 5)	37,172,879	—
Proceeds from distribution reinvestment plan (note 7)	38,856	73,483
Repurchase of units (note 4)	(1,022,234)	(2,708,274)
Amounts paid for redemption of units (note 4)	(40,910,568)	(79,626,999)
Cash used in financing activities	(27,285,022)	(118,779,666)
Net increase (decrease) in cash and short-term investments	142,966	(257,319)
Cash and short-term investments, beginning of year	73,885	331,204
Cash and short-term investments, end of year	$ 216,851	$ 73,885
Supplemental information:		
Interest paid	$ 231,315	$ 1,440,434

Statements of Changes in Net Assets

For the years ended December 31	2009	2008
Net Assets, beginning of year	$ 83,484,980	$ 202,078,565
Operations:		
Increase (decrease) in Net Assets from operations	45,462,422	(13,062,820)
Unitholder transactions:		
Distributions to unitholders (note 7)		
Net investment income	(8,339,665)	(16,697,508)
Return of capital	(3,693,302)	(6,361,467)
Total	(12,032,967)	(23,058,975)
Proceeds from issuance of units upon exercise of warrants (note 5)	37,172,879	—
Issuance costs on warrants (note 5)	(106,106)	(210,000)
Proceeds from distribution reinvestment plan (note 7)	38,856	73,483
Redemption of units (note 4)	(40,916,981)	(79,626,999)
Repurchase of units (note 4)	(1,022,234)	(2,708,274)
Total unitholder transactions	(16,866,553)	(105,530,765)
Net increase (decrease) in Net Assets	28,595,869	(118,593,585)
Net Assets, end of year	$ 112,080,849	$ 83,484,980
Distributions per unit (note 7)	$ 0.50	$ 0.85

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

Statement of Investments

As at December 31, 2009		Cost	Fair Value	% of Portfolio
No. of Units	**Oil and Gas**			
430,830	ARC Energy Trust	$ 7,676,040	$ 8,590,750	
378,733	Baytex Energy Trust	5,492,339	11,183,984	
442,180	Bonavista Energy Trust	11,950,063	9,847,349	
338,727	Bonterra Oil & Gas Ltd.	10,329,970	11,740,277	
279,499	Crescent Point Energy Corp.	5,488,896	11,026,236	
263,710	Enerplus Resources Fund	11,456,849	6,355,411	
345,994	Freehold Royalty Trust	6,309,707	5,207,210	
289,856	Inter Pipeline Fund	2,391,312	3,133,343	
180,665	Imperial Oil Limited	7,294,471	7,336,806	
775,554	NAL Oil & Gas Trust	11,075,861	10,594,068	
115,687	Nexen Inc.	4,121,041	2,908,371	
981,560	OPTI Canada Inc.	1,717,730	1,972,936	
687,217	Peyto Energy Trust	13,823,611	9,600,421	
515,199	Progress Energy Resources Corp.	5,950,548	7,264,306	
58,870	TransCanada Corporation	1,854,405	2,128,151	
298,832	Vermilion Energy Trust	7,022,999	9,682,157	
462,146	Zargon Energy Trust	13,151,625	8,836,232	
	Total Oil and Gas	**127,107,467**	**127,408,008**	**100.0%**
	Embedded Broker Commission (note 2)	**(69,117)**	**—**	
	Total	**$127,038,350**	**$127,408,008**	**100.0%**

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

Notes to the Financial Statements

December 31, 2009 and 2008

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 being appointed as Portfolio Manager;

iv) Adopt 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

Basis of Fair Value Measurement

Effective January 1, 2009, the Fund adopted the amendments to Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, "Financial Instruments – Disclosures," which require additional disclosure about the estimated fair value of financial instruments.

The amendments to Section 3862 require the Fund to classify its investments and derivative assets/liabilities into three categories based on the nature of the inputs used to determine their fair value. The categories and the nature of the inputs used in each category are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgement or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

EIC-173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Canadian Accounting Standards Board ("AcSB") issued Emerging Issues Committee Abstract 173: Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 supplements CICA Handbook Section 3855 wherein it states that fair value takes into account the credit quality of a financial instrument. The EIC affirms that an entity's own credit risk (in the case of financial liabilities) and a counterparty's credit risk (in the case of financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.

The Manager has reviewed its policies regarding valuation of assets and liabilities and believes that the fair values ascribed to financial assets and financial liabilities in these financial statements incorporate appropriate levels of credit risk.

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 price 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. Securities for which quotations are not readily available are valued at their fair value primarily based on the results of valuation techniques using observable market inputs. The cost of investments is based on their average cost.

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 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 in 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. Investments and loan transactions, and income and expenses denominated in foreign currencies 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 is designated as loans and receivables and 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) Future Accounting Changes

The 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 IFRS.

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 area of additional note disclosures and, potentially, different presentation of unitholders' equity in the financial statements of the Fund.

3. RECONCILIATION OF NET ASSETS TO NET ASSET VALUE

In accordance with National Instrument ("NI") 81-106, a reconciliation is required 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").

As at December 31		2009		2008
	Total	**Per Unit – Basic and Diluted**	Total	Per Unit – Basic and Diluted
Net Asset Value	**$ 112,468,520**	**$ 5.11**	$ 84,347,680	$ 3.88
Section 3855 adjustment	**(387,671)**	**(0.02)**	(862,700)	(0.04)
Net Assets	**$ 112,080,849**	**$ 5.09**	$ 83,484,980	$ 3.84

Notes to the Financial Statements (continued)

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 weighted average trading price of the units for the 10 trading days immediately preceding the redemption date 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.

The Fund received approval from the Toronto Stock Exchange to undertake a normal course issuer bid program for the period from November 6, 2008 to November 5, 2009. Pursuant to the issuer bid, the Fund could purchase up to 2,176,500 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, 2009 to November 5, 2010, which allows the Fund to purchase up to 2,202,900 units. The Fund may repurchase units when the Net Asset Value per unit exceeds its trading price.

Issued

As at December 31	2009		2008	
	Number of Units	**Amount**	Number of Units	Amount
Units, beginning of year	**21,718,890**	**$ 217,949,022**	31,300,823	$ 314,183,948
Issuance of units upon exercise of warrants (note 5)	**10,181,832**	**37,172,879**	—	—
Units issued under the distribution reinvestment plan (note 7)	**10,690**	**38,856**	12,847	73,483
Redemption of units	**(9,655,528)**	**(77,169,966)**	(9,201,180)	(92,357,774)
Repurchase of units	**(253,300)**	**(2,175,687)**	(393,600)	(3,950,635)
Units, end of year	**22,002,584**	**$ 175,815,104**	21,718,890	$ 217,949,022

On August 31, 2009, 9,653,028 units were redeemed at $4.24 per unit. Pursuant to the monthly redemption option, 2,500 units were redeemed at an average price of $3.75 per unit during the year.

During the year ended December 31, 2009, 253,300 (2008 – 393,600) units were purchased for cancellation.

As at December 31, 2009, the Fund had accumulated contributed surplus of $69,241,499 (2008 – $31,835,061) 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 basic and diluted weighted average number of units outstanding for the year ended December 31, 2009 were 24,475,635 and 24,475,635, respectively (2008 – 27,942,154 and 27,942,154).

5. WARRANTS

Unitholders received warrants on the basis of one-half of one warrant for each unit held on December 8, 2008. A whole warrant entitled 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 were void and of no value. Upon the exercise of a warrant, the Fund paid a fee equal to $0.06 per warrant to the dealer whose client was exercising the warrant.

The Fund issued 10,865,945 warrants to unitholders of record on December 8, 2008. During the year ended December 31, 2009, 10,172,732 warrants were exercised for net proceeds of $37,130,473 and 693,213 warrants expired. The fair value of each warrant on the date of issuance was nil. Costs associated with the issuance of these warrants amounted to $166,106.

Unitholders received Class A warrants on the basis of one-half of one warrant for each unit held on November 16, 2009. A whole Class A warrant entitles the holder to subscribe for one unit of the Fund at a subscription price of $4.74. Class A warrants not exercised prior to April 15, 2010 will be void and of no value. Upon the exercise of a Class A warrant, the Fund will pay a fee equal to $0.08 per warrant to the dealer whose client is exercising the warrant.

The Fund issued 11,019,242 Class A warrants to unitholders of record on November 16, 2009. During the year ended December 31, 2009, 9,100 Class A warrants were exercised for net proceeds of $42,406. Based on the closing price of the first trading day, the fair value of each warrant on the date of issuance was $0.08 per warrant. Costs associated with the issuance of these warrants amounted to $150,000.

Diluted Net Assets per unit is calculated when the closing price 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. The closing price of the Fund on December 31, 2009 was $4.72 per unit.

Diluted increase (decrease) in Net Assets from operations per unit is calculated using the treasury stock method. The average price of the Fund for the period from November 16, 2009 to December 31, 2009 was $4.50 per unit.

6. 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.

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, 2009, the Fund declared total distributions of $0.495 (2008 – $0.85) per unit, which amounted to $12,032,967 (2008 – $23,058,975). 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, 2009, 10,690 units (2008 – 12,847) 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, 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 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 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:

	2009	2008
Proceeds from sale of investments	**$ 43,600,758**	$ 152,145,755
Less cost of investments sold:		
Investments at cost, beginning of year	**172,859,939**	295,332,400
Investments purchased during the year	**25,667,003**	57,779,101
Investments at cost, end of year	**(127,038,350)**	(172,859,939)
Cost of investments sold during the year	**71,488,592**	180,251,562
Net realized loss on sale of investments	**$ (27,887,834)**	$ (28,105,807)

The brokerage commissions paid to dealers included $941 (2008 – $1,359) that was available for payment to third party vendors, of which nil (2008 – $874) was used for research and $941 (2008 – $485) was used for market data services by the Portfolio Manager.

10. SECURITIES LENDING

The Fund has entered into a securities lending program 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, 2009, were $45.3 million (2008 – $43.3 million) and $46.8 million (2008 – $46.0 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 $27.5 million at either the prime rate of interest or the bankers' acceptance rate plus a fixed percentage. There was $15.2 million (2008 – $24.9 million) outstanding under this facility as at December 31, 2009. The credit facility is secured by a first-priority security interest over all of the Fund's assets. During the year ended December 31, 2009, the minimum and maximum amounts of borrowings were nil (2008 – nil) and $25.9 million (2008 – $63.9 million), respectively.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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, 2009. 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, 2009, the Fund had no significant exposure to interest rate risk given the loans' short-term nature.

b) Other Price Risk

Other price risk is the risk that the value 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, 2009, 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 $12.7 million, or 11.4% of Net Assets (2008 – approximately $10.9 million, or 13.0% of 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. The risk of default is considered minimal as delivery of securities sold is only made once the Fund has received payment. The trade will fail if either party fails to meet its obligation.

The Fund has entered into a securities lending program with its custodian; see note 10. Credit risk associated with these transactions is considered minimal as all counterparties have approved credit 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, 2009, 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 through its monthly and 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.

All of the Fund's financial liabilities had maturities of less than three months.

13. FAIR VALUE DISCLOSURES

The Fund's assets and liabilities recorded at fair value have been categorized in accordance with the amendments to Section 3862 (see note 2) as follows:

Assets at fair value as at December 31, 2009	Level 1	Level 2	Level 3	Total
Equities	$ 127,408,008	$ —	$ —	$ 127,408,008
Total	**$ 127,408,008**	**$ —**	**$ —**	**$ 127,408,008**

There were no transfers among the levels during the year.

14. INCOME TAXES

The Fund had accumulated capital losses as at December 31, 2009 of $129,226,351 (2008 – $105,823,384). 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 and
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

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