

BROMPTON SPLIT BANC CORP.



VALUE INTEGRITY PERFORMANCE

2005 ANNUAL REPORT

Management Report of Fund Performance

February 6, 2006

This annual management report of fund performance for Brompton Split Banc Corp. (the "Fund") contains financial highlights but does not contain the complete audited annual financial statements. The complete audited annual financial statements are appended to this report.

Unitholders may obtain a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure, at no cost by calling 866-642-6001, or by sending a request to Suite 2930, P.O. Box 793, Bay Wellington Tower, BCE Place, 181 Bay Street, Toronto, Ontario, M5J 2T3.

Investment Objectives and Strategies

Brompton Split Banc Corp. is a mutual fund corporation with its Class A and Preferred shares listed on the Toronto Stock Exchange, under the symbols SBC and SBC.PR.A, respectively. The Preferred shares are rated Pfd-2 by Dominion Bond Rating Service Limited. The Fund is managed by Brompton SBC Management Limited (the "Manager") and commenced operations on November 16, 2005 upon completion of the initial public offering of Class A and Preferred shares. The Fund's investment objectives are:

- (i) to provide holders of Preferred shares with fixed, cumulative preferential quarterly cash distributions in the amount of \$0.13125 per Preferred share and to return the original issue price to holders of Preferred shares on November 30, 2012; and
- (ii) to provide holders of Class A shares with regular monthly cash distributions targeted to be \$0.10 per Class A share and to provide holders of Class A shares with the opportunity for growth in net asset value per Class A share.

All Class A and Preferred shares outstanding on November 30, 2012 will be redeemed by the Fund on that date.

Brompton Capital Advisors Inc., the Fund's advisor, is responsible for investing in a common share portfolio of the following six Canadian banks on an equally weighted basis:

Bank of Montreal	Royal Bank of Canada
Canadian Imperial Bank of Commerce	The Bank of Nova Scotia
National Bank of Canada	The Toronto-Dominion Bank

These banks have a history of strong earnings growth, which has resulted in increases in their dividend rates and capital appreciation.

The portfolio is rebalanced at least annually to adjust for changes in the market value of investments and to reflect the impact of a merger or acquisition affecting one or more of the banks. In addition, the Fund may sell investments for working capital purposes or replace investments with proceeds from the exercise of covered call options previously written. Highstreet Asset Management Inc. is the Option Advisor to the Fund and has the discretion to write covered call options and cash covered put options in respect of the portfolio in order to generate additional distributable income for the Fund.

The Preferred and Class A shares are RRSP, DPSP, RRIF and RESP eligible.

Risks

There are risks associated with an investment in shares of the Fund. The prospectus that was issued in connection with the initial public offering of the Fund's shares, as well as the Fund's annual information form, contain a discussion of these risks. These documents are available on the Fund's website at www.bromptongroup.com on SEDAR at www.sedar.com. Below is a discussion of some of the more significant risks affecting the Fund in 2005.

Leverage

The Preferred shares, by virtue of their fixed redemption amount, leverage the net asset value of the Fund attributable to the Class A shareholders. Leverage can impact net asset value of the Fund as it will enhance the net asset value during a period when the Fund's investments have appreciated and exacerbate the decline of net asset value during a falling market. The greater the amount of leverage, the greater the impact on net asset value of a rise or decline in market prices of the Fund's investments. Leverage had a positive impact on the net asset value of the Fund and in particular the Class A shares, as the value of the underlying portfolio increased during the short period the Fund operated in 2005.

Concentration Risk

The Fund is invested in six issuers in one industry – the Banks. As a result, the Fund's holdings are more concentrated and the net asset value per unit may be more volatile than that of a more broadly diversified portfolio. While in an extreme situation this risk could affect the value of the Preferred share, it is more likely to have an impact on the value of the Class A shares. Concentration had a positive impact on the value of the Class A shares in 2005, as factors affecting the Banks and their performance tended to be positive.

Change in Law

On November 23, 2005, the Minister of Finance for the Government of Canada announced that it would lower, over time, the effective tax rate on dividends of Canadian public corporations. This announcement had a positive impact on the trading value of both the Class A and Preferred shares of the Fund.

Recent Developments

Completion of the Initial Public Offering

On November 16, 2005, the Fund closed its initial public offering of Class A and Preferred shares and commenced operations. A total of 5,800,000 Class A and Preferred shares were issued for gross proceeds of \$145 million. A further 335,000 Class A and Preferred shares were issued pursuant to the exercise of an over-allotment option granted to the underwriters of the offering on November 28, 2005, which raised an additional \$8.4 million for the Fund. The proceeds were invested prior to the end of November 2005.

Tax Treatment of Dividend Income

On November 23, 2005, the Minister of Finance decided to reduce the tax rate on certain dividends over time. For 2006, the proposal would reduce the top federal marginal income tax rate on eligible dividends by 5.1% to 14.5%. This would be beneficial to shareholders of the Fund should any of the distributions be considered dividends for tax purposes. However, enactment of the proposals remains outstanding and it is not certain that the provinces will follow suit in lowering this tax on dividends.

Rights Offering

On March 1, 2006, the Fund filed a prospectus relating to a Rights offering available to all Class A shareholders. Each Class A shareholder as of the date of record on March 13, 2006, is entitled to receive one Right for each Class A share held. One Right entitles the holder to purchase a unit, consisting of one Class A share and one Preferred share at a price of \$26.10 per unit on or before April 10, 2006. The exercise price is set at a discount to the market price of a unit and at a premium to the February 23, 2006 net asset value per unit. On this basis, the exercise of the Rights would be accretive to existing Class A shareholders on a net asset value per share basis.

The Class A and Preferred shares of Brompton Split Banc Corp. began trading on November 16, 2005 and as of February 10, 2006 were trading at a premium to their February 9, 2006 net asset values. The net asset value of the Class A shares has risen since inception during which period the Class A shareholders have received the benefit of a distribution at a rate of \$1.20 per share per annum. Successful completion of the Rights offering is expected to increase the trading liquidity of the shares and reduce the management expense ratio of the Fund.

Results of Operations

Distributions

During the period ended December 31, 2005, the Fund declared a distribution of \$0.05 per Class A share for the partial period from November 16, 2005 to November 30, 2005 and \$0.10 per share to Class A shareholders at the end of December. The Fund declared a distribution of \$0.06563 per Preferred share for the partial period from November 16, 2005 to December 31, 2005. The November distribution on the Class A shares was characterized as a return of capital and was not required to be included in a shareholder's income. Instead, such amount will reduce the adjusted cost base of such share, assuming it is held as capital property. The tax characteristics of the distributions declared for December will be determined in 2006 and included in income for that year.

Net Asset Value

As a result of the strong performance of the Fund's investment portfolio, the net asset value per Class A share increased by \$0.93 per share or 6.8%, from \$13.68 to \$14.61 since the commencement of the Fund's operations on November 16, 2005 to fiscal year-end. The aggregate total assets of the Fund were \$152.6 million at December 31, 2005 or \$24.87 per unit.

Investment Portfolio

As of December 31, 2005, the Fund's investments included Bank of Montreal, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, The Bank of Nova Scotia, and The Toronto-Dominion Bank.

The Fund recorded net unrealized gains of \$6.4 million during the year. The portfolio was not rebalanced in 2005 so there were no realized gains or losses.

Liquidity and Capital Resources

To provide liquidity, the Class A shares and Preferred shares of the Fund are listed on the TSX under the symbols SBC and SBC.PR.A, respectively.

Commencing in 2006, Preferred shares and Class A shares of the Fund may be retracted concurrently in December of each year at the net asset value per unit on the second last business day of December. The shares must be tendered for retraction at least ten business days prior to the second last business day in December. A unit is comprised of one Class A share and one Preferred share. Preferred shares and Class A shares may also be retracted in any other month on the second last business day of that month, provided the shares were tendered for retraction at least ten business days prior to the second last business day of that month. Preferred shares retracted in any month other than December will have a retraction price equal to 96% of the lesser of (i) the net asset value per unit less the cost to the Fund of the purchase of a Class A share for cancellation, including commissions and such other costs related to the liquidation of any portion of the portfolio to fund the purchase of the Class A share, and (ii) \$10.00. Class A shares retracted in any month other than December will have a retraction price equal to 96% of the difference between (i) the net asset per unit and (ii) the cost to the Fund of the purchase of a Preferred share for cancellation, including commissions and such other costs related to the liquidation of any portion of the portfolio to fund the purchase of the Preferred share.

The purpose of the monthly and annual retraction rights is to reduce the likelihood that the Class A shares of the Fund trade at a substantial discount to net asset value per share, and the December retraction right provides shareholders with the right to realize their investment once per year at net asset value per unit less costs associated with the retraction.

Related Party Transactions

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.55% per annum of the net asset value of the Fund. The Manager is responsible for paying the fees to Brompton Capital Advisors Inc., the advisor, and Highstreet Asset Management Inc., the option advisor. The Fund also pays to the Manager a service fee equal to 0.40% per annum of the net asset value of the Class A shares. The service fee is in turn paid by the Manager to the investment dealers based on the proportionate number of Class A shares held by clients of such dealers at the end of each calendar quarter. In 2005, management and service fees amounted to \$107,429 and \$44,867, 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 period indicated. This information is derived from the Fund's audited annual financial statements. The information in the following tables is presented in accordance with National Instrument (NI) 81-106 and, as a result, does not act as a continuity of opening and closing net asset value per Class A share. The increase (decrease) in net assets from operations is based on average shares outstanding during the period and all other numbers are based on actual shares outstanding at the relevant point in time.

Net Asset Value per Class A Share

		2005 ⁽¹⁾
Net asset value, beginning of period ⁽²⁾	\$	13.68
Increase (decrease) from operations: ⁽³⁾		
Total revenue		0.14
Total expenses including Preferred share distributions		(0.11)
Realized gain for the period		—
Unrealized gain for the period		1.06
Total increase (decrease) in net assets from operations	\$	1.09
Distributions to Class A shareholders: ⁽²⁾		
Return of capital	\$	0.15
Total distributions		0.15
Net asset value, end of period	\$	14.61

⁽¹⁾ Period from November 16, 2005 (commencement of operations) to December 31, 2005.

⁽²⁾ Net asset value per Class A share and distributions per Class A share are based on the actual number of Class A shares outstanding at the relevant time.

⁽³⁾ The increase (decrease) in net assets from operations per Class A share is based on the weighted average number of Class A shares outstanding over the fiscal period.

Ratios and Supplemental Data

	2005
Net assets (in 000s) – including Preferred shares	\$ 152,586
Number of Class A shares outstanding (in 000s)	6,135
Management expense ratio (MER) ⁽¹⁾⁽²⁾	8.73%
MER excluding distributions on Preferred shares and issuance costs ⁽¹⁾	1.04%
Portfolio turnover rate ⁽³⁾	N/A
Trading expense ratio ⁽⁴⁾	0.05%
Closing market price – Preferred shares	\$ 10.76
Closing market price – Class A shares	\$ 15.50

⁽¹⁾ Annualized for the period from November 16, 2005 (commencement of operations) to December 31, 2005.

⁽²⁾ Management expense ratio is based on the total expenses of the Fund for the stated period including distributions on Preferred shares and issuance costs and is expressed as an annualized percentage of the average net assets of the Fund (includes Class A and Preferred shares) over the period.

⁽³⁾ The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor 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 a 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 a fund. The portfolio turnover rate is not provided when a fund is 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.

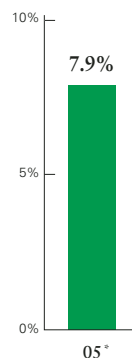
⁽⁴⁾ The trading expense ratio represents total commissions expressed as an annualized percentage of daily average net assets of the Fund (includes Class A and Preferred shares) during the period. This disclosure is a new requirement under NI 81-106 and is not applied retroactively.

Past Performance

The following chart and table shows the past performance of the Fund and will not necessarily indicate how the Fund will perform in the future. The information shown is based on the net asset value per Class A share and assumes that Class A distributions made by the Fund in the period shown were reinvested (at net asset value per Class A share at the time) in additional Class A shares of the Fund.

Return Since Inception

The bar chart shows the Fund's return (based on net asset value per Class A share) since inception to December 31, 2005. The chart shows, in percentage terms, how an investment held in a Class A share at inception would have increased or decreased by the last day of the fiscal year.



* For the period from November 16, 2005 (commencement of operations) to December 31, 2005.

Compound Return

The following table shows the Fund's compound return on a Class A share since inception, compared with the S&P/TSX Capped Financials Index ("Financials Index"). The Financials Index is derived from the S&P/TSX Composite Index based on the financials sector of the Global Industry Classifications Standards (GICs).

	Since Inception ⁽¹⁾
Brompton Split Banc Corp. – Class A shares	7.9%
S&P/TSX Capped Financials Index	5.3%

⁽¹⁾ For the period from November 16, 2005 (commencement of operations) to December 31, 2005.

The Fund has generated a compound return of 7.9% on the Class A shares since inception. The Class A shares have outperformed the Financials Index as a result of the strong performance of the banks and leverage from the Preferred shares.

Summary of Investment Portfolio

As at December 31, 2005

Total net asset value of the Fund ⁽¹⁾	\$ 150,960,597
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Portfolio Composition	% of NAV
Financials	99.6%
Cash and short-term investments	0.9%
Total investment portfolio	100.5%
Other net liabilities	(0.5%)
Total net asset value	100.0%

Holdings	% of NAV
Bank of Montreal	17.7%
Royal Bank of Canada	16.7%
The Toronto-Dominion Bank	16.7%
The Bank of Nova Scotia	16.4%
Canadian Imperial Bank of Commerce	16.2%
National Bank of Canada	15.9%
Cash and short-term investments	0.9%

⁽¹⁾ Net asset value ("NAV") of the Fund includes the value of the Preferred shares.

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.

2005 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. Shareholders should receive a T5 slip from their investment dealer providing this information.

The following table outlines the breakdown of the Fund's distributions on Class A shares in 2005 on a per share basis.

Class A Shares

Record Date	Payment Date	Return of Capital	Total Distribution
Nov. 30, 2005	Dec. 14, 2005	\$ 0.05	\$ 0.05
Total		\$ 0.05	\$ 0.05

Portfolio Manager

Highstreet Asset Management Inc.

Highstreet Asset Management Inc., a top Canadian equity manager, is the portfolio manager for Brompton Equity Split Corp., YEARS Financial Trust and is the option advisor for Brompton Split Banc Corp. Highstreet uses its proprietary GVQ&R™ investment strategy to seek out equity investments that offer more attractive growth, value and quality characteristics as compared to the S&P/TSX Capped Composite Index while maintaining market-like risk. Highstreet uses a quantitative investment methodology and rigorous buy and sell discipline to achieve superior long-term returns for its investors.

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 upon 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 Split Banc Corp. (the "Fund") have been prepared 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 independent directors of the Board.

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)

Raymond R. Pether
Chief Executive Officer
Brompton Split Banc Corp.
 February 6, 2006

(Signed)

Craig T. Kikuchi
Chief Financial Officer
Brompton Split Banc Corp.

Auditors' Report to Shareholders

To the Shareholders of Brompton Split Banc Corp.:

We have audited the statement of investments of Brompton Split Banc Corp. (the "Fund") and the statement of financial position as at December 31, 2005 and the statements of operations and retained earnings, changes in shareholders' equity and cash flows for the period from November 16, 2005 (date of commencement of operations) to December 31, 2005. These financial statements are the responsibility of management of the Fund. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 management, 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, 2005 and the results of its operations, changes in its shareholders' equity and cash flows for the period from November 16, 2005 (date of commencement of operations) to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

(Signed)

PricewaterhouseCoopers LLP
Chartered Accountants
 Toronto, Ontario
 February 6, 2006

Statement of Financial Position

As at December 31	2005
Assets	
Investments, at market value	\$ 150,381,282
Cash and short-term investments	1,422,954
Dividends and interest receivable	777,151
Deferred financing costs (note 8)	4,464
Total assets	152,585,851
Liabilities	
Accounts payable and accrued liabilities	609,550
Distributions payable to shareholders (note 5)	1,016,140
Preferred shares (note 4)	61,350,000
Total liabilities	62,975,690
Shareholders' equity	
Class J shares (note 3)	100
Class A shares (note 3)	83,938,000
Retained earnings	5,672,061
Total shareholders' equity	89,610,161
Liabilities and shareholders' equity	\$ 152,585,851
Units outstanding (note 3)	6,135,000
Net asset value per unit	\$ 24.61
Net asset value per Preferred share	\$ 10.00
Net asset value per Class A share	\$ 14.61

Approved by the Board of Directors of Brompton Split Banc Corp.

(Signed)

Peter A. Braaten
Director

(Signed)

Donald L. Lenz
Director

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

Statement of Operations and Retained Earnings

For the period from November 16 (commencement of operations) to December 31		2005
Income		
Dividends	\$	775,291
Interest		63,587
		<u>838,878</u>
Expenses		
Management fees (note 6)		107,429
Service fees (note 6)		44,867
Audit fees		19,795
Director fees		10,000
Custodial fees		2,649
Shareholder reporting costs		32,620
Other administrative expenses		44,160
Interest and bank charges		536
		<u>262,056</u>
Net investment income before distributions		576,822
Distributions on Preferred shares (note 5)		(402,640)
Net investment income		174,182
Net change in unrealized gain on investments		6,418,129
Increase in net assets from operations		<u>6,592,311</u>
Retained earnings, beginning of period		—
Distributions on Class A shares (note 5)		(920,250)
Retained earnings, end of period	\$	<u>5,672,061</u>
Increase in net assets from operations per Class A share ⁽¹⁾	\$	<u>1.09</u>

⁽¹⁾ Based on the weighted average number of units outstanding for the period (note 3).

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

Statement of Cash Flows

For the period from November 16 (commencement of operations) to December 31	2005
Cash flows from operating activities:	
Increase in net assets from operations	\$ 6,592,311
Adjustments to reconcile net cash provided by (used in) operations:	
Net change in unrealized gain on investments	(6,418,129)
Amortization of deferred financing costs	536
Increase in dividends and interest receivable	(777,151)
Increase in distributions payable	402,640
Increase in accounts payable and accrued liabilities	609,550
Purchase of investments (note 7)	(143,963,153)
Cash used in operating activities	(143,553,396)
Cash flows from financing activities:	
Proceeds from issuance of Class J shares	100
Proceeds from issuance of Class A shares (note 3)	92,025,000
Agents' fees and issuance costs (note 3)	(8,087,000)
Deferred financing costs paid	(5,000)
Proceeds from issuance of Preferred shares	61,350,000
Distributions paid to Class A shareholders (note 5)	(306,750)
Cash provided by financing activities	144,976,350
Net increase in cash and short-term investments	1,422,954
Cash and short-term investments, beginning of period	—
Cash and short-term investments, end of period	\$ 1,422,954

Statement of Changes in Shareholders' Equity

For the period from November 16 (commencement of operations) to December 31	2005
Shareholders' equity, beginning of period	\$ —
Operations:	
Increase in net assets from operations	6,592,311
Shareholder transactions:	
Distributions to shareholders (note 5):	
Return of capital	(920,250)
Proceeds from issuance of Class A shares, net (note 3)	83,938,000
Proceeds from issuance of Class J shares (note 3)	100
Net increase in shareholders' equity	89,610,161
Shareholders' equity, end of period	\$ 89,610,161

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

Statement of Investments

As at December 31, 2005		Cost	Market Value
No. of Shares			
410,800	Bank of Montreal	\$ 23,995,258	\$ 26,702,000
320,450	Canadian Imperial Bank of Commerce	23,992,679	24,485,583
397,200	National Bank of Canada	23,994,082	23,959,104
277,785	Royal Bank of Canada	23,992,100	25,225,656
538,200	The Bank of Nova Scotia	23,996,681	24,832,548
411,850	The Toronto-Dominion Bank	23,992,353	25,176,391
Total		\$ 143,963,153	\$ 150,381,282

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

Notes to the Financial Statements

December 31, 2005

1. OPERATIONS

Brompton Split Banc Corp. (the “Fund”) is a mutual fund corporation established under the laws of the Province of Ontario on September 14, 2005. Brompton SBC Management Limited (the “Manager”) is responsible for managing the affairs of the Fund. Brompton Capital Advisors Inc. manages the Fund’s portfolio and Highstreet Asset Management Inc. is the option advisor. The Fund commenced operations on November 16, 2005.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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 period for which the financial statements report. Actual results could differ from these estimates.

a) Valuation of Investments

The Fund’s investments are presented at estimated market value. Investments that are publicly traded are valued at their closing price. If a closing price is not available, then these investments are valued using an average of the latest bid and ask prices. Short-term investments are valued at cost which, when taken together with accrued interest income thereon, is an approximation of their market value. Listed options are valued at market values as reported on recognized exchanges.

b) 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. 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.

Option premiums paid or received by the Fund are, so long as the options are outstanding, reflected as an asset or liability, respectively, in the Statement of Financial Position and are valued at an amount equal to the current market value of an option that would have the effect of closing the position. Any difference resulting from revaluation is treated as an unrealized gain (loss). Gains or losses realized upon expiration, repurchase or exercise of the options are included in net realized gain (loss) on options.

c) Income Taxes

The Fund is a mutual fund corporation as defined in the Income Tax Act (Canada) (the “Act”) and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances. Also, the Fund is generally subject to tax of 33¹/₃% under Part IV of the Act on taxable dividends received from Canadian corporations in the year. This tax is fully refundable upon payment of sufficient dividends.

The Fund is also a financial intermediary corporation as defined in the Act and, as such, is not subject to tax under Part IV.1 of the Act on dividends received nor is it generally liable to tax under Part VI.1 on dividends paid by the Fund on taxable preferred shares as defined in the Act.

Given the investment and dividend policy of the Fund and taking into account the deduction of expenses and taxable dividends on shares of taxable Canadian corporations, the Fund does not expect to be subject to any appreciable amount of non-refundable Canadian income tax. Accordingly, no income tax provision has been recorded.

d) Foreign Exchange

The market value 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 at the time of such transactions.

e) Fair Value of Financial Instruments

The fair values of the Fund’s financial instruments, which are composed of cash and short-term investments, dividends and interest receivable, and accounts payable and accrued liabilities, approximates their book value.

3. SHARE CAPITAL

Class J Shares

The Fund is authorized to issue an unlimited number of Class J shares.

On September 14, 2005, the Fund issued 100 Class J shares to a trust for cash consideration of \$100. As of December 31, 2005, 100 Class J shares are outstanding.

Class J shares are not entitled to receive dividends but are entitled to one vote per share. The Class J shares are redeemable and retractable at a price of \$1.00 per share. The Class J shares rank subsequent to both the Preferred shares and the Class A shares with respect to distributions on the dissolution, liquidation or winding-up of the Fund.

Class A Shares

Authorized

The Fund is authorized to issue an unlimited number of Class A shares.

Issued

	Number of Units	2005
		Amount
Class A shares, beginning of period	—	\$ —
Initial public offering, net	5,800,000	79,315,000
Exercise of over-allotment option, net	335,000	4,623,000
Class A shares, end of period	6,135,000	\$ 83,938,000

On November 16, 2005, the Fund completed its initial public offering of 5,800,000 Class A shares at a price of \$15.00 per share for proceeds, net of agents' fees and issuance costs, of \$79,315,000.

On November 28, 2005, the Fund completed the issuance of an additional 335,000 Class A shares at a price of \$15.00 per share for proceeds, net of agents' fees, of \$4,623,000. The issuance of these additional shares was pursuant to the exercise of the over-allotment option granted to the agents in connection with the initial public offering.

The weighted average number of Class A shares outstanding for the period ended December 31, 2005 was 6,047,609.

The Fund intends to pay monthly, non-cumulative distributions to the holders of Class A shares. No distributions will be paid on Class A shares if (i) distributions payable on the Preferred shares are in arrears or (ii) after the payment of the distributions by the Fund, the net asset value (NAV) per unit would be less than \$15.00. A unit means a notional unit consisting of one Preferred share and one Class A share. The Class A shares rank subsequent to the Preferred shares but in priority to the Class J shares with respect to the payment of distributions and the repayment of capital on the dissolution, liquidation or winding-up of the Fund. Each Class A share is entitled to one vote on certain shareholder matters.

All Class A shares outstanding on November 30, 2012 will be redeemed by the Fund on that date. The redemption price payable by the Fund for a Class A share on that date will be equal to the greater of (i) the NAV per unit on that date minus the sum of \$10.00 plus any accrued and unpaid distributions on the Preferred Shares; and (ii) nil.

Class A shares may be surrendered at any time for retraction by the Fund but at least ten business days prior to the second last business day of a month ("Retraction Date"). Holders of Class A shares whose Class A shares are surrendered for retraction will be entitled to receive a price per Class A share equal to 96% of the difference between (i) the NAV per unit determined as of the relevant Retraction Date, and (ii) the cost to the Fund of the purchase of a Preferred share for cancellation. The cost of the purchase of a Preferred share includes the purchase price of the Preferred share, commission and such other costs, if any, related to the liquidation of any portion of the Fund's portfolio required to fund such purchase. If the NAV per unit is less than \$10.00, the retraction price of a Class A share will be nil.

A holder of Class A shares may concurrently retract an equal number of Class A and Preferred shares on the December Retraction Date of each year, commencing on the December 2006 Retraction Date, at a price per unit equal to the NAV per unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the portfolio required to fund such retraction. The Class A shares and the Preferred shares must both be surrendered for retraction at least ten business days prior to the December Retraction Date.

Notes to the Financial Statements (continued)

December 31, 2005

4. PREFERRED SHARES

Authorized

The Fund is authorized to issue an unlimited number of Preferred shares.

Issued

	2005	
	Number of Units	Amount
Preferred shares, beginning of period	—	\$ —
Initial public offering	5,800,000	58,000,000
Exercise of over-allotment option	335,000	3,350,000
Preferred shares, end of period	6,135,000	\$ 61,350,000

On November 16, 2005, the Fund completed its initial public offering of 5,800,000 Preferred shares at a price of \$10.00 per share for proceeds of \$58,000,000.

On November 28, 2005, the Fund completed the issuance of an additional 335,000 Preferred shares at a price of \$10.00 per share for proceeds of \$3,350,000. The issuance of these additional shares was pursuant to the exercise of the over-allotment option.

Holders of Preferred shares are entitled to receive fixed, cumulative preferential quarterly cash distributions of \$0.13125 per share. The Preferred shares rank in priority to the Class A shares with respect to the payment of distributions and the repayment of capital on the dissolution, liquidation, or winding up of the Fund. Each Preferred share is entitled to one vote on certain shareholder matters.

All Preferred shares outstanding on November 30, 2012 will be redeemed by the Fund on that date. The redemption price payable by the Fund for a Preferred share will be equal to the lesser of (i) \$10.00 plus any accrued and unpaid distributions thereon and (ii) the NAV of the Fund on that date divided by the number of Preferred shares then outstanding.

Preferred shares may be surrendered at any time for retraction by the Fund but at least ten business days prior to the second last business day of a month ("Retraction Date"). Shareholders whose Preferred shares are retracted will be entitled to receive a price per share equal to 96% of the lesser of (i) the NAV per unit determined as of the relevant Retraction Date less the cost to the Fund of the purchase of a Class A share for cancellation, and (ii) \$10.00. The cost of the purchase of a Class A share will include the purchase price of the Class A share, commission and other costs, if any, related to the liquidation of any portion of the portfolio required to fund such purchase.

A holder of Preferred shares may also concurrently retract an equal number of Preferred shares and Class A shares on the December Retraction Date of each year, commencing on the December 2006 Retraction Date, at a price per unit equal to the NAV per unit on that date, less any costs associated with the retraction, including commissions and other such costs, if any, related to the liquidation of any portion of the portfolio required to fund such retraction. The Preferred shares and Class A shares must both be surrendered for retraction at least ten business days prior to the December Retraction Date.

The Preferred shares have been presented as financial liabilities in the financial statements in accordance with Section 3860 of the CICA Handbook.

5. DISTRIBUTIONS TO SHAREHOLDERS

Distributions are made on a quarterly basis on the Preferred shares and on a monthly basis on the Class A shares. Distributions are payable no later than the tenth business day of the following month.

For the period ended December 31, 2005, the Fund declared distributions of \$0.15 per Class A share and \$0.06563 per Preferred share, which amounted to \$920,250 and \$402,640, respectively.

6. MANAGEMENT AND SERVICE FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.55% per annum of the net asset value of the Fund, plus applicable taxes. The Manager is responsible for paying fees to Brompton Capital Advisors Inc., the advisor for the Fund and to Highstreet Asset Management Inc., the option advisor for the Fund. These fees are calculated and payable monthly. The Fund also pays to the Manager a service fee equal to 0.40% per annum of the net asset value of the Class A shares. The service fee is in turn paid by the Manager to investment dealers in proportion to the number of shares held by clients of each dealer at the end of each calendar quarter.

7. INVESTMENT TRANSACTIONS

Investment transactions for the period from November 16 (commencement of operations) to December 31 were as follows:

	2005
Proceeds from sale of investments	\$ —
Less cost of investments sold:	
Investments at cost, beginning of period	—
Investments purchased during the period	143,963,153
Investments at cost, end of period	(143,963,153)
Cost of investments sold during the period	—
Net realized gain on investments and options	\$ —

Brokerage commissions on investments purchased and sold during the period ended December 31, 2005 amounted to \$66,689. For the period ended December 31, 2005, there were no soft dollar amounts paid.

8. LOANS PAYABLE

Pursuant to an agreement with a Canadian chartered bank, the Fund has a 364-day revolving credit facility. The revolving credit facility provides for maximum borrowings of \$7.5 million at either the prime rate of interest or the bankers' acceptance rate plus a fixed percentage. The credit facility is secured by a first-priority security interest over all of the Fund's assets. There were no borrowings under this facility at December 31, 2005 and no amounts were borrowed during the period from November 16 (commencement of operations) to December 31, 2005. Costs incurred to establish the credit facility and renewal fees are deferred and amortized over the term of the facility. For the period ended December 31, 2005, the Fund has recorded amortization of these costs in the amount of \$536.

9. INCOME TAXES

	2005
Future income tax assets:	
Losses carried forward	\$ 293,851
Share issue expenses	3,278,843
Future income tax assets	3,572,694
Less: valuation allowance	(3,572,694)
Net future income taxes	\$ —

As at December 31, 2005, the Fund has non-capital loss carry-forwards for income tax purposes of \$681,473 (expiry – 2015).

The Fund is subject to federal large corporations tax and Ontario capital tax. No such taxes are payable by the Fund in 2005.

10. SUBSEQUENT EVENT – RIGHTS OFFERING

The Fund is in the process of filing a prospectus to issue to holders of its outstanding Class A shares, transferable rights ("Rights") to subscribe for and purchase Class A shares and Preferred shares. Each Class A shareholder on a specified date will be entitled to receive one Right for each Class A share held. One Right will entitle the holder to purchase one Class A share at a specified price and one Preferred share at a price of \$10 and will be exercisable at any time until a specified date.

Corporate Information

Directors

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James W. Davie, BComm, MBA
Donald L. Lenz, BSc
Arthur R.A. Scace, QC, CM
Ken S. Woolner, BSc, PEng

Officers

Peter A. Braaten
Chairman
Raymond R. Pether
Chief Executive Officer
Mark A. Caranci
President
Craig T. Kikuchi
Chief Financial Officer
David E. Roode
Senior Vice President
Moyra E. MacKay
Vice President and Corporate Secretary
Lorne J. Zeiler
Vice President
Jessica Leung
Controller
Ann P. Wong
Controller
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Auditors

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