

## 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
<b>Assets</b>	
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
<b>Total assets</b>	<b>152,585,851</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	609,550
Distributions payable to shareholders (note 5)	1,016,140
Preferred shares (note 4)	61,350,000
<b>Total liabilities</b>	<b>62,975,690</b>
<b>Shareholders' equity</b>	
Class J shares (note 3)	100
Class A shares (note 3)	83,938,000
Retained earnings	5,672,061
<b>Total shareholders' equity</b>	<b>89,610,161</b>
<b>Liabilities and shareholders' equity</b>	<b>\$ 152,585,851</b>
<b>Units outstanding (note 3)</b>	<b>6,135,000</b>
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
<b>Income</b>		
Dividends	\$	775,291
Interest		63,587
		<u>838,878</u>
<b>Expenses</b>		
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 <sup>(1)</sup>	\$	<u>1.09</u>

<sup>(1)</sup> 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
<b>Cash flows from operating activities:</b>	
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)
<b>Cash used in operating activities</b>	<b>(143,553,396)</b>
<b>Cash flows from financing activities:</b>	
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)
<b>Cash provided by financing activities</b>	<b>144,976,350</b>
Net increase in cash and short-term investments	1,422,954
Cash and short-term investments, beginning of period	—
<b>Cash and short-term investments, end of period</b>	<b>\$ 1,422,954</b>

## Statement of Changes in Shareholders' Equity

For the period from November 16 (commencement of operations) to December 31	2005
Shareholders' equity, beginning of period	\$ —
<b>Operations:</b>	
Increase in net assets from operations	6,592,311
<b>Shareholder transactions:</b>	
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
<b>Shareholders' equity, end of period</b>	<b>\$ 89,610,161</b>

*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
<b>Total</b>		<b>\$ 143,963,153</b>	<b>\$ 150,381,282</b>

*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 33<sup>1</sup>/<sub>3</sub>% 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.