

Management's Responsibility Statement

The financial statements of Brompton VIP Income Trust (the "Fund") have been prepared by Brompton VIP Management Limited (the "Manager" of the Fund) and approved by the Board of Directors of the Manager. The Manager is responsible for the information and representations contained in these financial statements and the other sections of the Annual Report.

The Manager maintains appropriate procedures to ensure that relevant and reliable financial information is produced. Statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

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

The Manager, with the approval of its Board of Directors, has appointed the external firm of PricewaterhouseCoopers LLP as the auditor 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 VIP Management Limited
February 1, 2005

(Signed)

Mark A. Caranci
Chief Financial Officer
Brompton VIP Management Limited

Auditors' Report

To the Unitholders of Brompton VIP Income Trust:

We have audited the statement of investments of Brompton VIP Income Trust (the "Fund") as at December 31, 2004 and the statements of net assets as at December 31, 2004 and 2003 and the statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of management 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 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, 2004 and 2003 and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed)

PricewaterhouseCoopers LLP
Chartered Accountants
Toronto, Ontario
February 1, 2005

Statements of Net Assets

As at December 31	2004	2003
Assets		
Investments, at market value (cost 2004 – \$104,509,384; 2003 – \$109,858,621)	\$ 142,219,285	\$ 129,013,553
Cash and short-term investments	2,194,453	556,299
Distributions and interest receivable	1,271,770	1,364,413
Other receivables	—	66,414
Deferred financing costs (note 8)	57,622	73,601
Total assets	145,743,130	131,074,280
Liabilities		
Accounts payable and accrued liabilities	325,415	329,361
Distributions payable to unitholders (note 4)	1,497,824	756,345
Redemptions payable to unitholders	10,881,785	5,435,518
Loans payable (note 8)	21,125,053	21,451,464
Total liabilities	33,830,077	27,972,688
Net assets representing unitholders' equity	\$ 111,913,053	\$ 103,101,592
Units outstanding (note 3)	8,170,097	9,076,502
Net asset value per unit	\$ 13.70	\$ 11.36

Approved on behalf of Brompton VIP Income Trust, by the Board of Directors of Brompton VIP Management Limited, its Manager.

(Signed)

Peter A. Braaten
Director

(Signed)

James W. Davie
Director

Statements of Operations

For the year ended December 31	2004	2003
Income		
Distributions from income funds	\$ 9,328,604	\$ 9,957,375
Interest income	1,949,997	2,212,140
	11,278,601	12,169,515
Expenses		
Management fee (note 5)	993,878	902,448
Service fee (note 5)	442,866	401,917
General and administrative	186,116	231,031
Interest and bank charges (note 8)	848,644	898,526
	2,471,504	2,433,922
Net investment income	8,807,097	9,735,593
Net realized gain (loss) on investments and futures contracts (notes 6 & 7)	2,107,138	(57,143)
Net realized gain on loans payable (note 8)	97,606	124,440
Net change in unrealized gain on investments and futures contracts (note 7)	18,554,969	18,703,052
Net change in unrealized gain on loans payable (note 8)	1,193,816	1,100,423
Results of operations	\$ 30,760,626	\$ 29,606,365
Results of operations per unit ⁽¹⁾	\$ 3.42	\$ 3.06

⁽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.

Statements of Cash Flows

For the year ended December 31	2004	2003
Cash flows from operating activities:		
Results of operations	\$ 30,760,626	\$ 29,606,365
Adjustments to reconcile net cash provided by (used in) operations:		
Net realized (gain) loss on investments and futures contracts	(2,107,138)	57,143
Net realized (gain) on loans payable	(97,606)	(124,440)
Net change in unrealized (gain) on investments and futures contracts	(18,554,969)	(18,391,160)
Net change in unrealized (gain) on loans payable	(1,193,816)	(1,100,423)
Amortization of deferred financing costs	24,839	47,161
Decrease in distributions and interest receivable	92,643	20,045
Decrease in variation margin receivable on futures contracts	—	133,720
(Decrease) increase in accounts payable and accrued liabilities	(3,946)	45,201
Purchase of investments (note 6)	(18,714,916)	(33,305,551)
Proceeds from sale of investments (note 6)	26,171,291	36,198,223
Cash provided by operating activities	16,377,008	13,186,284
Cash flows from financing activities:		
Increase (decrease) in loans payable	965,011	(326,849)
Deferred financing costs paid	(8,860)	(104,149)
Distributions paid to unitholders (note 4)	(8,990,693)	(9,631,158)
Proceeds from distribution reinvestment plan (note 4)	66,414	287,391
Repurchase of units (note 3)	(1,335,208)	(2,394,216)
Amounts paid for redemption of units (note 3)	(5,435,518)	(1,426,237)
Cash used in financing activities	(14,738,854)	(13,595,218)
Net increase (decrease) in cash and short-term investments	1,638,154	(408,934)
Cash and short-term investments, beginning of period	556,299	965,233
Cash and short-term investments, end of period	\$ 2,194,453	\$ 556,299
Supplemental information:		
Interest paid	\$ 819,706	\$ 843,208

Statements of Changes in Net Assets

For the year ended December 31	2004	2003
Net assets – beginning of year	\$ 103,101,592	\$ 90,690,064
Operations:		
Results of operations	30,760,626	29,606,365
Unitholder transactions:		
Distributions to unitholders (note 4)	(9,732,172)	(9,594,265)
Proceeds from distribution reinvestment plan (note 4)	—	229,162
Repurchase of units (note 3)	(1,335,208)	(2,394,216)
Redemption of units (note 3)	(10,881,785)	(5,435,518)
	(21,949,165)	(17,194,837)
Net increase in net assets	8,811,461	12,411,528
Net assets – end of year	\$ 111,913,053	\$ 103,101,592
Distributions per unit	\$ 1.1000	\$ 0.9958

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

Statement of Investments

As at December 31, 2004		Cost (USD)	Cost (CDN)	Market Value (USD)	Market Value (CDN)	% of Portfolio
No. of Units	Business Funds					
333,126	Davis + Henderson Income Fund	\$	3,513,032		\$ 7,561,960	
326,000	Energy Savings Income Fund		2,010,875		6,275,500	
218,200	BFI Canada Income Fund		2,179,737		5,343,718	
275,000	Connors Bros. Income Fund		3,258,115		5,128,750	
235,000	Gateway Casinos Income Fund		2,609,500		5,064,250	
219,455	Livingston International Income Fund		2,369,736		4,926,765	
206,360	Chemtrade Logistics Income Fund		2,872,025		4,189,108	
276,887	Westshore Terminals Income Fund		1,722,935		3,466,625	
110,000	Superior Plus Income Fund		2,142,200		3,302,200	
211,300	TimberWest Forest Corp.		2,820,477		3,186,404	
90,500	North West Company Fund		1,715,445		2,619,975	
196,000	The Keg Royalties Income Fund		1,955,700		2,518,600	
25,000	Fording Canadian Coal Trust		1,150,247		2,316,750	
130,000	Boston Pizza Royalties Income Fund		1,332,840		1,885,000	
119,000	Cineplex Galaxy Income Fund		1,190,070		1,749,300	
119,700	The Data Group Income Fund		1,197,000		1,281,987	
134,000	Osprey Media Income Fund		1,340,000		1,266,300	
151,750	Sun Gro Horticulture Income Fund		1,528,302		1,236,763	
225,000	Specialty Foods Group Income Fund		2,261,600		1,012,500	
40,000	Sleep Country Income Fund		481,600		955,600	
66,712	Armtec Infrastructure Income Fund		695,420		917,290	
72,000	Student Transportation of America Ltd.		739,104		759,600	
78,000	Sir Royalty Income Fund		780,000		756,600	
50,000	Yellow Pages Income Fund		564,000		674,500	
46,000	Hardwoods Distribution Income Fund		460,000		545,100	
39,000	CML Healthcare Income Fund		426,270		520,650	
43,000	Medical Facilities Corporation		430,000		520,300	
23,000	IBI Income Fund		237,438		258,750	
			43,983,668		70,240,845	49.4%
No. of Units	Oil & Gas Funds					
306,385	ARC Energy Trust		3,858,386		5,484,291	
175,100	Shiningbank Energy Income Fund		2,678,701		3,762,899	
150,400	Advantage Energy Income Fund		1,580,130		3,310,304	
32,417	Canadian Oil Sands Trust		1,393,641		2,191,713	
101,780	Focus Energy Trust		1,226,449		2,032,547	
215,000	Viking Energy Royalty Trust		1,551,332		1,451,250	
53,000	Bonavista Energy Trust		1,068,320		1,436,300	
29,180	Enerplus Resources Fund		766,192		1,272,248	
			14,123,151		20,941,552	14.7%
No. of Units	Real Estate Investment Trusts					
313,400	RioCan REIT		3,887,260		5,562,850	
182,500	Northern Property REIT		2,017,703		2,967,450	
147,400	Summit REIT		2,232,334		2,656,148	
178,000	O&Y REIT		1,945,541		2,509,800	
175,000	Borealis Retail REIT		1,779,250		2,341,500	
122,225	H&R REIT		1,710,862		2,321,053	
125,000	InnVest REIT		1,243,800		1,487,500	
60,000	Cominar REIT		828,000		1,035,600	
50,000	Chartwell Seniors Housing REIT		570,255		705,000	
57,700	Canadian Hotel Income Properties REIT		527,701		614,505	
			16,742,706		22,201,406	15.6%
No. of Units	Power and Pipeline Funds					
290,000	Pembina Pipeline Income Fund		3,321,644		3,958,500	
120,000	Northland Power Income Fund		1,352,900		1,696,800	
156,000	Algonquin Power Income Fund		1,507,700		1,656,720	
			6,182,244		7,312,020	5.2%

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

As at December 31, 2004		Cost (USD)	Cost (CDN)	Market Value (USD)	Market Value (CDN)	% of Portfolio
Par Value (\$)	Fixed Income Investments					
US 650,000	Compagnie Generale de Geophysique 10.625%, due November 15, 2007	\$ 682,500	\$ 1,085,585	\$ 686,563	\$ 822,605	
US 650,000	Rogers Wireless Communications Inc. 9.625%, due May 1, 2011	657,313	1,058,930	766,375	917,034	
US 600,000	Western Financial Bank 9.625%, due May 15, 2012	597,108	937,937	687,000	823,129	
US 535,000	Brand Services Inc. 12%, due October 15, 2012	616,646	821,760	601,875	721,137	
US 600,000	Charter Communications Holdings, LLC 10.25%, due September 15, 2010	618,180	777,301	639,000	765,618	
US 500,000	CP Ships Limited 10.375%, due July 15, 2012	571,235	768,932	579,375	694,178	
US 600,000	Calpine Corp. 7.625%, due April 15, 2006	589,230	726,107	592,500	709,904	
US 500,000	MGM Mirage Inc. 6.75%, due February 1, 2008	538,205	709,893	528,125	632,773	
US 500,000	Allied Waste North America 9.25%, due September 1, 2021	537,110	674,234	543,750	651,494	
US 400,000	Park Place Entertainment Corporation 8.125%, due May 15, 2011	404,000	644,097	464,000	555,942	
US 400,000	United Surgical Partners Holdings, Inc. 10%, due December 15, 2011	401,375	640,464	458,000	548,753	
CDN 800,000	Calpine Canada Energy Finance ULC 8.75%, due October 15, 2007	—	635,000	—	664,000	
US 400,000	Lyondell Chemical Company 11.125%, due July 15, 2012	412,872	633,837	477,000	571,518	
CDN 550,000	Avenor Inc. 10.85%, due November 30, 2014	—	618,647	—	665,365	
US 460,000	Rite Aid Corporation 8.125%, due May 1, 2010	493,304	603,360	488,750	585,596	
US 335,000	Lear Corporation 8.11%, due May 15, 2009	346,725	552,784	380,295	455,649	
CDN 355,000	BC Telecom Inc. 11.9%, due November 22, 2015	—	542,617	—	551,478	
US 375,000	CITGO Petroleum Corporation 7.875%, due May 15, 2006	379,091	535,351	393,750	471,772	
US 400,000	Nextel Communications Inc. 5.95%, due March 15, 2014	408,784	499,206	416,000	498,430	
US 300,000	Tembec Industries Inc. 8.5%, due February 1, 2011	307,500	472,043	303,000	363,039	
US 300,000	Western Oil Sands Inc. 8.375%, due May 1, 2012	300,750	470,102	352,125	421,899	
US 300,000	Ingram Micro Inc. 9.875%, due August 15, 2008	321,915	469,767	327,750	392,694	
US 300,000	Amkor Technology Inc. 9.25%, due February 15, 2008	320,001	460,987	308,250	369,330	
US 300,000	Iron Mountain Inc. 7.75%, due January 15, 2015	312,000	454,678	306,000	366,634	
US 300,000	Thornburg Mortgage 8%, due May 15, 2013	320,310	387,089	320,250	383,707	
US 300,000	Buckeye Technologies Inc. 8%, due October 15, 2010	286,032	381,880	301,500	361,242	
US 250,000	D.R. Horton, Inc. 8.5%, due April 15, 2012	241,250	378,835	280,000	335,482	
US 250,000	Owens Brockway Glass Container Inc. 8.75%, due November 15, 2012	262,558	377,707	283,125	339,226	
US 250,000	Foot Locker Inc. 8.5%, due January 15, 2022	260,000	360,360	276,250	330,989	
US 250,000	Unisys Corporation 6.875%, due March 15, 2010	258,200	349,758	268,750	322,003	
US 250,000	Georgia Pacific Corp. 8.125%, due May 15, 2011	225,238	349,167	288,750	345,966	
US 250,000	Healthsouth Corporation 8.375%, due October 1, 2011	240,303	316,551	260,625	312,268	
US 200,000	Teekay Shipping Corporation 8.875%, due July 15, 2011	221,242	300,799	233,000	279,169	
US 174,000	Columbia/HCA Healthcare Corporation 9%, due December 15, 2014	204,366	275,568	205,830	246,615	
US 167,000	IPC Acquisition Corp. 11.5%, due December 15, 2009	167,678	266,117	183,700	220,100	
CDN 250,000	Shaw Communications Inc. 7.5%, due November 20, 2013	—	250,000	—	272,958	
CDN 250,000	Dundee Bancorp Inc. 6.7%, due September 24, 2007	—	249,375	—	257,651	
US 150,000	Iron Mountain Inc. 8.625%, due April 1, 2013	162,191	244,910	160,125	191,854	
US 170,000	Dollar Financial Group 9.75%, due November 15, 2011	182,283	238,052	185,300	222,017	
US 175,000	Healthsouth Corporation 7%, due June 15, 2008	177,217	228,894	182,438	218,587	
US 185,000	Mueller Industries 6%, due November 1, 2014	184,959	226,186	182,255	218,333	
US 170,000	United Rentals Inc. 7%, due February 15, 2014	170,000	223,652	159,800	191,464	
US 150,000	Legrand SA 8.5%, due February 15, 2025	152,432	206,849	177,750	212,971	
US 150,000	Refco Group, Ltd. 9%, due August 01, 2012	162,681	201,073	165,000	197,695	
CDN 200,000	Hudson's Bay Company 7.5%, due June 15, 2007	—	200,000	—	207,000	
CDN 200,000	Intrawest Corporation 6.875%, due October 15, 2009	—	200,000	—	203,514	
US 125,000	Las Vegas Sands, Inc. 11%, due June 15, 2010	141,526	193,905	143,281	171,672	
US 106,000	Columbia/HCA Healthcare Corporation 8.36%, due April 15, 2024	128,018	169,204	116,054	139,050	
US 125,000	Cogentrix Energy Inc. 8.75%, due October 15, 2008	126,570	165,090	143,510	171,946	
US 125,000	Triton PCS Holdings Inc. 8.75%, due November 15, 2011	100,031	158,670	99,375	119,066	
US 100,000	AES Corporation 8.75%, due June 15, 2008	108,005	137,836	110,000	131,796	
US 100,000	Century Aluminum Co. 7.5%, due August 15, 2014	100,000	133,450	107,000	128,202	
US 100,000	Mueller Group 10%, due May 1, 2012	108,500	133,368	109,500	131,197	
US 100,000	Royal Caribbean Cruises 6.875%, due December 1, 2013	101,193	133,119	108,500	129,999	
US 67,000	Resolution Performance Products LLC 8%, due December 15, 2009	69,371	87,866	72,360	86,698	
US 33,000	Resolution Performance Products LLC 9.5%, due April 15, 2010	33,184	43,305	35,888	42,999	
US 25,000	AT & T Corp 7.33%, due November 15, 2011	28,607	34,817	28,906	34,634	
US 169,000	Finova Group Inc. 7.5%, due November 15, 2009	19,915	34,652	83,655	100,231	
US 19,000	Pep Boys - Manny, Moe & Jack 7.5%, due December 15, 2014	19,000	23,332	19,356	23,192	
US 17,000	NDCHealth Corp. 10.5%, due December 01, 2012	18,389	22,560	18,360	21,998	
		14,797,093	23,477,615	15,609,676	21,523,462	15.1%
	Total	\$ 14,797,093	\$ 104,509,384	\$ 15,609,676	\$ 142,219,285	100.0%

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

Notes to the Financial Statements

December 31, 2004 and 2003

1. OPERATIONS

Brompton VIP Income Trust (the “Fund”) is a closed-end investment trust created under the laws of the Province of Ontario on October 25, 2001 pursuant to an amended and restated declaration of trust. Computershare Trust Company of Canada is the Trustee and Brompton VIP Management Limited (the “Manager”) is responsible for managing the affairs of the Fund. MFC Global Investment Management, a subsidiary of Manulife Financial Corp., manages the Fund’s portfolio. The Fund commenced operations on February 19, 2002.

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. Actual results could differ from these estimates.

a) Valuation of Investments

The Fund’s investments are presented at market value. Investments that are publicly traded are valued at their closing price. If a closing price is not available, 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.

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. Distributions from income funds are recognized on the ex-distribution date. Net realized gains (losses) on sale of investments and futures contracts include net realized gains or losses from foreign currency changes.

c) Futures Contracts

Futures contracts are valued on each business day according to the gain or loss that would be realized if the contracts were closed out. This value is recorded as an unrealized gain or loss. When the contracts are closed out, gains and losses are included in realized gains and losses. Any payments made to satisfy initial and variation margin are reflected as a receivable balance.

d) 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.

e) 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.

f) Fair Value of Financial Instruments

The fair value of the Fund’s financial instruments, which are composed of cash and short-term investments, distributions and interest receivable, variation margin receivable on futures contracts, other receivables, accounts payable and accrued liabilities, distributions payable to unitholders, redemptions payable to unitholders and loans payable, approximate their carrying values.

3. 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 assets 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. Units may be surrendered for redemption at any time during December of any year, but at least five business days prior to December 31. Redemption of surrendered units will be effected at net asset value on December 31 of each year and will be settled on or before the twentieth business day following such effective date.

Issued

	2004		2003	
	Number of Units	Amount	Number of Units	Amount
Units – beginning of year	9,076,502	\$ 83,900,972	9,762,925	\$ 91,501,544
Units redeemed	(786,205)	(10,881,785)	(475,033)	(5,435,518)
Units issued through the distribution reinvestment plan (note 4)	—	—	24,010	229,162
Units repurchased pursuant to a normal course issuer bid	(120,200)	(1,335,208)	(235,400)	(2,394,216)
Units – end of year	8,170,097	\$ 71,683,979	9,076,502	\$ 83,900,972

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid for the periods from November 6, 2003 through to November 5, 2004 and from November 8, 2004 to November 7, 2005. Pursuant to these issuer bid periods, the Fund is permitted to purchase up to 918,400 and 883,000 units, respectively, for cancellation. The Fund may only repurchase units when the net asset value per unit exceeds its trading price. During the year ended December 31, 2004, 120,200 (2003 – 235,400) units were purchased for cancellation.

The weighted average number of units outstanding for the year ended December 31, 2004 was 8,984,012 (2003 – 9,683,604).

4. 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, 2004, the Fund declared total distributions of \$1.10 per unit (2003 – \$0.9958). Under 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, 2004, nil (2003 – 24,010) units were issued from treasury by the Fund pursuant to the reinvestment plan.

5. 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 0.85% per annum of the net asset value of the Fund plus applicable taxes. The Manager is responsible for paying fees to MFC Global Investment Management, the portfolio manager for the Fund. The Fund also pays to the Manager a service fee equal to 0.40% per annum of the net asset value of the Fund. 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.

6. INVESTMENT AND FUTURES TRANSACTIONS

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

	2004	2003
Proceeds from sale of investments and futures	\$ 26,171,291	\$ 36,198,223
Less cost of investments sold:		
Investments at cost – beginning of year	109,858,621	112,808,436
Investments purchased during the year	18,714,916	33,305,551
Investments at cost – end of year	(104,509,384)	(109,858,621)
Cost of investments sold during the year	24,064,153	36,255,366
Net realized gain (loss) on sale of investments	\$ 2,107,138	\$ (57,143)

Foreign exchange losses arising from the disposition of investments of \$1,373,542 (2003 – \$1,097,501) are included in the net realized gain of \$2,107,138 (2003 – (\$57,143)) above.

Brokerage commissions on investments purchased and sold during the year ended December 31, 2004 amounted to \$39,727 (2003 – \$100,509).

7. FUTURES CONTRACTS

During the year ended December 31, 2003, the Fund used currency futures contracts to hedge foreign exchange risk associated with its US dollar fixed income investments and realized gains in the amount of \$2,800,954 on futures contracts that were closed out. During the year ended December 31, 2004, the Fund hedged its US dollar exposure by borrowing in US dollars.

8. LOANS PAYABLE

Pursuant to an agreement with a Canadian chartered bank, the Fund maintains a 364-day revolving credit facility and a term credit facility. The revolving credit facility provides for maximum borrowings of \$7.0 million with borrowings in Canadian currency at either the prime rate of interest or the bankers' acceptance rate plus a fixed percentage or in US currency at the LIBOR rate plus a fixed percentage. At December 31, 2004, the Fund had borrowings on a bankers' acceptance basis in the amount of \$2.2 million and US borrowings in the amount of \$3.4 million (US\$2.8 million) outstanding under this facility. On May 29, 2003, the Fund borrowed US\$13.0 million under the term credit facility at a fixed rate of interest of 3.89% for a five year period ending May 28, 2008, which represents \$15.6 million at December 31, 2004. During the year ended December 31, 2004, the Fund realized a foreign exchange gain in the amount of \$97,606 (2003 – \$124,440) on the repayment of borrowings in US dollars under the revolving credit facility. At December 31, 2004, borrowings in US dollars had an unrealized foreign exchange gain of \$2,294,239 (2003 – \$1,100,423). The credit facilities are secured by a first-ranking and exclusive charge on all of the Fund's assets.

Costs incurred to establish the credit facilities and renewal fees are deferred and amortized over the term of the facilities. For the year ended December 31, 2004, the Fund has recorded amortization of these costs in the amounts of \$24,839 (2003 – \$47,161).

The credit facilities are used by the Fund for the purchase of additional investments and for general Fund purposes.