



First Quarter Ended March 31, 2005

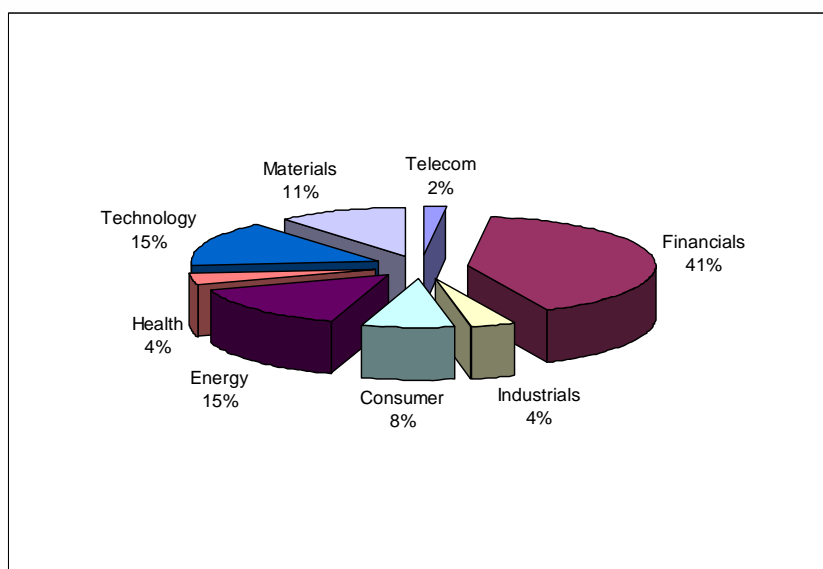
Canadian Equity Market Outshines U.S. and Global Markets

Although most major markets around the world fell in the first quarter of 2005, the Canadian market held up well with a return of 4.36%. One of the biggest drivers of market performance was high oil and gas prices. While high energy costs spell trouble for a number of market sectors, crude prices fuelled strong earnings growth at most energy companies and their stocks performed accordingly. Numerous energy stocks posted double-digit gains for the period outperforming other sectors by a wide margin. Energy stocks were not however, the sole contributors to first quarter performance. We witnessed solid contributions from the telecom, consumer staples, and industrial sectors.

South of the border, rising interest rates combined with high crude prices ushered in a bearish sentiment; the Dow Jones sank -2.6%, the Nasdaq market declined -8.1% and a number of the global indexes were well into negative territory. The downturn in the U.S. and other major global indexes invariably means that investors are paying attention to risk. Rising interest rates combined with high energy prices may dampen global economic growth and reduce earnings. We have a lot more to fear from rising interest rates than high crude prices.

After a rather robust 2004, many Canadian stocks were stretched in terms of valuations, and the Brownstone team worked at identifying equities that offered reasonable risk / reward ratios. It was difficult to find "compelling" buys, however we looked to the small and mid-cap sector for investment opportunities. Notable additions over the quarter included Rentcash Inc, a rapidly expanding pay-day loan business, Dundee Wealth Management, a high growth asset manager and Certicom, a high-tech company that offers patented security solutions to developers of wireless devices and consumer electronics.

Brownstone Portfolio Sector Allocation



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During the quarter we continued to add select income trust positions, including a position in Keystone North America, a large funeral home operator in the U.S. The company is ideally suited to the trust business as revenue and cash flow in the funeral industry are extremely consistent. Keystone currently yields in excess of 9% to investors.

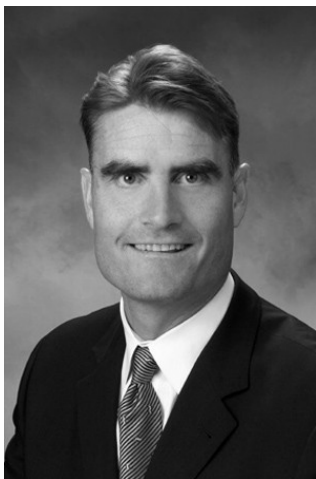
Over 2004 we witnessed an improved global economy and demand for commodities that put the Canadian stock market in the drivers seat. We expect market pull-backs, and our job at Brownstone is focused on specific stock selection where growth may come despite broader macro-economic weakness.

Our model Canadian Equity portfolio, which returned 25.94% over 2004, continued to add portfolio value with a return of 3.38% over the first three months of this year. Our model Small Cap Canadian Equity portfolio, which returned 22.18% over 2004, returned 1.77% over the first quarter.

Bond Market – Strong Dollar Shields Rate Increases

Although the U.S. Federal Reserve increased interest rates for the seventh consecutive time, the Bank of Canada paused on monetary tightening on the back of a strong Canadian dollar, and economic reports that were rather unconvincing. Our monetary authorities are uncomfortable with rates at current levels, yet are reluctant to increase until the real state of the Canadian economy is digested. We expect some rate tightening in the second half of 2005. Inflation remains in an acceptable zone of just over 2%.

At Brownstone we continue to believe that fixed income securities are an important capital preservation asset and are ideal to offset risk inherent in the equity markets.



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