



**ANNUAL INFORMATION FORM**

**March 28, 2007**

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this annual information form constitute forward-looking statements. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “should”, “believe” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Manager believes the expectations reflected in forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this annual information form should not be unduly relied upon. These statements speak only as of the date of this annual information form.

In particular, this annual information form may contain forward-looking statements pertaining to distributable cash and Distributions. The actual results could differ materially from those anticipated in these forward-looking statements as a result of, among other things, the risk factors set out in this annual information form. The Manager does not undertake any obligation to publicly update or revise any forward-looking statements.

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## GLOSSARY OF TERMS

In this Annual Information Form, the following terms shall have the meanings set forth below, unless otherwise indicated.

**“Additional Distributable Amount”** means, with respect to any taxation year of the Fund, the amount, if any, by which the aggregate of the Net Income and Net Capital Gains, less any Net Capital Gains the tax on which would be refundable to the Fund under Part I of the Income Tax Act, for such taxation year exceeds the aggregate distributable cash paid or payable by the Fund for such taxation year.

**“Advisor”** means MFC Global Investment Management a division of Elliott and Page Limited, or such other advisor as may be appointed from time to time by the Manager on behalf of the Fund to provide investment advisory services to the Fund in respect of the Fund Property, including the portfolio.

**“Advisory Agreement”** means the advisory agreement dated as of January 29, 2002 among the Fund, the Manager and the Advisor, as it may be amended from time to time.

**“Brompton”** means the Brompton Group of Companies.

**“Brompton Funds”** means Brompton Funds LP, which is in the business of managing investment funds, and its general partner, BFGP Limited.

**“Business Day”** means any day except Saturday, Sunday, a statutory holiday in Toronto, Ontario or any other day on which the TSX is not open for trading.

**“Business Fund”** means an Income Fund where the principal business of the underlying company or other entity is in manufacturing, distribution, services, retail, terminals or storage or some other miscellaneous industry.

**“CDS”** means CDS Clearing & Depository Services Inc. and includes any successor corporation or any other depository subsequently appointed by the Fund as the depository in respect of the book-entry-only units.

**“CDS Participant”** means a broker, dealer, bank or other financial institution or other person for whom, from time to time, CDS effects book entries for the book-entry-only units deposited with CDS.

**“CRA”** means the Canada Revenue Agency.

**“Custodian”** means RBC Dexia Investor Services Trust in its capacity as custodian under the Custodian Agreement, as appointed from time to time by the Manager.

**“Custodian Agreement”** means the custodian agreement entered into by the Manager, on behalf of the Fund, and The Royal Trust Company dated as of February 28, 2002, and assigned by The Royal Trust Company to the Custodian as of December 23, 2005, as it may be amended from time to time.

**“Declaration of Trust”** means the declaration of trust governing the Fund as it may be amended and amended and restated from time to time, described in sections 1.1 and 1.2 of this Annual Information Form.

**“Distribution(s)”** means the cash and *in specie* distributions which are paid by the Fund to Unitholders.

**“Energy Infrastructure Fund”** means an Income Fund where the principal business of the underlying company is energy distribution, pipelines or power generation.

**“Extraordinary Resolution”** means a resolution passed by the affirmative vote of at least 66 <sup>2</sup>/<sub>3</sub>% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution.

**“Fund”** means Brompton VIP Income Fund.

**“Fund Investment”** means an investment acquired and managed by the Advisor on behalf of the Fund and **“Fund Investments”** means more than one Fund Investment taken collectively.

**“Fund Property”** means the property and assets of the Fund.

**“High Income Securities”** means units of Income Funds, High Yield Debt and Special Situations.

**“High Yield Debt”** means high yielding debt that, at the time of investment, is either rated below BBB- by Standard & Poor's Corporation or a similar rating with another rating agency or is unrated.

**“Income Funds”** means trusts or limited partnerships structured to own debt and equity of an underlying company which carries on an active business, real estate assets, or a royalty on revenues generated by the assets of an underlying company which carries on an active business, including Business Funds, Oil and Gas Funds, Energy Infrastructure Funds and REITs.

**“Income Tax Act”** means the *Income Tax Act* (Canada), as now or hereafter amended, or successor statutes, and shall include regulations promulgated thereunder.

**“Investment Objectives”** means the investment objectives of the Fund as set forth in the Declaration of Trust described in section 1.2.1 of this Annual Information Form.

**“Investment Restrictions”** means the investment restrictions of the Fund as set forth in the Declaration of Trust, without limitation those described in section 2.0 of this Annual Information Form.

**“Investment Strategy”** means the investment strategy of the Fund as set forth in the Declaration of Trust described in section 1.2.2 of this Annual Information Form.

**“Loan Facility”** means the loan facility described in section 14.1 of this Annual Information Form.

**“Management Agreement”** means the management agreement dated as of January 29, 2002 between the Manager and the Fund, as it may be amended from time to time.

**“Management Fee”** means the management fee payable to the Manager pursuant to the Management Agreement and the Declaration of Trust, described in section 8.1.1 of this Annual Information Form.

**“Manager”** means the manager and administrator of the Fund, namely Brompton Funds Management Limited, or if applicable its successor.

**“Net Asset Value”** means the net asset value of the Fund, as determined in accordance with the Declaration of Trust as described in section 5.0 of this Annual Information Form.

**“Net Asset Value per Unit”** means the Net Asset Value divided by the total number of Units outstanding on any Valuation Date.

**“Net Capital Gains”** of the Fund for a taxation year means the amount, if any, by which:

- (i) the capital gains realized by the Fund in the taxation year;

exceeds the aggregate of

- (ii) the capital losses incurred by the Fund in the taxation year; and
- (iii) the unapplied capital losses incurred by the Fund in the preceding taxation years, to the extent that they may be, and are applied against capital gains realized by the Fund in the taxation year.

For this purpose, “capital gains” and “capital losses” shall be computed in accordance with the provisions of the Income Tax Act.

**“Net Income”** of the Fund for a taxation year means the amount, if any, by which the income of the Fund for such taxation year pursuant to provisions of the Income Tax Act, other than paragraph 82(1)(b) and subsection 104(6) thereof without reference to the Fund’s “capital gains” or “capital losses” (as those terms are used in the Income Tax Act) for the taxation year, exceeds the unapplied non-capital losses of the Fund for the purposes of the Income Tax Act for any preceding taxation years of the Fund, to the extent that they may be, and are applied against the income of the Fund for such taxation year for the purposes of the Income Tax Act.

**“Oil and Gas Fund”** means an Income Fund where the principal business of the underlying company is the conventional exploitation, production and sale of oil and gas products.

**“Ordinary Resolution”** means a resolution passed by the affirmative vote of at least 50% of the votes cast, either in person or by proxy, at a meeting of Unitholders called for the purpose of approving such resolution.

**“Redemption Date”** means the second last Business Day of December of each year.

**“Redemption Payment Date”** means the date on or before the 20th Business Day of the month following the Redemption Date.

**“Regular Distribution”** means any distribution by an Income Fund that is not a special, extraordinary, unusual or similar distribution to be determined in accordance with the Declaration of Trust.

**“REITs”** means real estate investment trusts.

**“Service Fee”** means the fee required to be paid by the Fund to the Manager, who is in turn required to pay such fee in an equivalent amount to dealers, all in accordance with the Declaration of Trust, as described in section 8.1.2 of this Annual Information Form.

**“Special Situations”** means investments other than Income Funds and High Yield Debt, including debt securities convertible into equity securities, dividend paying equity securities and other income generating securities that fit within the Investment Objectives.

**“Tax Proposals”** means all specific proposals to amend the Income Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof.

**“Termination Date”** means the date the Fund is terminated in accordance with the Declaration of Trust, as described in section 3.4 of this Annual Information Form.

**“Total Assets”** means the aggregate value of the assets of the Fund determined in accordance with the Declaration of Trust as described in section 4.0 of this Annual Information Form.

**“Trustee”** means Computershare Trust Company of Canada, in its capacity as trustee under the Declaration of Trust.

**“TSX”** means the Toronto Stock Exchange.

**“Unit”** means one transferable, redeemable trust unit of the Fund, representing an equal, undivided beneficial interest in the Fund Property net of all liabilities of the Fund. **“Units”** represents more than one transferable, redeemable trust unit of the Fund.

**“Unitholder(s)”** means holder(s) of a Unit.

**“Valuation Date”** means, at a minimum, Thursday of each week, or if any Thursday is not a Business Day, the immediately preceding Business Day, and the last Business Day of each month, and includes any other date on which the Manager elects, in its discretion, to calculate the Net Asset Value and Net Asset Value per Unit.

## **1.0 NAME, FORMATION AND HISTORY**

### **1.1 General**

Brompton VIP Income Fund is a closed-end investment trust with a registered office located at Suite 2930, Bay Wellington Tower, BCE Place, 181 Bay Street, Toronto, Ontario M5J 2T3. The Fund was established under the laws of the Province of Ontario pursuant to a declaration of trust dated as of October 25, 2001, as amended and as amended and restated from time to time. The material amendments to the Declaration of Trust are: (a) the amendment dated October 26, 2005 to change the name of the Fund, change certain redemption features and change certain Investment Restrictions of the Fund, all of which were approved by the Unitholders at a special meeting of the Fund; and (b) the amendment dated December 31, 2005, in connection with the merger of the Fund with Brompton MVP Income Fund, (as described below) which included the adoption by the Fund of the Investment Strategy and Investment Objectives of Brompton MVP Income Fund.

Effective December 31, 2005, Brompton VIP Income Trust (the predecessor to the Fund) completed a merger with Brompton MVP Income Fund resulting in a continuing trust under the name “Brompton VIP Income Fund”. The merger was approved by the unitholders of both of the funds, as required at a special meeting of the unitholders held on October 26, 2005. Pursuant to the merger, unitholders of Brompton MVP Income Fund each received Units of the Fund, based on an exchange ratio calculated based on the relative Net Asset Value of each fund, determined as at the close of trading on December 30, 2005. Consequently, each unit of Brompton MVP Income Fund was exchanged for 1.07245 Units of the Fund. Following the merger, at the opening of trading on January 3, 2006, the Fund had 10.68 million Units outstanding.

### **1.2 Declaration of Trust**

#### **1.2.1 Investment Objectives**

The Declaration of Trust provides that the Investment Objectives of the Fund are to:

- (i) provide Unitholders with a high level of income through receipt of monthly cash Distributions; and
- (ii) preserve the Net Asset Value of the Fund.

#### **1.2.2 Investment Strategy**

The Declaration of Trust provides that the Investment Strategy of the Fund is as follows:

- (i) The Fund will seek to achieve its Investment Objectives through active asset and sector allocation and by investment in those High Income Securities that the Advisor believes represent the best weighting to achieve the Investment Objectives. The Fund will invest in a diversified portfolio consisting primarily of Income Funds. When economic conditions are deemed to be attractive, the Fund will also invest in High Yield Debt, albeit to a lesser extent than Income Funds.
- (ii) The assets of the Fund and any monies available for investment or reinvestment, as the case may be, at any time shall be invested by the Advisor in accordance with the Fund’s Investment Objectives, Investment Strategy and subject to the Investment Restrictions as expeditiously as prudent investment practice permits. The Advisor

will select High Income Securities asset classes and individual investments based on its assessment of the relative risk/reward characteristics of such asset classes and prospective investments at any point in time, subject to the Investment Restrictions. This assessment will be based on an analysis of international and domestic macroeconomic factors, and fundamental research and analysis of investments which will include a review of the track record of management, profit margins, growth rates, leverage levels, susceptibility to changes in commodity prices, life of underlying assets, net asset value relative to trading price and earnings, cash flow and distributions relative to market price. The Advisor will vary the allocation of assets among the various asset classes and sectors based on its analysis of relative return potential. From time to time, the Fund may also opportunistically invest up to 10% of the Total Assets in Special Situations to take advantage of special situations as they present themselves.

- (iii) Pending the purchase of High Income Securities, the Fund shall invest the proceeds of any offering or any other issuance of Units in cash and cash equivalents and, for greater certainty, during such time, the Investment Restriction providing the Fund shall not invest less than 35% of the Total Assets in Business Funds shall not apply.
- (iv) During periods in which the Advisor and/or sub-advisor believe changes in economic, financial or political conditions make it advisable, the Fund may, for temporary defensive purposes, reduce its holdings in High Income Securities and invest in cash or cash equivalents. For greater certainty, the Investment Restriction providing that the Fund shall not invest less than 35% of the Total Assets in Business Funds shall not apply during any such period while the Advisor and/or sub-advisor believe that such conditions continue to exist.

### **1.2.3 General**

The Declaration of Trust also provides for the administration of the Fund and governs matters including, without limitation, the powers of the Trustee, the issue and sale of Units, the form and content of Unit certificates, the registration and the transfer of Units, the redemption and repurchase of Units, Distributions to Unitholders, the provision of management and administration, portfolio advisory and custodial services to the Fund, the limitation on the liability of the Unitholders, the Trustee and other parties and the termination of the Fund.

The Amended and Restated Declaration of Trust dated December 31, 2005 was amended as of November 8, 2006 to permit the Manager to allow for the withdrawal of redemption notices prior to the redemption date. The Declaration of Trust was further amended as of December 20, 2006 to permit the Fund to designate as part of the redemption price any capital gains realized by the Fund during the year in which the redemption occurs.

Pursuant to the Declaration of Trust, the Trustee has retained Brompton Funds Management Limited as the Manager of the Fund and the Manager, on behalf of the Fund, has retained MFC Global Investment Management as the Advisor and RBC Dexia Investor Services Trust as the Custodian of the Fund Property.

## **2.0 INVESTMENT RESTRICTIONS**

The Fund is not considered to be a mutual fund under the securities legislation of the provinces and territories of Canada. Consequently, the Fund is not subject to the various policies and regulations

that apply to conventional mutual funds under such legislation. However, the Fund is subject to certain other requirements and restrictions contained in securities legislation, including National Instrument 81-106 Investment Fund Continuous Disclosure, which governs the continuous disclosure obligations of investment funds, such as the Fund.

The Declaration of Trust sets out the Investment Restrictions to which the Fund is subject. The following Investment Restrictions relate to certain matters arising out of the Income Tax Act and provide that the Fund will not:

- (a) invest more than 10% of Total Assets in the securities of any single issuer, other than securities issued or guaranteed by the Government of Canada or a province or territory thereof;
- (b) make any investment that would result in the Fund failing to qualify as a “unit trust” within the meaning of paragraph 108(2)(b) of the Income Tax Act; or
- (c) invest in the securities of any non-resident corporation or trust or other non-resident entity if the Fund would be required to mark its investment in such securities to market in accordance with proposed section 94.2 of the Income Tax Act or to include any significant amounts in income pursuant to proposed sections 94.1 or 94.3 of the Income Tax Act, as set forth in the proposed amendments to the Income Tax Act dealing with foreign investment entities introduced as part of Bill C-33 (“Bill C-33”), which received first reading in the House of Commons on November 22, 2006 (or amendments to such proposals, provisions as enacted into law or successor provisions thereto).

The Units are qualified investments under the Income Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans.

During the year ended December 31, 2006, the Fund has not deviated from the rules under the Income Tax Act that apply to the status of the Units qualifying for inclusion in registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans registered under the Income Tax Act.

### **3.0 DESCRIPTION OF SECURITIES**

#### **3.1 The Units**

The Fund is authorized to issue an unlimited number of a single class 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 the same rights and obligations as a holder of any other Unit and no holder of Units is entitled to any privilege, priority or preference in relation to any other holder of Units. On the redemption of Units, however, the Fund may, in its sole discretion, designate payable to the redeeming Unitholder, as part of the redemption price any capital gain realized by the Fund in the taxation year of the Fund in which the redemption occurred. Each holder of Units is entitled to one vote for each whole Unit held and is entitled to participate equally with respect to any and all Distributions made by the Fund, including distributions of Net Income and Net Capital Gains, if any. On termination or liquidation of the Fund, the holders of outstanding Units of record are entitled to receive on a *pro rata* basis all of the assets of the Fund remaining after payment of all debts, liabilities and liquidation expenses of the Fund. The Declaration of Trust permits fractions of

Units to be issued which have the same rights, restrictions, conditions and limitations attaching to whole Units in the proportion which they bear to a whole Unit, except that fractional Units do not have the right to vote.

On December 16, 2004, the Trust Beneficiaries' Liability Act, 2004 (Ontario) came into force. This statute provides that holders of units of a trust are not, as beneficiaries, liable for any act, default, obligation or liability of the trust if, when the act or default occurs or the liability arises, (i) the trust is a reporting issuer under the Securities Act (Ontario), and (ii) the trust is governed by the laws of Ontario. The Fund is a reporting issuer in each of the provinces and territories of Canada, and it is governed by the laws of Ontario by virtue of the provisions of the Declaration of Trust.

### **3.2 Distributions**

Distributions are payable to Unitholders of record on the last Business Day of each month, to be paid on or about the tenth Business Day of the subsequent month. Monthly cash Distributions are primarily derived from distributions received from the portfolio, less estimated expenses and estimated taxes payable by the Fund, if any. The Fund includes in each monthly Distribution one-third of the quarterly distribution expected to be received from those Income Funds included in the portfolio which pay distributions on a quarterly basis.

The level of Distributions paid by the Fund to Unitholders depends upon the distributions received from the portfolio and as such is expected to fluctuate from month to month. There can be no assurance that the Fund will make any distribution in any particular month or months.

The Fund has also adopted a distribution reinvestment plan pursuant to which Distributions paid to Unitholders may be reinvested, automatically on each Unitholder's behalf at the option of such Unitholder, to purchase additional Units in accordance with the plan. Subject to the terms and restrictions of the plan and applicable securities laws, Unitholders may also apply additional cash payments towards the purchase of additional Units under the plan. Notwithstanding the availability of the plan, all Distributions to non-resident Unitholders under the plan are paid in cash and may not be reinvested.

Many of the issuers of the securities in which the Fund invests are entitled to tax deductions relating to the nature of their assets, with the result that their cash distributions exceed the amount required to be included in the income of the recipients. As a result, cash Distributions received by Unitholders from the Fund in a year can exceed the amount required to be included in their income for tax purposes and as a result the excess will be a return of capital. The proportion of the Distributions characterized as a return of capital will be affected by Net Capital Gains realized by the Fund. To the extent that the Fund has received distributions from Income Funds included in the portfolio as a return of capital that reduced the adjusted cost base of such securities to the Fund, the Fund may realize a capital gain if such securities are sold. In addition, the Fund may realize a capital gain on sales if the securities of the Income Funds sold have appreciated in value. Such capital gains will reduce the proportion of the Distributions characterized as a return of capital.

The Fund is subject to tax under Part I of the Income Tax Act on the amount of its income for tax purposes for the year, including net realized taxable capital gains, less the portion thereof that it claims in respect of the amounts paid or payable to Unitholders in the year. Provided the Fund makes Distributions in each year of its Net Income and Net Capital Gains, and provided the Fund deducts in computing its income the full amount available for deduction in each year, the Fund will not generally be liable for income tax under Part I of the Income Tax Act. In order to ensure this result, the Declaration of Trust provides that, if necessary, an Additional Distributable Amount will be

automatically payable in each year to Unitholders of record on December 31. The Additional Distributable Amount may be necessary where the Fund realizes income for tax purposes which is in excess of the monthly Distributions paid or made payable to Unitholders during the year. The Additional Distributable Amount may, at the option of the Manager, be satisfied by the issuance of additional Units having a value equal to the cash shortfall. Following such issue of additional Units, the outstanding Units of the Fund will be automatically consolidated on a basis such that the number of consolidated Units (before giving effect to any redemption of Units on such date) is equal to the number of Units outstanding immediately preceding payment of the Additional Distributable Amount, except in the case of a non-resident Unitholder if tax was required to be withheld in respect of the distribution. Additional information regarding tax matters is set out in section 11.0.

### **3.3 Amendment of the Declaration of Trust**

#### **3.3.1 Amending of the Declaration of Trust by the Trustee**

The Declaration of Trust provides that the Trustee is entitled to amend the Declaration of Trust without consent of, or notice to, the Unitholders to:

- (i) remove any conflicts or other inconsistencies which may exist between any terms of the Declaration of Trust and any provisions of any law, regulation or requirements of any governmental authority applicable to or affecting the Fund;
- (ii) make any change or correction which is of a typographical nature or is required to cure or correct any ambiguity or defective or inconsistent provision, clerical omission, mistake or manifest error contained therein;
- (iii) bring the Declaration of Trust into conformity with applicable laws, rules and policies of Canadian securities regulators or with current practice within the securities or investment fund industries, provided such amendments do not, in the opinion of the Manager, adversely affect the pecuniary value of the interest of the Unitholders or restrict any protection for the Trustee or the Manager or increase their respective responsibilities;
- (iv) maintain the status of the Fund as a “mutual fund trust” and a “registered investment” for the purposes of the Income Tax Act or to respond to amendments to such Act or to the interpretation or administration thereof; or
- (v) provide added protection or benefit to Unitholders.

#### **3.3.2 Amending of the Declaration of Trust by Unitholders**

The Declaration of Trust provides that except as otherwise required by the Declaration of Trust (which exceptions are summarized below), the Declaration of Trust may be amended by an Ordinary Resolution of the Unitholders passed at a meeting called for the purpose of considering such Ordinary Resolution. The Declaration of Trust provides that the following may only be amended provided that Unitholders holding at least 10% of the Units outstanding on the record date of the meeting vote in favour of such Ordinary Resolutions for the following:

- (i) any termination of the Management Agreement other than in circumstances where the Manager has been removed by the Trustee pursuant to the Declaration of Trust or the Management Agreement or the Manager has resigned;

- (ii) any liquidation, dissolution or termination of the Fund;
- (iii) the sale of all or substantially all of the assets of the Fund other than in the ordinary course of business; and
- (iv) any amendment to the above provisions except as permitted under the Declaration of Trust.

The Declaration of Trust provides that the following may only be undertaken with the approval of Unitholders by an Extraordinary Resolution:

- (i) the termination of the Trustee or any of its affiliates as the trustee of the Fund;
- (ii) any change in the Investment Objectives, Investment Strategy or Investment Restrictions of the Fund unless such changes are necessary to ensure compliance with applicable laws, regulations or other requirements imposed by applicable regulatory authorities from time to time;
- (iii) any material change in the Management Agreement, other than its termination;
- (iv) any increase in the fee paid to the Manager;
- (v) any amendment, modification or variation in the provisions or rights attaching to the Units;
- (vi) any issue of Units at a subscription price less than the most recently calculated Net Asset Value per Unit prior to the date of the setting of the subscription price by the Fund;
- (vii) any change in the frequency of calculating Net Asset Value per Unit to less often than weekly; and
- (viii) any amendment to the above provisions except as permitted under the Declaration of Trust.

The Declaration of Trust also provides that holders of not less than 10% of the then outstanding Units are entitled to requisition the Trustee to call a meeting of Unitholders for the purpose stated in the requisition. Unitholders are also entitled to redeem Units pursuant to the terms of the Declaration of Trust, which redemption rights are set out in further detail in section 7.0.

### **3.4 Termination of the Fund**

Pursuant to the Declaration of Trust, the Fund does not have a fixed termination date but may be terminated at any time upon not less than 90 days written notice to the Manager from the Trustee with the approval of Unitholders by an Ordinary Resolution, provided that Unitholders holding at least 10% of the Units outstanding on the record date of the meeting vote in favour of such Ordinary Resolution. In addition to such termination upon the approval of the Unitholders, the Declaration of Trust also provides that the Fund may be terminated in the following circumstances:

- In the event that the Manager resigns and no new Manager is appointed by the Trustee within 120 days of the Manager giving notice to the Trustee of such

resignation, the Fund will automatically terminate on the date which is 60 days following the end of such 120 day period.

- The Manager may, in its discretion, terminate the Fund without the approval of Unitholders if, in its opinion it would be in the best interests of the Unitholders to terminate the Fund.

The Declaration of Trust further provides that prior to a Termination Date, the Manager will instruct the Advisor to convert the Fund Investments to cash to the extent practicable and will satisfy or make appropriate provision for all liabilities of the Fund. The Declaration of Trust permits that the Manager may, in its discretion and upon not less than 30 days notice to the Unitholders, postpone the Termination Date by a period of up to 180 days if the Advisor advises the Manager that it will be unable to convert all of the Fund Investments to cash prior to the original Termination Date and the Manager determines that it would be in the best interests of the Unitholders to do so. Upon termination, the Declaration of Trust provides that the Fund will distribute to Unitholders their *pro rata* portions of the remaining assets of the Fund which will include cash and, to the extent liquidation of certain assets is not practicable or the Manager considers such liquidation not to be appropriate prior to the Termination Date, such unliquidated assets in specie rather than in cash. Following such distribution, the Declaration of Trust provides that the Fund will be dissolved.

#### **4.0 VALUATION OF PORTFOLIO SECURITIES**

Under the Declaration of Trust, the calculation of Total Assets on a Valuation Date is to be determined as follows:

- (a) the value of any cash on hand or on deposit, bills and demand notes and accounts receivable, prepaid expenses, distributions, dividends or other amounts received (or declared to holders of record of securities owned by the Fund on a date before the Valuation Date as of which the Total Assets are being determined, and to be received) and interest accrued and not yet received, shall be deemed to be the full amount thereof provided that if the Advisor has determined that any such deposit, bill, demand note, accounts receivable, prepaid expense, distributions, dividends or other amounts received (or declared to holders of record of securities owned by the Fund on a date before the Valuation Date as of which the Total Assets are being determined, and to be received) or interest accrued and not yet received is not otherwise worth the full amount thereof, the value thereof shall be deemed to be such value as the Advisor determines to be the fair market value thereof;
- (b) the value of any security which is listed or traded upon a stock exchange (or if more than one, on the principal exchange for the security, as determined by the Advisor) shall be determined by taking the latest available sale price of recent date, or lacking any recent sales or any record thereof, the simple average of the latest available offer price and the latest available bid price (unless in the opinion of the Advisor such value does not reflect the value thereof and in which case the latest offer price or bid price shall be used), as at the Valuation Date on which the Total Assets are being determined, all as reported by any means in common use provided that, for the purpose of calculating the redemption amount, the value of any security will be equal to the weighted average trading price over the last three Business Days of the month in which the Redemption Date occurs;

- (c) the value of any security which is traded over-the-counter will be priced at the average of the last bid and asked prices quoted by a major dealer in such securities;
- (d) the value of any security or other asset for which a market quotation is not readily available will be its fair market value on the Valuation Date on which the Total Assets are being determined as determined by the Advisor (generally the Advisor will value such Fund Investment at cost until there is a clear indication of an increase or decrease in value);
- (e) any market price reported in currency other than Canadian dollars shall be translated into Canadian currency at the rate of exchange available to the Fund from the lender on the Valuation Date on which the Total Assets are being determined;
- (f) listed securities subject to a hold period will be valued as described above with an appropriate discount as determined by the Advisor and investments in private companies and other assets for which no published market exists will be valued at the lesser of cost and the most recent value at which such securities have been exchanged in an arm's length transaction which approximates a trade effected in a published market, unless a different fair market value is determined to be appropriate by the Advisor; and
- (g) the value of any security or property to which, in the opinion of the Advisor, the above principles cannot be applied (whether because no price or yield equivalent quotations are available as above provided, or for any other reason) shall be the fair market value thereof determined in good faith in such manner as the Advisor from time to time adopts.

## **5.0 CALCULATION OF NET ASSET VALUE**

Pursuant to the Declaration of Trust, the Net Asset Value per Unit on any Valuation Date is to be calculated by dividing the Total Assets less all liabilities (including accrued expenses) on such Valuation Date by the total number of Units outstanding on such Valuation Date. The Net Asset Value per Unit is calculated as at the close of business on each Valuation Date which is to be, at a minimum, Thursday of each week (or if any Thursday is not a Business Day, the immediately preceding Business Day) and the last Business Day of each month, and includes any other date on which the Manager elects, in its discretion, to calculate the Net Asset Value per Unit.

The Net Asset Value per Unit is calculated in Canadian dollars.

## **6.0 PURCHASES OF FUND UNITS**

### **6.1 General**

The Units are listed for trading on the TSX under the symbol VIP.UN and may be purchased through the facilities of the TSX. Units are freely transferable except that at no time may non-residents of Canada be the beneficial owners of a majority of the Units. Registration of interests in and transfers of the Units are made only through the book-entry only system operated by CDS and the Units must be purchased, transferred and surrendered for redemption through a CDS Participant. All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholders are entitled are made or delivered by, CDS or the CDS Participant through which the Unitholder holds such Units. Upon purchase of any Units, Unitholders receive only a customer confirmation

from the registered dealer which is a CDS Participant and from or through which the Units are purchased. Units may also be purchased by Unitholders under the distribution reinvestment plan as described in section 3.2.

## **6.2 Issuer Bid**

The Declaration of Trust provides that, subject to applicable law and stock exchange requirements, the Fund may, in its sole discretion, from time to time purchase (in the open market or by invitation for tenders) Units for cancellation.

## **7.0 REDEMPTION OF SECURITIES**

Subject to the Fund's right to suspend redemptions as discussed below, Unitholders are entitled to surrender Units for redemption in accordance with the Declaration of Trust in December of each year, provided the Units are surrendered at least 20 Business Days prior to the Redemption Date. The Declaration of Trust provides that Units surrendered for redemption will be redeemed on the Redemption Date at a redemption price per Unit equal to the Net Asset Value per Unit on the Redemption Date (less any costs associated with the redemption, including brokerage costs). For the purposes of calculating this Net Asset Value per Unit, the value of any security which is listed or traded upon a stock exchange will be equal to the weighted average trading price of such security over the last three Business Days of the month of December. Payment of the redemption price will be made on or before the twentieth Business Day following the Redemption Date.

A Unitholder who desires to exercise redemption privileges must do so by causing the CDS Participant through which he or she holds Units to deliver to CDS at its office in the City of Toronto on behalf of the Unitholder, a written notice of the Unitholder's intention to redeem Units. A Unitholder who desires to redeem Units should ensure that the CDS Participant is provided with notice of his or her intention to exercise the redemption right sufficiently in advance of the Redemption Date deadline so as to permit the CDS Participant to deliver a notice to CDS by 5:00 p.m. on a day which is at least 20 Business Days prior to the Redemption Date.

By causing a CDS Participant to deliver to CDS a notice of the Unitholder's intention to redeem Units, the Unitholder shall be deemed to have irrevocably surrendered his or her Units for redemption and appointed such CDS Participant to act as his or her exclusive settlement agent with respect to the exercise of such redemption privilege and the receipt of payment in connection with the settlement of obligations arising from such exercise, provided that the Manager may from time to time prior to the Redemption Date permit the withdrawal of a redemption notice on such terms and conditions as the Manager may determine, in its sole discretion, provided that such withdrawal will not adversely affect the Fund. Any expense associated with the preparation and delivery of the redemption notice will be for the account of the Unitholder exercising the redemption privilege.

Any redemption notice that CDS determines to be incomplete, not in proper form or not duly executed shall, for all purposes, be void and of no effect and the redemption privilege to which it relates shall be considered, for all purposes, not to have been exercised. A failure by a CDS Participant to exercise redemption privileges or to give effect to the settlement thereof in accordance with a Unitholder's instructions will not give rise to any obligations or liability on the part of the Fund, the Trustee or the Manager to the CDS Participant or the Unitholder.

The Declaration of Trust permits the Manager to direct the Trustee to suspend the redemption of Units or payment of redemption proceeds (a) for the whole or any part of a period during which normal trading is suspended on one or more stock exchanges, options exchanges or futures exchanges

on which more than 50% of the Fund Investments (by value) are listed and traded; or (b) for any period not exceeding 120 days during which the Manager determines that conditions exist which render impractical the sale of assets of the Fund or which impair the ability of the Manager to determine the value of the assets of the Fund. The suspension may apply to all requests for redemption received prior to the suspension, but for which payment has not been made, as well as to all requests received while the suspension is in effect. In such circumstances, all Unitholders shall have, and shall be advised that they have, the right to withdraw their requests for redemption. The suspension shall terminate in any event on the first Business Day on which the condition giving rise to the suspension has ceased to exist provided that no other condition under which a suspension is authorized then exists. To the extent not inconsistent with official rules and regulations announced by any government body having jurisdiction over the Fund, any declaration of suspension made by the Manager shall be conclusive.

On the redemption of Units, the Fund may, in its sole discretion, designate payable to the redeeming Unitholder, as part of the redemption price, any capital gain realized by the Fund in the taxation year of the Fund in which the redemption occurred.

## **8.0 RESPONSIBILITY FOR OPERATIONS**

### **8.1 Manager**

The Declaration of Trust provides that Trustee shall appoint or retain a manager to manage the business and affairs of the Fund. The Trustee has appointed the Manager pursuant to the terms of the Declaration of Trust and the Management Agreement.

Brompton Funds Management Limited was formed pursuant to the Business Corporations Act (Ontario) by articles of amalgamation dated October 27, 2006. Its head office is at Suite 2930, Box 793, Bay Wellington Tower, BCE Place, 181 Bay Street, Toronto, Ontario M5J 2T3. Its telephone number is (416) 642-6000 and its e-mail address is info@bromptongroup.com. The Manager was organized for the purpose of managing and administering closed-end investment funds, including the Fund and is a member of the Brompton Group of Companies.

Pursuant to the Management Agreement, the Manager is responsible for providing, or causing to be provided, management and administrative services and facilities to the Fund, and may delegate certain of its powers to third parties at no additional cost to the Fund where, in the discretion of the Manager, it would be in the best interests of the Fund and the Unitholders to do so.

#### **8.1.1 Management Fee**

In consideration for these services, the Fund pays the Manager a fee and reimburses the Manager for all reasonable costs and expenses incurred by the Manager on behalf of the Fund. The Manager receives a Management Fee equal to 0.85% per annum of Net Asset Value of the Fund, calculated and payable monthly in arrears, plus applicable taxes. The Manager is responsible for paying the fees payable to the Advisor out of the Management Fee.

#### **8.1.2 Service Fee**

The Manager is paid a Service Fee by the Fund for paying the fees payable to dealers based on the number of Units held by clients of such dealers at the end of each relevant quarter. The Service Fee (calculated quarterly and paid as soon as practicable after the end of each calendar quarter) is equal to

0.40% per annum of the Net Asset Value of the Fund represented by the Units held at the end of the relevant quarter by clients of dealers, plus applicable taxes.

### **8.1.3 Termination of the Management Agreement**

The Management Agreement may be terminated at any time by the Fund on 90 days written notice with the approval of the Unitholders by an Ordinary Resolution passed at a duly convened meeting of Unitholders called for the purpose of considering such Ordinary Resolution, provided that Unitholders holding at least 10% of the Units outstanding on the record date of the meeting vote in favour of such Ordinary Resolution. The Management Agreement may also be terminated:

- by the Trustee, on behalf of the Fund at any time on 30 days written notice to the Manager in the event of the persistent failure of the Manager to perform its duties and discharge its obligations under the Management Agreement, or the continuing malfeasance or misfeasance of the Manager in the performance of its duties under the Management Agreement;
- by the Trustee, on behalf of the Fund immediately in the event of the commission by the Manager of any fraudulent act; and
- automatically, if the Manager becomes bankrupt, insolvent or makes a general assignment for the benefit of its creditors.

The Manager may resign upon 120 days notice to the Trustee and may assign the Management Agreement to an affiliate of the Manager at any time.

### **8.1.4 Directors and Officers of the Manager**

The name, municipality of residence, position with the Manager and principal occupation of each of the directors and officers of the Manager are set out below:

#### **Name and Municipality of Residence and Position with the Manager**

#### **Principal Occupation and Positions Held During the Last 5 Years**

P. MICHAEL NEDHAM  
Toronto, Ontario  
Director

Managing Director, Newport Partners LP, which is in the business of providing integrated personal and corporate wealth management, since July 2005; Managing Director, Newport Partners Inc. from July 2002 to July 2005 President, Newport Securities Inc. from September 2001 to July 2002

PETER A. BRAATEN  
Toronto, Ontario  
Chairman and Director

Chairman, Brompton Group Limited, a financial services company, since December 2006; Chairman, Brompton Limited from November 2000 to December 2006.

JAMES W. DAVIE<sup>(1)(2)(3)</sup>  
Toronto, Ontario  
Chairman of the  
Audit Committee  
and Director

Corporate Director since June 2002; Managing Director, RBC Dominion Securities Inc. from June 1999 to June 2002.

**Name and Municipality of Residence  
and Position with the Manager**

**Principal Occupation and Positions Held During the Last 5 Years**

ARTHUR R.A. SCACE<sup>(1)(2)(3)</sup>  
Toronto, Ontario  
Chairman of the Corporate  
Governance Committee and  
Director

Corporate Director since March 2006; Counsel, McCarthy Tétrault LLP from November 2003 to February 2006; Partner, McCarthy Tétrault LLP from 1972 to November 2003.

KEN S. WOOLNER<sup>(1)(2)(3)</sup>  
Calgary, Alberta  
Lead Director

Corporate Director since February 2006; Executive Chairman, White Fire Energy Ltd. from April 2005 to February 2006; President & Chief Executive Officer, Lightning Energy Ltd. from December 2001 to April 2005.

RAYMOND R. PETHER  
Toronto, Ontario  
Chief Executive Officer

President and Chief Executive Officer, Brompton Group Limited, a financial services company, since December 2006; President and Chief Executive Officer, Brompton Limited from April 2001 to December 2006.

MARK A. CARANCI  
Toronto, Ontario  
President

President, Brompton Funds since February 2006; Chief Financial Officer, Brompton Limited from November 2000 to January 2006.

CRAIG T. KIKUCHI  
Toronto, Ontario  
Chief Financial Officer

Chief Financial Officer, Brompton Funds since February 2006; Vice-President, Brompton Limited from August 2004 to January 2006; Controller, Brompton Limited from February 2002 to August 2004.

DAVID E. ROODE  
Toronto, Ontario  
Senior Vice President

Senior Vice-President, Brompton Funds since February 2006, Senior Vice President Brompton Limited from May 2005 to January 2006; Vice President, Brompton Limited from September 2002 to May 2005; Analyst for a financial services organization from 1998 to 2001.

MOYRA E. MACKAY  
Toronto, Ontario  
Vice-President and Secretary

Vice-President & Corporate Secretary, Brompton Funds since February 2006; Vice President & Corporate Secretary, Brompton Limited from May 2000 to January 2006.

LORNE ZEILER  
Toronto, Ontario  
Vice-President

Vice-President, Brompton Funds since February 2006; Vice President, Brompton Limited from September 2004 to January 2006; Senior Financial Analyst, Assante Advisory Services from 2003 to 2004; Senior Relationship Manager, Scotiabank from 1998 to 2003.

JESSICA LEUNG  
Toronto, Ontario  
Controller

Controller, Brompton Funds, since February 2006; Controller, Brompton Limited from February 2005 to January 2006; Manager, Ernst & Young LLP from October 2000 to January 2005.

ANN WONG  
Toronto, Ontario  
Controller

Controller, Brompton Funds since February 2006; Controller, Brompton Limited from September 2005 to January 2006; Senior Manager, Treasury Finance Group Canadian Imperial Bank of Commerce from June 2004 to September 2005; Manager, PricewaterhouseCoopers LLP from September 2001 to June 2004.

**Name and Municipality of Residence and Position with the Manager**

**Principal Occupation and Positions Held During the Last 5 Years**

CHRISTOPHER CULLEN  
Toronto, Ontario  
Assistant Vice President

Assistant Vice President, Brompton Funds since March 2006; Manager Commercial Banking, CIBC Commercial Banking from September 2003 to February 2006; Associate, CIBC Commercial Banking from October 2002 to August 2003; Research Associate, UBS Securities (Canada) from May 2001 to August 2002.

JANET TOFFOLO  
Toronto, Ontario  
Assistant Vice President

Assistant Vice President, Brompton Funds since January 2007; Manager, Head Trader AGF Funds Inc. from January 1995 to June 2005.

Notes:

- (1) Independent director.
- (2) Member of the Corporate Governance Committee.
- (3) Member of the Audit Committee.

**8.2 Advisor**

The Declaration of Trust provides that the Manager shall, on behalf of the Fund, retain an Advisor to make investment decisions with respect to the Fund Property, in accordance with the Investment Objectives and Investment Strategy and subject to the Investment Restrictions. The Manager has retained the Advisor pursuant to an Advisory Agreement entered into between the Manager, the Fund and the Advisor dated as of January 29, 2002 to provide such services to the Fund, in accordance with the terms of the Declaration of Trust. The Advisor's principal office is located at 200 Bloor Street East, Toronto, Ontario. The Advisor may, pursuant to the terms of the Advisory Agreement, delegate any of its functions, powers, responsibilities and duties to any of its affiliates.

**8.2.1 Principal Portfolio Advisors**

The principal portfolio advisors of MFC Global Investment Management who are responsible for the investment management of the Fund are as follows:

<b>Name</b>	<b>Length of Service and Experience in the Past 5 Years</b>
Alan Wicks Mississauga, Ontario	Vice President & Senior Portfolio Manager since 1996.
Terry Carr Toronto, Ontario	Vice President & Managing Director, Fixed Income since May 2005; Vice President & Senior Portfolio Manager from March 2002 to May 2005; President & Fund Advisor, Tarian Capital Management from May 1999 to March 2002.

Alan Wicks is the lead portfolio manager on all Canadian value equity and Income Trust mandates. The ultimate responsibility for all decisions and their consequences, reside with Mr. Wicks. Directly supporting Mr. Wicks are Duncan Anderson, Jonathan Popper, and Conrad Dabiet. Together they make up the Canadian value equity and Income Trust team.

Terry Carr is responsible for the Advisor's North American Total Return Team, in addition to his responsibilities leading the High Yield Team.

Each individual member of the team conducts company specific research and determines the investment merit of identified candidates. After the research has been conducted, the idea is presented to, and vetted by, the group and a final decision of the investment merit is made. The benefit of the team approach is that the entire team is aware of the investment stance of each idea. Once a final decision is made and candidates are identified, when the need arises, any member of the team can conduct the day-to-day execution of the investment idea.

### **8.2.2 Advisory Fee**

Pursuant to the terms of the Advisory Agreement, the Manager pays the Advisor an advisory fee and the Fund reimburses the Advisor for all reasonable costs and expenses incurred by the Advisor on behalf of the Fund.

### **8.2.3 Termination of the Advisory Agreement**

The Advisory Agreement will automatically terminate on the Termination Date set out in the Declaration of Trust. The Manager, on behalf of itself and the Fund, may also terminate the Advisory Agreement:

- at any time on 90 days written notice to the Advisor;
- on 10 days written notice to the Advisor for an uncured breach of the Advisory Agreement by the Advisor following written notice of such breach by the Manager on behalf of the Fund;
- immediately in the events of insolvency or liquidation of the Advisor or if the Advisor becomes bankrupt or passes a resolution approving its winding-up, dissolution or deemed dissolution or makes a general assignment for the benefit of its creditors; or
- immediately in the event of the commission by the Advisor of any fraudulent act in the performance of its duties under the Advisory Agreement or if there has been any misrepresentation by the Advisor in the Advisory Agreement.

The Advisory Agreement may be terminated by the Advisor:

- at any time on 90 days written notice to the Manager and the Fund;
- on 10 days written notice to the Manager and the Fund for an uncured breach of the Advisory Agreement by the Manager or the Fund following written notice of such breach by the Advisor to the Manager and the Fund; or
- immediately in the events of insolvency or liquidation of the Fund or if the Fund becomes bankrupt or passes a resolution approving its winding-up or dissolution or deemed dissolution or makes a general assignment for the benefit of its creditors.

## **8.3 Trustee**

Computershare Trust Company of Canada is the Trustee of the Fund and is responsible for certain aspects of the administration of the Fund as described in the Declaration of Trust. The address of the

Trustee is 100 University Avenue, 11<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1.

#### **8.4 Custodian**

The Declaration of Trust provides that the Manager shall, on behalf of the Fund, appoint a Canadian chartered bank or trust company to act as custodian of the Fund Property and authorizes the Custodian, pursuant to the terms of a Custodian Agreement, to provide various safekeeping and custodial services relating to the Fund Property. The Manager has appointed RBC Dexia Investor Services Trust as Custodian of the Fund Property pursuant to the terms of a Custodian Agreement entered into by the Manager, on behalf of the Fund, and The Royal Trust Company dated as of February 28, 2002, as assigned by The Royal Trust Company to the Custodian as of December 23, 2005. The address of the Custodian is 77 King Street West, Toronto, Ontario M5W 1P9.

The Custodian may, in accordance with the terms of the Custodian Agreement, appoint sub-custodians and enter into sub-custodian agreements. The principal sub-custodian appointed by the Custodian is The Bank of New York, 1 Wall Street, New York, New York. The Custodian entered into sub-custodian agreements with The Bank of New York, under which The Bank of New York provides for the safekeeping of client assets of the Custodian in the United States.

##### **8.4.1 Custodian Fees**

In consideration for its services, the Fund pays to the Custodian such compensation as agreed upon in writing between the Manager and the Custodian, from time to time and reimburses the Custodian for all reasonable costs and expenses incurred by the Custodian on behalf of the Fund.

##### **8.4.2 Termination of the Custodian Agreement**

The Custodian Agreement may be terminated by either party without penalty at any time on 60 days prior written notice.

Prior notice is not required and termination will be immediate if:

- either party is declared bankrupt or shall be insolvent;
- the assets or the business of either party shall become liable to seizure or confiscation by any public or governmental authority; or
- the Manager's powers and authorities to act on behalf of or represent the Fund have been revoked or terminated.

#### **8.5 Valuation Services**

The Manager, on behalf of the Fund, has appointed RBC Dexia Investor Services Trust to provide the Fund with valuation services. Such services include the calculation of the Fund's weekly Net Asset Value, calculated in accordance with the Fund's valuation parameters described in section 4.0.

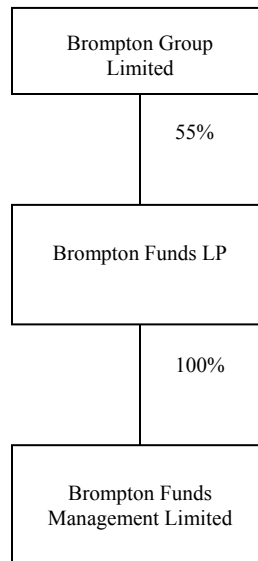
#### **8.6 Auditor, Registrar, Transfer Agent and Distribution Agent**

The auditors of the Fund are PricewaterhouseCoopers LLP, Chartered Accountants, Suite 3000, Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario M5K 1G8. The auditors of the Fund can be changed by an Ordinary Resolution of the Unitholders. Computershare Trust Company of

Canada is the registrar, transfer agent and distribution agent for the Units. The register and transfer ledger for the Units is kept by the Trustee at its offices located in Toronto.

## 9.0 CONFLICTS OF INTEREST

### 9.1 Principal Holders of Securities and Affiliated Entities



Notes:

Mr. Braaten indirectly controls Brompton Group Limited (“BGL”). Directors and officers of the Manager, including Mr. Braaten, indirectly own of record and beneficially an aggregate of more than 95% of the shares of BGL.

BGL owns of record and beneficially 55% of the partnership interests of Brompton Funds LP (“BFLP”) and, owns indirectly, 55% of the shares of the general partner of BFLP. BFLP owns of record and beneficially all of the voting securities of the Manager.

The remaining 45% of the partnership interests of BFLP and 45% of the shares of the general partner of BFLP are owned of record and beneficially by Newport Partners Holdings LP which also controls Newport Partners LP. Mr. Nedham, a director of the Manager, is a managing director of Newport Partners LP.

The amount of fees received by the Manager, is contained in the audited financial statements of the Fund. More information on remuneration of the Manager is set out in sections 8.1.1 and 8.2.2, respectively.

The Declaration of Trust acknowledges that the Trustee may provide services to the Fund in other capacities, provided that the terms of any such arrangements are no less favourable to the Fund than those which would be obtained from parties which are at arm’s length for comparable services. The services of the Custodian and the officers and directors of the Custodian are not exclusive to the Fund. The Custodian and its affiliates and associates (as defined in the Securities Act (Ontario)) may, at any time, engage in any other activity.

The Manager and the Advisor and their directors and officers engage in the promotion, management or investment management of one or more funds or trusts which invest primarily in Income Funds. The Advisor acts as the investment advisor or administrator for other funds and may in the future act as the investment advisor to other funds which invest in Income Funds and which are considered competitors of the Fund. The services of the Manager are not exclusive to the Fund.

In addition, the directors and officers of the Manager and the Advisor may be directors, officers, shareholders or unitholders of one or more issuers in which the Fund may acquire securities. The Manager, the Advisor or their affiliates may be a manager of one or more issuers in which the Fund may acquire securities and may be managers or administrators of funds that invest in the same securities as the Fund. Although none of the directors or officers of the Manager or the Advisor will devote his or her full time to the business and affairs of the Fund, each director and officer of the Manager or the Advisor will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage the business and affairs of (in the case of officers) the Fund, the Manager and the Advisor, as applicable.

## **10.0 FUND GOVERNANCE**

Brompton supports good governance practices for its funds. The Fund is managed by the Manager and consequently, the Board of Directors and committees referred to are the Board and committees of the Manager.

The Board is responsible for the overall stewardship of the business and affairs of the Fund. The Fund has Investment Objectives and Investment Guidelines which are set out in the Declaration of Trust.

The Board consists of 5 directors, 3 of whom are independent of management. Details regarding the names, principal occupations and committee memberships of the Board are set out in section 8.1.4. The Board believes that the number of directors is appropriate and only non-management directors are compensated. Amounts paid as compensation to the directors are reviewed annually to ensure they realistically reflect the responsibilities and risk involved in being an effective director. The Board has appointed a Governance Committee which is responsible for making recommendations to the Board with respect to developments in the area of governance and practices of the Board. Individual directors may engage an outside advisor at the expense of the Fund subject to the approval of the Governance Committee.

To assist the Board in monitoring the Fund's financial reporting and disclosure, the Board has established an Audit Committee. The Audit Committee consists of 3 members, all of whom are independent. The responsibilities of the Audit Committee include, but are not limited to, review of the Fund's financial statements and the annual audit performed by PricewaterhouseCoopers LLP ("PWC"), the auditor of the Fund; oversight of internal control and of the Fund's compliance with tax laws and regulations. PWC reports to the Audit Committee and the Audit Committee and PWC have direct communication channels to discuss and review specific issues as appropriate.

The Board is responsible for developing the Fund's approach to governance issues and, together with the Manager, is evolving a best practices governance procedure. To ensure the proper management of the Fund and compliance with regulatory requirements, the Board of Directors has adopted policies, procedures and guidelines relating to business practices, risk management control, and internal conflicts of interest. As part of managing its business practices, the Board has adopted a Whistleblower Policy, a Privacy Policy and a Proxy Voting Policy. The Whistleblower Policy establishes a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls and auditing matters pertaining to the Fund. The Privacy Policy dictates the manner in which the Manager may collect, use and disclose personal information regarding the Unitholders. The Proxy Voting Policy is described in section 10.1. As part of its risk management, the Board has adopted a Disclosure Policy. The Disclosure Policy sets out guidelines that aim to ensure that complete, accurate and balanced information is disclosed to the public in a timely, orderly and broad-based manner in accordance with securities laws and regulations. As part of managing

potential internal conflicts of interest, the Board has adopted a Code of Business Ethics and an Insider Trading Policy. The Code of Business Ethics and Insider Trading Policy, address, among other things, ethical business practices and handling of material information and purchasing or selling of securities by insiders.

As a result of the new legislation introduced in late 2006, the Manager intends to appoint an Independent Review Committee in 2007 to deal with potential conflict of interest matters between the Manager and the Fund.

The Manager maintains a website for the Fund at [www.bromptongroup.com](http://www.bromptongroup.com). The mandate of the Board is available on the website. The Fund has an investor relations line to respond to inquiries from Unitholders.

### **10.1 Proxy Voting Policy**

The Portfolio is managed by MFC Global Investment Management and pursuant to the Advisory Agreement, the Advisor is authorized to exercise all rights and privileges incidental to ownership for the Fund Investments. The Fund has adopted the Advisor's proxy voting policy (the "Proxy Voting Policy"), which provides general guidance, in compliance with applicable legislation, for the voting of proxies. The Advisor has retained a third party service provider to provide proxy analysis, vote recommendations and vote execution services on behalf of the Advisor all in accordance with the Proxy Voting Policy. However, the ultimate decision as to how to cast a vote rests with the Advisor, based on what the Advisor believes to be in the best interest of the Fund and in accordance with Fund's Investment Objectives, Strategy and Restrictions.

The Advisor's Proxy Voting Policy includes:

- (i) a standing policy with respect to dealing with routine matters, such as the election of directors, appointment of auditors, reporting of results and changes in capital structure. The Proxy Voting Policy generally provides for voting in favour of management's recommendations, unless there are specific circumstances for voting against and/or the Advisor believes that the Fund's best interests would be better served by such counter vote. The Advisor will also document the reasons for a decision to cast a proxy vote in a manner that deviates from the standing policy;
- (ii) policies and procedures with respect to dealing with non-routine matters, including situations, albeit infrequently, where the Advisor refrains from voting on such matters. Non-routine matters include: corporate restructurings, mergers and acquisitions, proposals affecting shareholder rights and executive compensation. These policies vary depending on the specific matter involved and are usually addressed on a case-by-case basis with a focus on the best interests of the securityholders of the Fund and the potential impact of the vote on shareholder value; and
- (iii) policies and procedures with respect to dealing with potential conflicts of interest. With respect to potential conflicts of interest that may arise, the Advisor's internal legal department will first review the matter to assess whether a conflict does in fact exist. In the event a conflict of interest has been initially determined, the matter will be thereafter referred to an internal committee of the Advisor for final determination. The rationale for the committee's ultimate decision will be documented accordingly.

The policies and procedures that the Fund follows when voting proxies relating to portfolio securities are available on request, at no cost, by calling 1-866-642-6001 or by writing to the Manager at Suite 2930, Box 793, Bay Wellington Tower, BCE Place, 181 Bay Street, Toronto, Ontario M5J 2T3.

The Fund's voting record for the most recent period ended June 30 of each year is available free of charge to any Unitholder of the Fund upon request at any time after August 31 of that year. The Fund has made its proxy voting record available on its website at [www.bromptongroup.com](http://www.bromptongroup.com)

## **10.2 Use of Derivatives**

The Declaration of Trust allows the Fund to invest in or use derivative instruments for hedging purposes consistent with the Investment Objectives and Investment Strategy and subject to the Investment Restrictions. For example, the Fund may use derivatives, including interest rate hedges, with the intention of offsetting or reducing risks associated with a Fund Investment or group of Fund Investments. These risks include currency value fluctuations, commodity price fluctuations, stock market risks and interest rate changes.

## **10.3 Securities Lending**

In order to generate additional returns, the Manager has entered into a written securities lending agreement (a "Securities Lending Agreement") on behalf of the Fund with the Custodian, as agent for the Fund, to administer any securities lending transaction for the Fund.

The Manager manages the risks associated with securities lending by requiring the Custodian, pursuant to the Securities Lending Agreement, to:

- Enter into securities lending, repurchase or reverse purchase transactions with reputable and well-established Canadian and foreign brokers, dealers and institutions ("counterparties");
- Maintain internal controls, procedures and records including a list of approved counterparties based on generally accepted creditworthiness standards, transaction and credit limits for each counterparty and collateral diversification standards;
- Establish daily the market value of both the securities loaned by the Fund under a securities lending transaction or sold by the Fund under a repurchase transaction and the cash or collateral held by the Fund. If on any day the market value of the cash or collateral is less than 102% of the market value of the borrowed or sold securities, the Custodian will request that the counterparty provide additional cash or collateral to the Fund to make up the shortfall;
- Ensure that no more than 50% of the Total Assets of the Fund are out on loan at one time; and
- Ensure that the collateral to be delivered to the Fund is one or more of cash, qualified securities or securities immediately convertible into, or exchangeable for, securities of the same issuer, class or type, and same term, if applicable, as the securities being loaned by the Fund.

The transaction may be terminated by the Fund at any time and the loaned securities recalled within the normal and customary settlement period for such transactions.

The Manager has written procedures that set out the objectives, goals and risk management practices with respect to securities lending arrangements which are reviewed annually by the Board of Directors. The Securities Lending Agreement is approved by the Board of Directors of the Manager and securities lending arrangements and risks are monitored by the Manager. The Custodian conducts simulations to test the portfolio under stress conditions.

## **11.0 INCOME TAX CONSIDERATIONS**

The following is a summary of the principal Canadian federal income tax considerations under the Income Tax Act with respect to the acquisition, ownership and disposition of Units generally applicable as at the date of this annual information form to you if you are an individual (other than a trust) and, for the purposes of the Income Tax Act, are resident in Canada, deal at arm's length with the Fund and hold Units as capital property.

Generally, Units will be considered to be capital property to a Unitholder provided that the Unitholder does not hold Units in the course of carrying on a business of buying and selling securities and has not acquired Units in one or more transactions considered to be an adventure in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to have Units treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Income Tax Act.

This summary is based upon the current provisions of the Income Tax Act, the Tax Proposals, and counsel's understanding of the current administrative practices of CRA. This summary assumes that the Tax Proposals will be enacted as proposed. Except for the Tax Proposals, this summary does not take into account or anticipate any changes in the law, whether by way of legislative, governmental or judicial decision or action, nor does it take into account provincial, territorial or foreign tax legislation or considerations. There is no assurance that the Tax Proposals will be enacted in the form proposed or at all.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Units and does not describe the income tax considerations relating to the deductibility of interest on money borrowed to acquire Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary according to the status of the Unitholder, the province or provinces in which the Unitholder resides or carries on business and, generally, the Unitholder's own particular circumstances. Accordingly, the following description of income tax matters is of a general nature only and is not intended to constitute advice to any particular Unitholder. Unitholders should consult their own tax advisors with respect to the income tax consequences of investing in Units, based upon the Unitholder's particular circumstances.

This summary is based on the assumption that the Fund will qualify at all times as a "unit trust" and a "mutual fund trust" within the meaning of the Income Tax Act. In order to so qualify, the Fund must comply on a continuous basis with the Investment Restrictions, and certain minimum distribution requirements relating to the Units. In the event the Fund were not to qualify as a mutual fund trust at all times, the income tax consequences described below would in some respects be materially different.

This summary is also based on the assumption that none of the issuers of the securities comprising the portfolio will be foreign affiliates of the Fund or of any Unitholder and that none of the securities comprising the portfolio will be tax shelter investments or tracked interests or participating interests, other than exempt interests, in foreign investment entities under the proposals to amend the Income

Tax Act released as part of Bill C-33 (or such proposals as amended or enacted or successor provisions thereto).

### **11.1 Taxation of the Fund**

The Fund is subject to tax in each taxation year under Part I of the Income Tax Act on the amount of its income for the year, including the taxable portion of Net Capital Gains, less the portion thereof that it claims in respect of the amounts paid or payable to Unitholders in the year. Provided the Fund makes distributions in each year of its Net Income and Net Capital Gains, and provided the Fund deducts in computing its income the full amount available for deduction in each year, the Fund will not generally be liable in such year for income tax under Part I of the Income Tax Act.

With respect to an issuer included in the portfolio that is a trust, the Fund will be required to include in its income such portion of the Net Income and the taxable portion of Net Capital Gains of such issuer as is paid or becomes payable to the Fund in the year, notwithstanding that certain of such amounts may be reinvested in additional units of the issuer. Provided appropriate designations are made by the issuer, any net taxable capital gains realized by the issuer and taxable dividends received by the issuer from taxable Canadian corporations that are paid or become payable to the Fund and are designated by the issuer in respect of the Fund will effectively retain their character as such in the hands of the Fund.

The Fund will generally be required to reduce the adjusted cost base of the units of such issuer to the extent that all amounts paid or payable in a year by the issuer to the Fund exceed the sum of the amounts included in the income of the Fund for the year and the Fund's share of the non-taxable portion of capital gains of such issuer for the year. To the extent that the adjusted cost base to the Fund of a unit of such an issuer would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Fund and the Fund's adjusted cost base of such unit will be increased by the amount of such deemed capital gain.

With respect to an issuer included in the portfolio that is a limited partnership, the Fund will be required to include or, subject to certain restrictions, will be entitled to deduct, in computing its income, its share of the net income or loss for tax purposes of the issuer allocated to the Fund for the fiscal period of the issuer ending in the Fund's taxation year, whether or not a distribution is received. In general, the adjusted cost base to the Fund of the interest in such an issuer at a particular time will be equal to the actual cost of such interest plus the share of the income and capital gains of the issuer allocated to the Fund for fiscal periods of the issuer ending before the particular time less the share of losses and capital losses of the issuer allocated to the Fund for fiscal periods of the issuer ending before the particular time, and less the Fund's share of any distributions received from the issuer before the particular time. If the adjusted cost base to the Fund of the interest in such an issuer would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Fund and the Fund's adjusted cost base of such interest will be increased by the amount of such deemed capital gain.

The Fund will also be required to include in its income for each taxation year, all interest that accrues to it to the end of the year, or becomes receivable or is received by it before the end of the year, except to the extent that such interest was included in computing its income for a preceding taxation year.

In computing its income for tax purposes, the Fund may deduct reasonable administrative and other expenses incurred to earn income, generally including interest on borrowed funds used to purchase securities to be included in the portfolio.

Upon the actual or deemed disposition of a security included in the portfolio, the Fund will realize a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such security provided such security is capital property to the Fund. The Fund has made an election under subsection 39(4) of the Income Tax Act so that all securities included in the portfolio that are Canadian securities (as defined in the Income Tax Act) will be deemed to be capital property to the Fund.

On October 31, 2006, the Minister of Finance (Canada) announced new Tax Proposals which, if enacted, would modify the taxation of certain flow through entities including certain partnerships and income trusts, referred to as “specified investment flow-throughs” or “SIFTs”. The October 31, 2006 announcement was followed by the release of draft legislation by the Department of Finance on December 21, 2006 (the “2006 Proposed Amendments”). As currently drafted, the 2006 Proposed Amendments will generally not apply to income trusts, the units of which were publicly traded as of October 31, 2006, until January 1, 2011 provided that there is no undue expansion of the trust in the intervening period. The 2006 Proposed Amendments will apply to a trust that became publicly-traded after October 31, 2006 beginning with the 2007 taxation year. The 2006 Proposed Amendments will apply to a SIFT trust and will apply a tax at the trust level on distributions of certain income (other than income which is a taxable dividend received by a SIFT trust) from such SIFT trust at a rate of tax comparable to the combined federal and provincial corporate tax rate. Such distributions will be treated as taxable dividends to the SIFT trust’s unitholders.

The 2006 Proposed Amendments characterize a trust as a SIFT trust if the trust meets all the following criteria: (i) the trust is resident in Canada; (ii) the units of the trust are listed on a stock exchange or other public market; and (iii) the trust holds one or more "non-portfolio properties".

Non-portfolio property of a trust includes certain Canadian real and resource properties, property that the trust (or a non-arm’s length person or partnership) uses in the course of carrying on a business in Canada, and investments in certain "subject entities". A subject entity is defined in the 2006 Proposed Amendments to include a trust resident in Canada, a corporation resident in Canada and a “Canadian resident partnership” as defined in the 2006 Proposed Amendments. An investment by a trust in a subject entity will be a non-portfolio property if the investment meets either (or both) of the following tests:

- The trust holds securities of the subject entity that have a total fair market value that is greater than 10% of the subject entity’s "equity value". For this purpose the equity value of a subject entity is generally equal to the total fair market value of equity interests in the subject entity (which excludes debt in the subject entity and, for the purposes of a subject entity that is a trust, is generally the total fair market value of all of the income and capital interests in the trust); and
- The trust holds securities of the subject entity that, together with all of the securities that the trust holds of entities affiliated with the subject entity, have a total fair market value that is greater than 50% of the equity value of the trust itself. For this purpose, a trust’s equity value is the total fair market value of all of the income and capital interests of the trust.

Assuming that the final legislation enacts the 2006 Proposed Amendments as currently drafted: (i) it is unclear whether any of the Fund properties will constitute a “non-portfolio property” and, consequently, whether the Fund will be a SIFT; (ii) it is expected that certain Income Funds in which the Fund holds units will be SIFTs; and (iii) it is expected that distributions received by the Fund which have been subject to the new distribution tax will be characterized as taxable dividends received from a taxable Canadian corporation. Provided that appropriate designations are made by the

Fund, that portion of its taxable dividends deemed to be received from taxable Canadian corporations as is paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Income Tax Act.

No assurance can be given that the final legislation implementing the 2006 Proposed Amendments will be consistent with the foregoing or that Canadian federal income tax law respecting income trusts and other flow-through entities will not be further changed in a manner which adversely affects the Fund and its Unitholders.

## **11.2 Taxation of Unitholders**

A Unitholder will generally be required to include in income for a particular taxation year of the Unitholder such portion of the net income, including the taxable portion of the Net Capital Gains of the Fund for a taxation year as is paid or becomes payable to the Unitholder in the particular taxation year, whether received in cash or reinvested in additional Units. Provided that appropriate designations are made by the Fund, such portion of the net realized taxable capital gains of the Fund and the taxable dividends received or deemed received by the Fund on shares of taxable Canadian corporations as is paid or becomes payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder. To the extent that amounts are designated as taxable dividends from taxable Canadian corporations, the normal gross-up and dividend tax credit rules will apply. The Tax Proposals provide for an enhanced dividend tax credit in respect of certain “eligible dividends”. Any loss of the Fund for purposes of the Income Tax Act cannot be allocated to, and cannot be treated as a loss of, the Unitholders.

The non-taxable portion of Net Capital Gains of the Fund that are paid or become payable to a Unitholder in a year will not be included in computing the Unitholder’s income for the year. Any other amount in excess of a Unitholder’s share of the Net Income of the Fund for a taxation year that is paid or becomes payable to the Unitholder in such year will not generally be included in computing the Unitholder’s income for the year but will reduce the adjusted cost base of Units to the Unitholder. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and the Unitholder’s adjusted cost base will be increased by the amount of such deemed capital gain.

The Net Asset Value per Unit will reflect any income and gains of the Fund that have accrued or been realized but have not been made payable at the time Units are acquired. A Unitholder who acquires Units may become taxable on the Unitholder’s share of such income and gains of the Fund.

Any additional Units acquired by a Unitholder on a reinvestment of distributions from the Fund will have an initial cost to the Unitholder equal to the amount of the Distribution so reinvested. In computing the adjusted cost base of a Unit so acquired, the cost of such Unit must be averaged with the adjusted cost base of all other Units then held by that Unitholder as capital property. If a Unitholder participates in the distribution reinvestment plan and the Unitholder acquires a Unit from the Fund at a price that is less than the then fair market value of the Unit, it is the administrative position of the CRA that the Unitholder must include the difference in income and that the cost of the Unit will be correspondingly increased.

Upon the disposition or deemed disposition by a Unitholder of a Unit, whether on a sale, redemption, repurchase or otherwise, a capital gain (or capital loss) will be realized by the Unitholder to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Unit to the Unitholder immediately before the disposition.

One-half of any capital gain (“taxable capital gain”) realized by a Unitholder or designated by the Fund in respect of the Unitholder in a taxation year must be included in computing the income of the Unitholder for that year and one-half of any capital loss (“allowable capital loss”) realized by a Unitholder in a taxation year may be deducted from taxable capital gains realized by the Unitholder or designated by the Fund in respect of the Unitholder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year, against taxable capital gains realized in such year, to the extent and under the circumstances provided for in the Income Tax Act. Capital gains realized on the disposition of Units or amounts designated by the Fund to a Unitholder as taxable capital gains or as dividends from taxable Canadian corporations may give rise to a liability for alternative minimum tax.

## **12.0 REMUNERATION OF DIRECTORS, OFFICERS, and TRUSTEES**

The Manager is paid the Management Fee as disclosed in section 8.1.1. The Manager pays the fees of the non-management directors and expenses of the directors are paid by the Fund. In addition, the Fund pays the expenses of any action, suit or other proceedings in which or in relation to which the Manager, the Advisor, the Custodian or the Trustee and/or any of their respective officers, directors, employees, consultants or agents is entitled to indemnity by the Fund.

For the year ended December 31, 2006, the Trustee was paid an aggregate amount of \$23,354, on account of its fees and expenses incurred in its capacity as Trustee of the Fund.

## **13.0 MATERIAL CONTRACTS**

The Fund and/or the Manager, on behalf of the Fund, are party to the Declaration of Trust, the Management Agreement, the Advisory Agreement and the Custodian Agreement. Copies of these material contracts may be accessed by prospective or existing Unitholders at [www.sedar.com](http://www.sedar.com) under the Fund’s profile. They are also available at the Fund’s office during normal business hours. Details regarding each of these contracts are provided in section 1.2 in the case of the Declaration of Trust and in section 8 in the case of the other contracts.

## **14.0 OTHER MATERIAL INFORMATION**

### **14.1 Loan Facility**

The Fund entered into a Loan Facility with a Canadian chartered bank (the “Lender”) in order to provide the Fund with the ability to utilize leverage to enhance the total return on the portfolio. The terms, conditions, interest rates, fees and expenses of and under the Loan Facility are typical for loans of this nature. The Lender is at arm’s length to the Fund, the Trustee, the Manager and the Advisor and their respective affiliates and associates.

The Loan Facility permits the Fund to borrow monies for various purposes, including, without limitation, purchasing Fund Investments in accordance with the Investment Objectives and Investment Strategy and subject to the Investment Restrictions, effecting market purchases of the Fund Units, maintaining liquidity, funding redemptions and paying Distributions. The Fund has provided a security interest in all of its assets in favour of the Lender to secure such borrowings. The Manager will ensure that in the event of default, the Lender’s recourse will be limited to the assets of the Fund.

Other than borrowings by the Fund under the Loan Facility of up to 25% of the Total Assets (including securities purchased with the amount borrowed), determined at the time of borrowing, and short-term credits necessary for settlement of securities transactions, which are not considered borrowing, the Fund will not engage in further borrowing.

## **14.2 Risk Factors**

There are many risks associated with an investment in the Units, some of which are outlined below.

### *No Assurance in Achieving Investment Objectives*

There is no assurance that the Fund will be able to achieve its Investment Objectives of preserving the value of the Fund's assets and providing monthly Distributions to Unitholders. There is no assurance that the Fund will be able to pay monthly distributions in the short or long term, nor is there any assurance that the Net Asset Value of the Fund will be preserved. Changes in the relative weightings between the various types of investment vehicles making up the Fund Investments can affect the overall yield to Unitholders. The distributions received by the Fund from issuers whose securities are held as Fund Investments may vary from month to month and certain of these issuers may pay distributions less frequently than monthly, with the result that the monthly cash available for distribution to Unitholders could vary substantially.

### *Fluctuation in Value of Fund Investments and Trading at a Discount*

The Net Asset Value per Unit varies in accordance with the value of the securities acquired by the Fund, and in some cases the value of Fund Investments may be affected by factors beyond the control of the Advisor, the Manager or the Fund. There is no assurance that an adequate market exists for Fund Investments acquired by the Fund. Fund Investments issued by issuers who are not reporting issuers in all provinces may be subject to an indefinite hold period under certain provincial securities legislation. In some circumstances, the issuers of Fund Investments which the Fund may acquire have limited operating histories. The value of these Fund Investments are influenced by factors which are not within the control of the Fund, which, in the case of resource-oriented Income Funds, include the financial performance of the respective issuers, commodity prices, environmental risks, exchange rates, interest rates, issues relating to the regulation of the natural resource industry, quantity and quality of assets, operational risks relating to the specific business activities of the respective issuers and to the resource sector as a whole and other financial market conditions. In the case of REITs, such factors include the quality of the REIT's property portfolio, the perception of and the abilities of the REIT's advisor, the prospects for the Canadian and U.S. residential and commercial real estate markets and the economy in general, including the level and likely direction of interest rates. In the case of Business Funds and Energy Infrastructure Funds, such factors include the success of the business of the underlying company or other security and the economy in general. The Fund cannot predict whether the Fund Investments held by it will trade at a discount to, a premium to, or at their respective net asset values.

### *Trading Price of Units*

Units may trade in the market at a premium or discount to Net Asset Value per Unit and there can be no assurance that Units will trade at a price equal to Net Asset Value per Unit.

### *Fixed Income Investments*

The Fund invests in fixed income investments which include High Yield Debt, which involves greater risk than investment-grade debt, including risks of default on interest and principal and price changes due to such factors as general economic conditions and the issuer's creditworthiness. There are no formal exchanges on which such High Yield Debt trades. Accordingly, there may be limited liquidity for holders of such debt.

### *Sensitivity to Interest Rates*

The market price of the Units may be affected by the level of interest rates prevailing from time to time. In addition, the Net Asset Value per Unit may be highly sensitive to interest rate fluctuations because the value of the Fund Investments will fluctuate based on interest rates. Also, any decrease in the Net Asset Value per Unit resulting from an increase in interest rates may also negatively affect the market price of the Units. Unitholders who wish to redeem or sell their Units may, therefore, be exposed to the risk that the Net Asset Value per Unit or the market price of the Units will be negatively affected by interest rate fluctuations. Increases in interest rates may also increase the Fund's costs of borrowing.

### *Composition of Fund Investments*

The composition of the Fund Investments taken as a whole may vary widely from time to time and may be concentrated by type of security, commodity, industry or geography, resulting in the Fund Investments being less diversified than anticipated. Overweighting investments in certain sectors or industries involves risk that the Fund will suffer a loss because of declines in the prices of securities in those sectors or industries.

### *Use of Leverage*

The Fund incurs indebtedness for various purposes, including purchasing Fund Investments and maintaining liquidity. Other than borrowings by the Fund under the Loan Facility of up to 25% of the Total Assets (including securities purchased with the amount borrowed), determined at the time of borrowing, the Fund will not engage in borrowing. The Fund has provided a security interest in all of its assets in favour of the Lender to secure such borrowings. There can be no assurance that such a strategy will enhance returns and, in fact, the strategy may reduce returns (both distributions and capital) and thereby increase the risk to Unitholders. If the Fund Investments suffer a decrease in value, the leverage component will cause a decrease in Net Asset Value in excess of that which would otherwise be experienced. If the Loan Facility is called by the Lender, the Fund may be required to liquidate Fund Investments to repay the indebtedness at a time when the market for the Fund Investments may be depressed.

### *Illiquid Securities*

If the Advisor is unable, or determines that it is inappropriate, to dispose of some or all of the Fund Investments prior to the Termination Date, Unitholders may, subject to applicable laws, receive distributions of securities in specie upon the termination of the Fund, for which there may be an illiquid market or which may be subject to resale restrictions of indefinite duration. In addition, if the Advisor determines that it is appropriate to acquire certain securities for the Fund, the Advisor may be unable to acquire the number of such securities, or to acquire such securities at a price acceptable to the Advisor, if the market for such securities is particularly illiquid.

## *Taxation of the Fund*

While the Fund has been structured so that the Fund will generally not be liable to pay income tax, the information available to the Fund and the Manager relating to the characterization, for tax purposes, of the distributions received by the Fund in any year from issuers of Fund Investments may be insufficient as at December 31 of that year to ensure that the Fund will make sufficient distributions in order that it will not be liable to pay income tax in respect of that year.

If the Fund ceases to qualify as a “mutual fund trust” under the Income Tax Act, the income tax considerations described in section 11.0 would be materially and adversely different in certain respects. There can be no assurance that Canadian federal income tax laws respecting the treatment of mutual fund trusts will not be changed in a manner that adversely affects the Unitholders. Currently, a trust will be deemed not to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents unless all or substantially all of its property is property other than taxable Canadian property as defined in the Income Tax Act. On September 16, 2004, the Minister of Finance (Canada) released Tax Proposals (the “September 16<sup>th</sup> Tax Proposals”) which propose that a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships, or any combination thereof, is more than 50% of the aggregate fair market value of all units issued by the trust where, at that time or any previous time, more than 10% (based on fair market value) of the trust’s property is taxable Canadian property or certain other types of property. If the September 16<sup>th</sup> Tax Proposals are enacted as proposed, and if these circumstances applied to the Fund, the Fund would thereafter cease to be a mutual fund trust and the income tax considerations as described in section 11.0 would be materially and adversely different in certain respects. The September 16<sup>th</sup> Tax Proposals do not currently provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Minister of Finance (Canada) indicated that the September 16<sup>th</sup> Tax Proposals are being further considered.

CRA has expressed a view that, in certain circumstances, the interest on money borrowed to invest in an Income Fund that may be deducted may be reduced on a *pro rata* basis in respect of distributions from the Income Fund that are a return of capital and which are not reinvested for an income earning purpose. While the ability to deduct interest depends on the facts, based on the jurisprudence, CRA’s view should not affect the Fund’s ability to deduct interest on money borrowed to acquire units of Income Funds included in the Portfolio. If CRA’s view were to apply to the Fund, part of the interest payable by the Fund in connection with money borrowed to acquire certain securities held in the portfolio could be non-deductible, increasing the net income of the Fund for tax purposes and the taxable component of Distributions to Unitholders. Income of the Fund which is not distributed to Unitholders would be subject to non-refundable income tax in the Fund.

As described in section 11.1 above, in the event that the 2006 Proposed Amendments are implemented as currently drafted, certain Income Funds in which the Fund holds units will be SIFTs. Accordingly, in such event, the after-tax returns realized by Unitholders may be reduced to the extent that the trust receives distributions of income or capital gains from such SIFTs. Finally, as a result of these proposals, it is possible that SIFTs may seek to restructure their affairs and organizational structures in a manner that could have an impact upon the returns to the Fund and could limit the number of potential issuers in which the Fund may invest. In addition, although not yet implemented, the 2006 Proposed Amendments have had, and may continue to have, an effect on the trading price of trusts and limited partnerships that may be affected by the 2006 Proposed Amendments, which may impact the Net Asset Value of the Fund.

### *Changes in Legislation*

There can be no assurance that income tax laws, government incentive programs and the treatment of mutual fund trusts under the Tax Act will not be changed in a manner which adversely affects the distributions received by the Fund or by the Unitholders, including as a result of the 2006 Proposed Amendments described under section 11.1

### *Interest Rate and Foreign Exchange Hedging*

Interest rate and foreign exchange hedges will be used by the Fund only to the extent that the Advisor considers appropriate. The use of hedges involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the Advisor's assessment of certain market movements is incorrect; the risk that the use of hedges could result in losses greater than if the hedging had not been used.

### *Loss of Investment*

An investment in the Fund is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment.

### *Status of the Fund*

As the Fund is not a mutual fund as defined under Canadian securities laws, the Fund is not subject to the Canadian policies and regulations that apply to open-end mutual funds. It is intended that the Fund will be a mutual fund trust for purposes of the Income Tax Act.

### *Securities Lending*

The Fund may engage in securities lending. Although the Fund will receive collateral for the loans and such collateral will be marked-to-market, the Fund will be exposed to the risk of loss should the borrower default on its obligation to return the borrowed securities and the collateral is insufficient to reconstitute the portfolio of loaned securities.

### *Conflicts of Interest*

The Advisor and its directors and officers engage in, and the Manager and its directors and officers and their respective affiliates and associates engage in, the promotion, management or investment management of one or more funds or trusts which invest primarily in High Income Investments. Although none of the directors or officers of the Manager will devote his or her full time to the business and affairs of the Fund or the Manager, each will devote as much time as is necessary to supervise the management of (in the case of the directors) or to manage the business and affairs of (in the case of officers) the Manager and the Fund.

### *Use of Derivatives*

The Fund may invest in and use derivative instruments for hedging purposes to the extent considered appropriate by the Advisor, taking into account factors including transaction costs. There can be no assurance that the Fund's hedging strategies will be effective. The Fund is subject to the credit risk that its counterparty (whether a clearing corporation in the case of exchange-traded instruments or another third party in the case of over-the-counter instruments) may be unable to meet its obligations. In addition, there is a risk of loss by the Fund of margin deposits in the event of the bankruptcy of the

dealer with whom the Fund has an open position in an option or futures or forward contract. Derivative instruments traded in foreign markets may offer less liquidity and greater credit risk than comparable instruments traded in North American markets. The ability of the Fund to close out its positions may also be affected by exchange imposed daily trading limits on options and futures contracts. If the Fund is unable to close out a position, it will be unable to realize its profit or limit its losses until such time as the option becomes exercisable or expires or the futures or forward contract terminates, as the case may be. The inability to close out options, futures and forward positions could also have an adverse impact on the Fund's ability to use derivative instruments to effectively hedge its portfolio or implement its Investment Strategy.

#### *Foreign Currency Exposure*

As a portion of the Fund Investments may be comprised of securities denominated in U.S. dollars or other foreign currencies or securities whose value may be linked, in part, with the value of the U.S. dollar or other foreign currencies, the Net Asset Value per Unit and the value of distributions received by the Fund will, when measured in Canadian dollars, will be affected by fluctuations in the value of the U.S. dollar or other foreign currencies relative to the Canadian dollar.

#### *Significant Redemptions*

Units are redeemable annually at the Net Asset Value (less any costs associated with the redemption including brokerage costs) as described in Section 7.0. The purpose of the annual redemption right is to prevent the Units from trading at a substantial discount to the Net Asset Value per Unit and to provide Unitholders with the right to realize their investment once per year without any trading discount to the Fund's Net Asset Value. While the redemption right provides Unitholders the option of annual liquidity at Net Asset Value, there can be no assurance that it will reduce trading discounts. If a significant number of Units are redeemed, the trading liquidity of the Units could be significantly reduced. In addition, the expenses of the Fund would be spread among fewer Units resulting in a lower Distribution per Unit. Pursuant to the Declaration of Trust, the Manager has the ability to terminate the Fund if the Manager determines that it would be in the best interests of Unitholders to do so.

### **14.3 Accounting Changes**

National Instrument 81-106 *Investment Fund Continuous Disclosure* ("NI 81-106") requires an investment fund, such as the Fund, to calculate its Net Asset Value in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Changes to Canadian GAAP were recently implemented by the Accounting Standards Board of the Canadian Institute of Chartered Accountants with the introduction of section 3855 *Financial Instruments – Recognition and Measurement* of the handbook of the Canadian Institute of Chartered Accountants. Section 3855 requires public securities to be priced at the closing bid for long positions and the closing ask price for short positions. Currently, most securities are valued by investment funds at the last trade or closing price. Section 3855 was to take effect, in all respects, for financial years commencing October 1, 2006. However, the Canadian securities regulatory authorities ("CSRA") acknowledged that the new standard resulted in significant difficulties for investment funds when calculating Net Asset Value for purposes other than financial statements. In September 2006 the CSRA granted blanket relief to investment funds subject to NI 81-106, which includes the Fund, from having to calculate its Net Asset Value for any purpose, other than for the purpose of financial statements, provided that: (i) the investment fund continues to calculate Net Asset Value for purposes other than its financial statements in accordance with Canadian GAAP without giving effect to section 3855; and (ii) the notes to the financial statements include a reconciliation of the Net Asset Value calculated

in accordance with section 3855 to the Net Asset Value calculated without giving effect to section 3855. The exemptive relief is effective until the earlier of (i) September 30, 2007; and (ii) the effective date of any amendments to NI 81-106 to address this issue.

## ANNUAL INFORMATION FORM FOR BROMPTON VIP INCOME FUND

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Telephone: (416) 642-6000  
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Website: [www.bromptongroup.com](http://www.bromptongroup.com)

### ADDITIONAL INFORMATION:

Additional information about the Fund is available in the Fund's management report of fund performance and financial statements, copies of these documents may be obtained at no cost:

- By calling (416) 642-6000 or toll-free at 1-866-642-6001,
- Direct from your dealer, or
- By e-mail at [info@bromptongroup.com](mailto:info@bromptongroup.com).

Copies of these documents and other information about the Fund, such as information circulars and material contracts, are also available on the Fund's website at [www.bromptongroup.com](http://www.bromptongroup.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).