

BROMPTON  INCOME FUND2006
ANNUAL
REPORT

Portfolio of income funds
and high-yield debt
managed by MFC Global
Investment Management.

Management Report of Fund Performance

March 8, 2007

This annual management report of fund performance for Brompton VIP Income Fund (the "Fund") contains financial highlights but does not contain the audited annual financial statements. The audited annual financial statements follow this report.

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

The Fund

Brompton VIP Income Fund is a closed-end investment trust that is managed by Brompton Funds Management Limited (the "Manager"). The units of the Fund trade on the Toronto Stock Exchange ("TSX") under the symbol VIP.UN.

Investment Objectives and Strategies

The Fund's objectives are to provide unitholders with a high level of income through receipt of monthly cash distributions and to preserve the net asset value per unit. The Fund utilizes an active asset and sector allocation strategy to invest in a diversified portfolio of income trusts and high-yield debt across a broad range of industries and geographic areas. Its investment focus is on business funds with smaller weightings in real estate investment trusts, oil and gas trusts, power and pipeline trusts and high-yield debt and the Fund may invest a portion (less than 10%) in common equities. The Fund is actively managed by MFC Global Investment Management ("MFC"), a subsidiary of Manulife Financial Corp., a top-ranked portfolio manager of income fund investments with extensive experience in income trusts and high-yield fixed income investments. The Fund is RRSP, DPSP, RRIIF and RESP eligible.

Risks

Changes to the Fund over the financial year ended December 31, 2006 affected the overall risk associated with an investment in the Fund in the following ways:

- (i) As illustrated in the discussion under "Recent Developments – Tax Treatment of Income Trusts," the proposed change in the taxation of income trusts had a negative impact on the net asset value of the Fund.
- (ii) The Fund has borrowed amounts to invest in additional portfolio investments to increase the overall distributions of the Fund. If interest rates increase during a period when leverage is utilized, increased interest costs will reduce income available to be distributed. With the rise in short-term US interest rates over the year, the Fund has benefited from the fixing of the interest rates on US\$21.0 million of its borrowings. The Fund has mitigated this risk of rising short-term interest rates by fixing the interest rate on US\$13.0 million to May 2008 and US\$8.0 million to July 2010.

- (iii) Leverage can also impact net asset value of the Fund as it will enhance the net asset value during a period when the Fund's investments have appreciated and will exacerbate the decline of net asset value during a falling market. The greater the amount of leverage, the greater the impact on net asset value of a rise or decline in market prices of the Fund's investments. During 2006, leverage had a negative impact on the net asset value of the Fund as the value of the underlying trusts decreased following the October 31, 2006 announcement by the Department of Finance on the taxation of public income trusts.
- (iv) A portion of the Fund's portfolio is invested in high-yield debt, the majority of which is denominated in US dollars. The Fund hedges this foreign currency exposure by borrowing largely in US dollars.
- (v) In 2006, \$26.0 million of units were redeemed representing 18.5% of the Fund's net assets at that time. As a result, the trading liquidity of the units may be reduced.

Risks associated with an investment in the units of the Fund are discussed in detail in the Fund's annual information form, which is available on the Fund's website at www.bromptongroup.com or on SEDAR at www.sedar.com.

Recent Developments

Tax Treatment of Income Trusts

Notwithstanding a campaign promise made by Prime Minister elect Stephen Harper in January 2006 not to tax income trusts, the Federal Minister of Finance announced a proposal for a new tax on public income trusts on October 31, 2006. The resulting effect was a huge sell-off in the market, which initially erased \$30 billion in market capitalization on the TSX. The Fund, which invests in income trusts, had negative overall performance in light of this announced proposal.

Investment funds like the Fund are not subject to this proposed tax, but to the extent an investment fund invests in income trusts (excluding certain REITs) the level of distributions it receives will be less if the proposed taxing provisions come into effect.

The proposed tax, if enacted, will take effect immediately for new income trust conversions. Existing income trusts have been given a four-year transition period ending on December 31, 2010 before they will be subject to this new tax. Income trusts, with the exception of REITs that meet specific criteria, will be subject to the proposed tax on their distributable income at the corporate tax rate. The effect of this change will be to reduce distributable cash by as much as 31.5% beginning in 2011 for existing public income trusts. To the extent such trusts return capital as a component of their distributions, this portion is not subject to the proposed tax. For taxable investors, the impact of this new tax will be offset by allowing the distribution portion ordinarily received as income to qualify for the more favourable dividend tax treatment. As a result, the proposed changes will have no net effect on an after-tax basis for taxable investors in the highest marginal tax rate bracket. However, tax-deferred investors, such as pension funds and investments held in registered accounts such as RRSPs, and foreign investors do not benefit from the favourable dividend tax treatment, and they will therefore be adversely affected when these new taxes, if enacted, come into effect in 2011.

Certain sectors of the income trust market, such as oil and gas trusts, have been more negatively affected in the market than others due to their greater concentration of foreign and/or tax-deferred holders. Over time, Brompton expects there to be a migration in income trust holders from tax-deferred and foreign investors to the fully taxable investor, which should improve market prices over the longer term.

Shortly after the government's announcement, Brompton began consulting and working with industry participants and advocacy groups and presented to the government an alternative proposal that we felt was equitable and would protect the interests of all investors. A copy of this proposal can be found on our website at www.bromptongroup.com. Brompton continues to work to help influence a more favourable outcome for our investors.

Implementation of Accounting Standard

In the management report of fund performance prepared for the six months ended June 30, 2006, it was reported that, starting January 1, 2007, the Fund would adopt the new accounting standard, Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855: Financial Instruments – Recognition and Measurement. This standard would cause the Fund to change the way it determines the value of securities it holds in its portfolio. In particular, securities traded in an active market are valued using the last available bid price rather than the closing price for exchange-traded securities or at the average of the latest bid and ask prices for securities traded over-the-counter. This change in determining net asset value would affect the following: (i) the valuation of the Fund's investments for its financial statements; (ii) the weekly posted net asset value per unit of the Fund; and (iii) pricing of the redemption amounts for the units.

Pursuant to requests from the investment fund industry, the Canadian Securities Administrators ("CSA") exempted investment funds, including the Fund, from applying CICA Section 3855 in the calculation of the weekly net asset values and the amount of the net asset value for redemption purposes until September 30, 2007. The exemption was requested to allow further study of whether calculation and use of net asset value in accordance with Canadian GAAP are appropriate for purposes other than financial statements.

Securities Lending

In October 2006, the Fund commenced a securities lending program through its custodian, RBC Dexia Investor Services Trust, in order to generate additional income. Under the program, the aggregate market value of the securities on loan cannot exceed 50% of the assets of the Fund and the Fund receives collateral of at least 102% of the market value of the securities on loan. In 2006 this program generated income of approximately \$28,000.

Results of Operations

Distributions

During the year ended December 31, 2006, the Fund made monthly cash distributions which totalled \$1.01997 per unit. Since inception in February 2002, the Fund has paid total cash distributions \$4.85 per unit. In October 2006, the Fund increased its monthly distribution by 8% to \$0.09 per unit (\$1.08 per annum) as a result of earning net investment income in excess of distributions for over a year.

A breakdown of the tax characteristics of the 2006 distributions paid by the Fund is provided later in this report under “2006 Tax Information.”

The Fund has a distribution reinvestment plan which allows participating unitholders to automatically reinvest monthly distributions in additional units of the Fund. For the year ended December 31, 2006, 41,658 units were acquired in the market pursuant to this plan at an average price of \$13.84 per unit.

Net Asset Value

As a result of weakness in the Fund’s investment portfolio due to the impact of the proposed tax changes on trusts as discussed above, the net asset value per unit decreased by \$1.22 per unit, or 8%, from \$14.77 per unit to \$13.55 per unit over the year. The aggregate net assets of the Fund declined from \$158 million to \$113 million as a result of the negative effect of the income trust tax announcement, redemptions and repurchases under the issuer bid program.

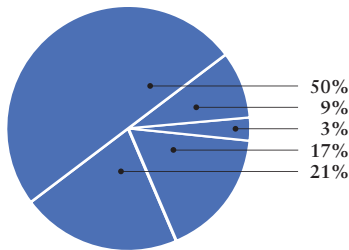
Investment Portfolio

As of December 31, 2006, the Fund’s investments included a total of 45 income funds and 70 fixed income investments, which provide diversification by issuer, industry, and asset class. The breakdown of the portfolio is shown in the pie chart below, and a detailed listing of the Fund’s security holdings is provided in the financial statements.

The table below shows the net gains (losses) in the portfolio by sector. The Fund’s portfolio experienced net losses of \$13.8 million. REITs were the best performing sector as they generally will not be subject to the announced tax on income trusts.

The Fund’s fixed income securities reduced the impact on the portfolio of the announced changes to taxing income trusts by appreciating over the year. The fixed income securities are high-yield debt and are mostly denominated in US dollars. In order to hedge the foreign exchange exposure, an amount approximately equal to these US dollar denominated assets has been borrowed under the Fund’s credit facilities in US dollars. As a result, gains or losses on the US dollar foreign exchange hedging are included with the gains or losses on the fixed income securities to show the net gain from this investment activity.

Portfolio Sectors



Net Gains (Losses) by Sector (millions)	Realized	Unrealized	Total
Business funds	\$ 5.3	\$ (16.9)	\$ (11.6)
Oil and gas funds	0.4	(7.3)	(6.9)
Power and pipeline funds	—	(0.5)	(0.5)
Real estate investment trusts	3.3	1.5	4.8
Fixed income securities and foreign exchange	(0.8)	1.2	0.4
Total	\$ 8.2	\$ (22.0)	\$ (13.8)

Liquidity and Capital Resources

As of December 31, 2006, the Fund had total borrowings of \$41 million under its three credit facilities, which represented 22.6% of total assets or 36.1% of net assets. The Fund currently has a 364-day revolving credit facility and two term credit facilities. The current revolving credit facility provides for maximum borrowings of \$23.0 million, with borrowings in Canadian currency at either the prime rate of interest or the bankers' acceptance rate plus a fixed percentage or in US currency at the LIBOR rate plus a fixed percentage. At December 31, 2006, the Fund had LIBOR based borrowings in the amount of \$5.9 million (US\$5.1 million) and borrowings based on the bankers' acceptance rate of \$10.6 million outstanding under its revolving facility. Under its term credit facilities, the Fund has borrowed US\$13.0 million at a fixed rate of interest of 3.89% for a five-year period ending May 28, 2008 and US\$8.0 million with a five-year term to July 14, 2010 and a fixed rate of interest of 4.86%. These loans represent \$24.4 million of the total borrowings at December 31, 2006. With the rise of US short-term interest rates over the past year, the Fund benefited from having the interest rate fixed on a significant portion of its borrowings. At December 31, 2006, borrowings in US dollars had an unrealized foreign exchange gain of \$2.5 million which hedges foreign exchange losses on the Fund's US dollar securities. The term loans have been used to invest in additional portfolio investments to increase the overall distributions paid by the Fund. The revolving credit facility has also been used to invest in additional portfolio investments as well as for working capital purposes. During the year ended December 31, 2006, the minimum and maximum amounts of borrowings were \$28.8 million and \$44.7 million, respectively.

To provide liquidity, units of the Fund are listed on the TSX under the symbol VIP.UN. The Fund's normal course issuer bid program allows it to purchase its units on the TSX when they trade below net asset value per unit. As a result, purchases under the issuer bid are accretive to the net asset value per unit. A total of 415,543 units were purchased in 2006 under this program at an average price of \$13.35 per unit. In 2006, units of the Fund traded at an average discount to their net asset value per unit of 4.8%. Investors may also redeem their units annually in accordance with their redemption provisions.

Related Party Transactions

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.85% per annum of the net asset value of the Fund plus applicable taxes. The Manager is responsible for paying the fees of MFC for the portfolio management services it provides the Fund. The Fund also pays to the Manager a service fee equal to 0.40% per annum of the net asset value of the Fund. The service fee is in turn paid by the Manager to investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter. In 2006, management and service fees amounted to \$1.4 million and \$0.6 million, respectively.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the fiscal periods indicated. This information is derived from the Fund's audited annual financial statements. The information in the following tables is presented in accordance with National Instrument ("NI") 81-106 and, as a result, does not act as a continuity of opening and closing net asset value per unit. The increase (decrease) in net assets from operations is based on average units outstanding during the period, and all other numbers are based on actual units outstanding at the relevant point in time.

Net Asset Value per Unit

	2006	2005	2004	2003	2002
Net asset value, beginning of year ⁽²⁾	\$ 14.77	\$ 13.70	\$ 11.36	\$ 9.29	\$ 9.37
Increase (decrease) from operations: ⁽¹⁾⁽³⁾					
Total revenue	1.48	1.32	1.25	1.26	0.96
Total expenses	(0.39)	(0.31)	(0.28)	(0.25)	(0.20)
Realized gain (loss) for the year	0.80	0.71	0.25	0.01	(0.16)
Unrealized gain (loss) for the year	(2.12)	0.30	2.20	2.04	0.05
Total increase (decrease) in net assets from operations	\$ (0.23)	\$ 2.02	\$ 3.42	\$ 3.06	\$ 0.65
Distributions to unitholders: ⁽¹⁾⁽²⁾					
From net investment income (excluding dividends)	\$ 0.71	\$ 0.61	\$ 0.48	\$ 0.52	\$ 0.35
From dividends	0.05	0.06	0.05	0.07	0.04
From net realized gain on investments	—	—	0.14	—	—
Return of capital	0.26	0.33	0.43	0.41	0.34
Total distributions to unitholders	\$ 1.02	\$ 1.00	\$ 1.10	\$ 1.00	\$ 0.73
Net asset value, end of year⁽²⁾	\$ 13.55	\$ 14.77	\$ 13.70	\$ 11.36	\$ 9.29

⁽¹⁾ Period from February 19, 2002 (commencement of operations) to December 31, 2002.

⁽²⁾ Net asset value per unit and distributions per unit are based on the actual number of units outstanding at the relevant time.

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

Ratios and Supplemental Data

	2006	2005	2004	2003	2002
Net assets (in 000s)	\$ 113,349	\$ 157,761	\$ 111,913	\$ 103,102	\$ 90,690
Number of units outstanding (in 000s)	8,365	10,683	8,170	9,077	9,763
Management expense ratio ("MER") ⁽¹⁾⁽²⁾	2.69%	2.24%	2.45%	2.47%	9.09%
MER excluding interest expense and issuance costs ⁽¹⁾⁽³⁾	1.46%	1.52%	1.51%	1.56%	1.59%
Portfolio turnover rate ⁽⁴⁾	14.68%	17.75%	14.34%	28.04%	N/A
Trading expense ratio ⁽⁵⁾	0.05%	0.05%	N/A	N/A	N/A
Closing market price	\$ 12.61	\$ 13.80	\$ 13.30	\$ 11.20	\$ 9.50

⁽¹⁾ Annualized for the period from February 19, 2002 (commencement of operations) to December 31, 2002.

⁽²⁾ Management expense ratio is based on the requirements of NI 81-106 and includes the total expenses of the Fund for the stated period, including interest expense and issuance costs, and is expressed as an annualized percentage of the average net assets of the period.

⁽³⁾ MER, excluding interest expense and issuance costs, has been presented separately as it expresses only the ongoing management and administrative expenses of the Fund as a percentage of average net assets.

⁽⁴⁾ The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not provided when a fund is less than one year old. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period.

⁽⁵⁾ The trading expense ratio represents total commissions expressed as an annualized percentage of daily average net assets of the Fund during the period. This disclosure was a new requirement in 2005 under NI 81-106 and was not applied retroactively.

Expense Ratio

The MER of the Fund increased from 2.24% in 2005 to 2.69% in 2006. This ratio is exaggerated by the inclusion of interest expense on borrowings used to purchase additional portfolio investments to increase the distributions of the Fund. In 2006, interest rates on the Fund's short-term borrowings increased and the Fund had a higher level of leverage over the year, which caused the increase in the ratio.

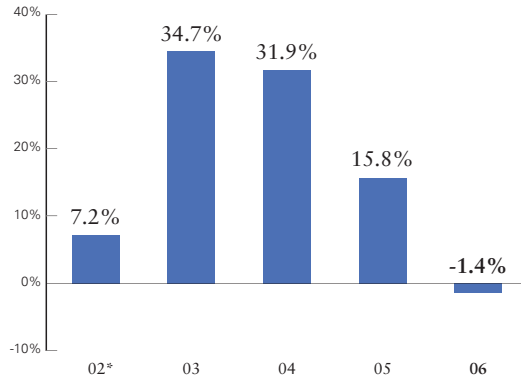
The MER, excluding interest expenses, declined to 1.46% in 2006 from 1.52% in 2005. This latter rate is more representative of the ongoing efficiency of the administration of the Fund.

Past Performance

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on net asset value per unit and assumes that distributions made by the Fund on its units in the periods shown were reinvested (at net asset value per unit) in additional units of the Fund.

The bar chart shows the Fund's annual return in each year since inception to December 31, 2006. The chart shows, in percentage terms, how an investment held on the first day of each fiscal year would have increased or decreased by the last day of the fiscal year.

Year-by-Year Returns



* Period from February 19, 2002 (commencement of operations) to December 31, 2002.

The following table shows the Fund's annual compound return for each period indicated, compared with the S&P/TSX Capped Income Trust Index ("Income Trust Index"). The Income Trust Index is a broad-based composite index which may encompass any or all Global Industry Classification Standard ("GICS") sectors of the income trust marketplace. Income trusts that qualify for inclusion must derive their distribution income from actual operating entities. The Income Trust Index is calculated without the burden of management fees and fund expenses whereas the performance of the Fund is calculated after deducting such fees and expenses.

Annual Compound Returns

	1 Year	3 Year	Since Inception ⁽¹⁾
Brompton VIP Income Fund ⁽²⁾	(1.4)%	14.6%	17.3%
S&P/TSX Capped Income Trust Index	(2.8)%	17.3%	20.7%

⁽¹⁾ Period from February 19, 2002 (commencement of operations) to December 31, 2006.

⁽²⁾ Based on net asset value per unit and assuming that distributions made by the Fund on its units in the periods shown were reinvested (at net asset value per unit) in additional units of the Fund.

The Fund experienced a slightly negative return in 2006 due largely to the proposed tax on income trusts. The Fund did outperform the Income Trust Index, particularly in the second half of the year due to its approximately 20% weighting in US fixed income investments. Since inception, the Fund has provided investors with robust compound annual returns of 17.3%. The Fund has achieved these strong returns, while being overweight business trusts, significantly underweight oil and gas trusts and allocating a significant portion of the portfolio to fixed income investments.

Summary of Investment Portfolio

As at December 31, 2006

Total net asset value	\$ 113,348,931
-----------------------	----------------

Portfolio Composition	% of Portfolio	% of NAV
Business funds	44.5%	70.5%
Fixed income investments	18.4%	29.1%
Real estate investment trusts	15.2%	24.1%
Cash and short-term investments	10.4%	16.5%
Oil and gas funds	8.3%	13.2%
Power and pipeline funds	3.2%	5.1%
Total investment portfolio	100.0%	158.5%
Other net liabilities		(58.5%)
Total net asset value		100.0%

Top 25 Holdings	% of Portfolio	% of NAV
Cash and short-term investments	10.4%	16.5%
BFI Canada Income Fund	4.5%	7.1%
Northern Property REIT	4.4%	7.0%
Davis + Henderson Income Fund	4.0%	6.4%
Gateway Casinos Income Fund	3.7%	5.8%
RioCan REIT	3.6%	5.6%
Energy Savings Income Fund	3.4%	5.4%
Canadian Oil Sands Trust	3.1%	5.0%
Boston Pizza Royalties Income Fund	2.7%	4.3%
Livingston International Income Fund	2.4%	3.7%
Altus Group Income Fund	2.3%	3.6%
Cineplex Galaxy Income Fund	2.2%	3.5%
Northland Power Income Fund	2.2%	3.5%
TimberWest Forest Corp.	2.1%	3.3%
ARC Energy Trust	1.9%	3.1%
SIR Royalty Income Fund	1.8%	2.9%
Focus Energy Trust	1.8%	2.8%
The Keg Royalties Income Fund	1.7%	2.6%
InnVest REIT	1.6%	2.5%
Yellow Pages Income Fund	1.4%	2.2%
Huntingdon REIT	1.4%	2.2%
Chemtrade Logistics Income Fund	1.4%	2.2%
Primaris Retail REIT	1.3%	2.1%
H&R REIT	1.3%	2.1%
The Data Group Income Fund	1.1%	1.7%

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end.

2006 Tax Information

The following information is applicable to holders who, for the purpose of the Income Tax Act (Canada), are resident in Canada and hold Fund units as capital property outside of an RRSP, RRIF or DPSP. Unitholders should receive a T3 slip from their investment dealer providing this information.

T3 supplementary slips for holdings of the Fund will indicate Foreign Non-Business Income in Box 25, Other Taxable Income in Box 26, Capital Gains in Box 21 and Dividend Income in Box 23. Dividend income is subject to the standard gross-up and federal dividend tax credit rules.

The return of capital component is a non-taxable amount that serves to reduce the adjusted cost base of Fund units and is reported on the T3 supplementary slips in Box 42.

The following table outlines the breakdown of the Fund's distributions declared in 2006 on a per unit basis.

Record Date	Payment Date	Return of Capital	Foreign Non-Business Income	Other Taxable Income	Dividend Income	Capital Gains	Total Distribution
Jan. 31, 2006	Feb. 14, 2006	\$ 0.02160	\$ 0.01770	\$ 0.03999	\$ 0.00404	\$ —	\$ 0.08333
Feb. 28, 2006	Mar. 14, 2006	0.02160	0.01770	0.03999	0.00404	—	0.08333
Mar. 31, 2006	Apr. 17, 2006	0.02160	0.01770	0.03999	0.00404	—	0.08333
Apr. 28, 2006	May 12, 2006	0.02160	0.01770	0.03999	0.00404	—	0.08333
May 31, 2006	June 14, 2006	0.02160	0.01770	0.03999	0.00404	—	0.08333
June 30, 2006	July 17, 2006	0.02160	0.01770	0.03999	0.00404	—	0.08333
July 31, 2006	Aug. 15, 2006	0.02160	0.01770	0.03999	0.00404	—	0.08333
Aug. 31, 2006	Sep. 15, 2006	0.02160	0.01770	0.03999	0.00404	—	0.08333
Sep. 29, 2006	Oct. 16, 2006	0.02160	0.01770	0.03999	0.00404	—	0.08333
Oct. 31, 2006	Nov. 14, 2006	0.02333	0.01911	0.04319	0.00437	—	0.09000
Nov. 30, 2006	Dec. 14, 2006	0.02333	0.01911	0.04319	0.00437	—	0.09000
Dec. 29, 2006	Jan. 15, 2007	0.02333	0.01911	0.04319	0.00437	—	0.09000
Total		\$ 0.26439	\$ 0.21663	\$ 0.48948	\$ 0.04947	\$ —	\$ 1.01997

This information is of a general nature only and does not constitute legal or tax advice to any particular investor. Accordingly, investors are advised to consult their own tax advisors with respect to their individual circumstances.

Portfolio Manager

MFC Global Investment Management

The Fund is actively managed by MFC, a subsidiary of Manulife Financial Corp. and a top-ranked portfolio manager of income fund investments with extensive experience in income trusts and high-yield fixed income investments. The portfolio management team has provided investors with top percentile risk-adjusted returns over the past five years based on the universe of Canadian mutual funds rated by Morningstar. With over 100 years of experience and \$230 billion in assets under management, MFC is a leading investment management company.

Portfolio Manager's Report

Results of Operations

On October 31, 2006, Ottawa announced it would impose a tax on income trust distributions effective in 2011. Brompton VIP Income Fund portfolio, similar to most other portfolios concentrated in income trusts, was negatively impacted as a result of the government's announcement. The S&P/TSX Capped Income Trust Index returned -8.6% in the following two-month period ending December 31, 2006. Analysts estimate that approximately \$25 to \$30 billion in market value was erased as a direct result of the government's decision. On October 31, 2006 the Brompton VIP Income Fund had an Income Trust Index weighting of 79%, primarily weighted to the Business Trust sector, with 18% of the portfolio in high-yield debt. The income trust sector exposures at that time were: business 50%, REITs 13%, infrastructure 2% and energy 14%. While the Fund outperformed the Index, net of fees, due to its allocation to high-yield debt and to REITs, which were largely unaffected by the proposed tax, Brompton VIP Income Fund nonetheless had a negative return of 1.4% over the year.

The Brompton VIP Income Fund increased its monthly distribution by 8% to \$0.09 per unit (\$1.08 per annum) commencing with the distribution paid to unitholders of record on October 31, 2006 due to higher income from the underlying portfolio.

Investment Performance

During the 12-month period, income trusts, as measured by the S&P/TSX Capped Income Trust Index, posted a negative compound annual return of 2.8% due to deteriorating fundamentals in the energy sector and the effect of the government's decision on income trust taxation.

Declining natural gas prices throughout the year proved difficult for some energy trusts. The price of Nymex natural gas declined by approximately 45% during 2006, and as a result, 19 income trusts announced decreases to their distributions. The Fund benefited from an underweight position in the energy trust sector. However, the Fund did hold three of the 19 trusts that cut distributions. A focus on high quality, long-life assets, sustainable business models and a balanced exposure to both natural gas and oil helped to mitigate some of the downside.

The high-yield market bond returned 10.76% during 2006, as measured by the Merrill Lynch Master II Index. Consequently, the Fund's 18% exposure to the high-yield market proved advantageous during 2006.

Portfolio Construction

The exposure to energy trusts decreased from 18% in 2005 to 8% as at December 31, 2006. The Business trust and REIT weightings remained relatively unchanged. The high-yield bond weight was increased by 3% and ended the year at 18%.

Although the energy trust weight was already well below the market weight, the Fund portfolio managers took advantage of speculative rallies post October 31, 2006 in the energy trust sector to reduce their holdings in names such as Shiningbank Energy Income Fund and ARC Energy Trust.

Throughout the year, the managers took profits by selling names such as North West Company and units of Summit REIT, which were tendered to a takeover offer at a large premium.

Recent Developments and Outlook

The most significant recent development was the announcement of the taxation of income trusts. This has caused uncertainty as to how the sector will evolve over the next four years. The portfolio managers expect heightened volatility in this sector. However, the sell-off in the wake of the announcement has resulted in the fundamental valuations of some trusts, primarily in the business trust sector, becoming attractive again even after considering the potential tax implications. The portfolio managers believe that their thorough due diligence and strict value discipline allow the Fund to benefit from such investment opportunities as they arise. The Fund's decreased exposure to energy trusts combined with diversification across assets not affected by the tax change should continue to mitigate potential negative impacts.

The bond portfolio managers expect that interest rates will remain range-bound with a bias towards lower rates during the latter half of 2007, given the anticipated economic slowdown in the US and Canada.

The portfolio manager's disciplined investment style and the portfolio's diversified holdings make it well-positioned to continue meeting its target monthly payouts while preserving the underlying capital of the trust.

Forward-Looking Statements

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

Management's Responsibility Statement

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

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

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

The Manager, with the approval of its Board of Directors, has appointed the external firm of PricewaterhouseCoopers LLP as the auditors of the Fund. They have audited the financial statements of the Fund in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

(Signed)

Raymond R. Pether
Chief Executive Officer
Brompton Funds Management Limited
 March 8, 2007

(Signed)

Craig T. Kikuchi
Chief Financial Officer
Brompton Funds Management Limited

Auditors' Report to Unitholders

To the Unitholders of Brompton VIP Income Fund:

We have audited the statement of investments of Brompton VIP Income Fund (the "Fund") as at December 31, 2006, the statements of net assets as at December 31, 2006 and 2005 and the statements of operations and retained earnings, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's Manager. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the investments of the Fund as at December 31, 2006, the net assets as at December 31, 2006 and 2005 and the results of its operations and retained earnings, changes in net assets and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed)

PricewaterhouseCoopers LLP
Chartered Accountants
 Toronto, Ontario
 March 8, 2007

Statements of Net Assets

As at December 31	2006	2005
Assets		
Investments, at market value	\$ 160,930,106	\$ 206,741,703
Cash and short-term investments	18,706,523	3,904,893
Income receivable	1,599,997	2,010,445
Deferred financing costs (note 8)	21,252	46,287
Total assets	181,257,878	212,703,328
Liabilities		
Accounts payable and accrued liabilities	339,630	495,127
Distributions payable to unitholders (note 4)	752,845	868,236
Redemptions payable to unitholders	25,914,385	21,118,189
Loans payable (note 8)	40,902,087	32,461,192
Total liabilities	67,908,947	54,942,744
Unitholders' equity		
Unitholders' capital (note 3)	94,889,492	121,183,927
Retained earnings	18,459,439	36,576,657
Net assets representing unitholders' equity	\$ 113,348,931	\$ 157,760,584
Units outstanding (note 3)	8,364,939	10,682,916
Net asset value per unit	\$ 13.55	\$ 14.77

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

(Signed)

Peter A. Braaten
Director

(Signed)

James W. Davie
Director

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

Statements of Operations and Retained Earnings

For the years ended December 31	2006	2005
Income		
Distributions from income funds	\$ 12,535,597	\$ 8,926,848
Interest income	2,862,124	1,711,887
Securities lending income (note 7)	28,258	—
	<u>15,425,979</u>	<u>10,638,735</u>
Expenses		
Management fees (note 5)	1,370,399	1,029,327
Service fees (note 5)	569,272	451,411
Audit fees	17,255	24,057
Trustee fees	23,354	16,213
Custodial fees	24,286	28,016
Legal fees	91,090	42,302
Unitholder reporting costs	16,556	53,030
Other administrative expenses	95,054	71,141
Interest and bank charges (note 8)	1,863,283	806,416
	<u>4,070,549</u>	<u>2,521,913</u>
Net investment income	11,355,430	8,116,822
Net realized gain on investments (note 6)	8,203,273	5,739,798
Net realized gain (loss) on loans payable (note 8)	134,107	(15,790)
Net change in unrealized gain on investments	(21,982,338)	2,095,578
Net change in unrealized gain on loans payable (note 8)	(159,396)	360,137
Increase (decrease) in net assets from operations	(2,448,924)	16,296,545
Retained earnings, beginning of year	36,576,657	35,336,759
Excess of stated value paid on redemptions and repurchase of units	(5,168,382)	(7,094,958)
Distributions to unitholders (note 4)	(10,499,912)	(7,961,689)
Retained earnings, end of year	\$ 18,459,439	\$ 36,576,657
Increase in net assets from operations per unit⁽¹⁾	\$ (0.23)	\$ 2.02

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

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

Statements of Cash Flows

For the years ended December 31	2006	2005
Cash flows from operating activities:		
Increase (decrease) in net assets from operations	\$ (2,448,924)	\$ 16,296,545
Adjustments to reconcile net cash provided by (used in) operations		
Net realized gain on investments	(8,203,273)	(5,739,798)
Net realized gain (loss) on loans payable	(134,107)	15,790
Net change in unrealized gain on investments	21,982,338	(2,095,578)
Net change in unrealized gain on loans payable	159,396	(360,137)
Amortization of deferred financing costs (note 8)	25,035	24,967
Increase (decrease) in income receivable	410,448	(11,166)
Decrease in accounts payable and accrued liabilities	(155,497)	(30,799)
Purchase of investments (note 6)	(27,811,590)	(24,449,755)
Proceeds from sale of investments (note 6)	59,844,122	42,076,711
Cash provided by operating activities	43,667,948	25,726,780
Cash flows from financing activities:		
Increase (decrease) in loans payable	8,415,606	(1,739,763)
Deferred financing costs paid	—	(13,632)
Distributions paid to unitholders (note 4)	(10,615,303)	(8,894,543)
Repurchase of units (note 3)	(5,548,432)	(2,659,804)
Amounts paid for redemption of units (note 3)	(21,118,189)	(10,881,785)
Cash used in financing activities	(28,866,318)	(24,189,527)
Cash flows from investing activities:		
Cash acquired from Brompton MVP Income Fund (note 1)	—	173,187
Cash provided by investing activities	—	173,187
Net increase in cash and short-term investments	14,801,630	1,710,440
Cash and short-term investments, beginning of year	3,904,893	2,194,453
Cash and short-term investments, end of year	\$ 18,706,523	\$ 3,904,893
Supplemental information:		
Interest paid	\$ 1,822,312	\$ 577,387

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

Statements of Changes in Net Assets

For the years ended December 31	2006	2005
Net assets, beginning of year	\$ 157,760,584	\$ 111,913,053
Operations:		
Increase (decrease) in net assets from operations	(2,448,924)	16,296,545
Unitholder transactions:		
Distributions to unitholders (note 4)		
Net investment income	(7,776,588)	(5,373,344)
Capital gains	—	—
Return of capital	(2,723,324)	(2,588,345)
Total	(10,499,912)	(7,961,689)
Repurchase of units (note 3)	(5,548,432)	(2,659,804)
Redemption of units (note 3)	(25,914,385)	(17,465,043)
Acquisition of net assets of Brompton MVP Income Fund (note 1)	—	57,637,522
Total unitholder transactions	(41,962,729)	29,550,986
Net increase (decrease) in net assets	(44,411,653)	45,847,531
Net assets, end of year	\$ 113,348,931	\$ 157,760,584
Distributions per unit	\$ 1.02	\$ 1.00

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

Statement of Investments

As at December 31, 2006		Cost (CDN)	Market Value (CDN)	% of Portfolio
No. of Units	Business			
387,000	Altus Group Income Fund	\$ 4,603,190	\$ 4,133,160	
78,712	Armtec Infrastructure Income Fund	928,220	1,381,396	
66,500	Bell Aliant Regional Communications Income Fund	2,239,205	1,792,840	
300,100	BFI Canada Income Fund	4,703,794	8,072,690	
323,400	Boston Pizza Royalties Income Fund	4,386,626	4,886,574	
98,500	Canada Cartage Diversified Income Fund	985,000	896,350	
182,000	Cargojet Income Fund	1,790,400	1,592,500	
303,560	Chemtrade Logistics Income Fund	3,908,511	2,443,658	
294,000	Cineplex Galaxy Income Fund	3,745,070	3,983,700	
50,000	CI Financial Income Fund	1,441,605	1,336,000	
466,266	Davis + Henderson Income Fund	6,979,879	7,208,472	
457,000	Energy Savings Income Fund	5,008,720	6,146,650	
385,000	Gateway Casinos Income Fund	5,003,500	6,583,500	
50,900	K-Bro Linen Income Fund	719,650	558,373	
203,855	Livingston International Income Fund	3,061,359	4,244,261	
81,400	North West Company Fund	685,738	1,264,142	
134,000	Pizza Pizza Royalty Income Fund	1,323,920	1,073,340	
55,000	Precision Drilling Trust	2,017,615	1,485,000	
127,600	Richards Packaging Income Fund	1,002,683	1,071,840	
16,660	Second Cup Royalty Income Fund	161,602	151,939	
382,600	SIR Royalty Income Fund	3,736,770	3,298,012	
24,700	Sleep Country Canada Income Fund	524,875	686,413	
157,000	Student Transportation of America IPS	1,845,404	1,766,250	
268,672	Sun Gro Horticulture Income Fund	2,317,526	1,883,391	
72,100	Superior Plus Income Fund	1,491,646	772,191	
226,200	The Data Group Income Fund	2,264,070	1,927,224	
253,100	The Keg Royalties Income Fund	2,783,766	2,986,579	
246,300	TimberWest Forest Corp.	3,410,772	3,711,741	
197,542	Yellow Pages Income Fund	2,968,935	2,542,366	
		76,040,051	79,880,552	49.6%
No. of Units	Oil and Gas			
156,398	ARC Energy Trust	2,789,333	3,487,675	
38,000	Bonavista Energy Trust	874,193	1,069,700	
173,085	Canadian Oil Sands Trust	2,436,645	5,644,302	
30,930	Enerplus Resources Fund	846,129	1,567,532	
173,340	Focus Energy Trust	3,066,972	3,151,321	
		10,013,272	14,920,530	9.3%
No. of Units	Real Estate Investment Trusts			
40,000	Canadian Apartment Properties REIT	646,000	743,200	
57,700	Canadian Hotel Income Properties REIT	527,701	861,461	
100,000	Chartwell Seniors Housing REIT	1,370,255	1,394,000	
97,225	H&R REIT	1,360,921	2,342,150	
1,092,000	Huntingdon REIT	3,003,000	2,511,600	
204,000	InnVest REIT	2,234,460	2,815,200	
284,000	Northern Property REIT	3,946,203	7,937,800	
125,000	Primaris Retail REIT	1,270,893	2,360,000	
254,400	RioCan REIT	3,820,893	6,398,160	
		18,180,326	27,363,571	17.0%
No. of Units	Power and Pipeline			
299,300	Northland Power Income Fund	3,929,017	3,911,851	
115,000	Pembina Pipeline Income Fund	1,317,204	1,820,449	
		5,246,221	5,732,300	3.6%

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

Statement of Investments (continued)

As at December 31, 2006		Cost (USD)	Cost (CDN)	Market Value (USD)	Market Value (CDN)	% of Portfolio
Par Value (\$)	Fixed Income Investments					
US 600,000	Ace Cash Express Inc. 10.25%, due October 1, 2014	\$ 603,000	\$ 673,569	\$ 610,500	\$ 710,437	
US 100,000	AES Corporation 8.75%, due June 15, 2008	108,005	137,836	104,125	121,170	
US 50,000	Ahern Rentals Inc. 9.25%, due August 12, 2013	50,000	60,030	52,375	60,949	
US 550,000	Ainsworth Lumber Co. Ltd. 7.25%, due October 1, 2012	481,766	557,078	435,875	507,227	
US 250,000	Alimentation Couche-Tard Inc. 7.5%, due December 15, 2013	252,808	280,364	256,875	298,925	
US 431,000	Alliance Imaging 7.25%, due December 15, 2012	397,562	474,641	411,605	478,984	
US 271,000	Allied Waste Industries, Inc. 8.5%, due December 1, 2008	284,379	333,956	286,244	333,101	
US 300,000	AMC Entertainment Inc. 8%, due March 1, 2014	290,966	333,186	299,250	348,236	
US 250,000	Angiotech Pharmaceuticals Inc. 7.75%, due April 1, 2014	250,000	289,900	218,750	254,559	
US 160,000	Anixter Inc. 5.95%, due March 1, 2015	146,202	168,249	148,800	173,158	
US 24,000	AT&T Corp 7.3%, due November 15, 2011	27,029	32,246	26,011	30,269	
CDN 1,100,000	Avenor Inc. 10.85%, due November 30, 2014	—	1,255,273	—	1,177,000	
US 1,070,000	Brand Services Inc. 12%, due October 15, 2012	1,181,073	1,481,096	1,185,967	1,380,106	
US 350,000	Cascades Inc. 7.25%, due February 15, 2013	322,248	375,243	350,875	408,312	
US 200,000	Celestica Inc. 7.875%, due July 1, 2011	204,316	231,633	198,406	230,884	
US 25,000	Cendant Car Rental Group LLC 7.625%, due May 15, 2014	25,000	28,790	24,500	28,511	
US 225,000	Cendant Car Rental Group LLC 7.75%, due May 15, 2016	219,545	248,431	217,688	253,322	
US 200,000	Century Aluminum Co. 7.5%, due August 15, 2014	204,547	252,780	203,750	237,103	
US 1,295,000	Charter Communications Holdings, LLC 10.25%, due September 15, 2010	1,313,181	1,589,169	1,361,369	1,584,221	
US 213,000	Chemed Corporation 8.75%, due February 24, 2011	229,045	276,361	221,520	257,782	
US 400,000	Clarke American Corp. 11.75%, due December 15, 2013	414,960	465,665	430,000	500,390	
US 250,000	Cogentrix Energy Inc. 8.75%, due October 15, 2008	263,729	325,312	264,569	307,878	
US 306,000	Columbia/HCA Healthcare Corporation 8.36%, due April 15, 2024	287,811	339,710	270,755	315,077	
US 80,000	Columbus McKinnon Corp. 8.875%, due November 1, 2013	80,032	95,471	84,800	98,682	
US 80,000	Corrections Corp. of America 6.75%, due January 31, 2014	80,686	93,874	81,200	94,492	
US 800,000	Dollarama Group LP 8.875%, due August 15, 2012	794,750	943,670	833,092	969,467	
US 500,000	Foot Locker Inc. 8.5%, due January 15, 2022	524,584	668,573	493,750	574,576	
US 271,000	FTD Inc. 7.75%, due February 15, 2014	273,316	334,153	272,694	317,333	
US 170,000	Gaylord Entertainment Co. 8%, due November 15, 2013	174,609	193,642	177,225	206,236	
US 550,000	Georgia Pacific Corp. 8.125%, due May 15, 2011	532,407	701,804	580,250	675,235	
US 400,000	GSC Holdings Corp. 8.865%, due October 1, 2011	403,847	466,161	417,000	485,262	
US 800,000	Harrahs Operating Co. 5.625%, due June 1, 2015	669,644	762,456	687,220	799,716	
US 45,000	HCA Inc. 9.25%, due November 15, 2016	45,000	51,471	48,319	56,228	
US 542,000	Herbst Gaming Inc. 8.125%, due June 1, 2012	565,865	640,750	555,550	646,492	
US 150,000	Hilton Hotels Corp. 7.5%, due December 15, 2017	156,062	172,168	156,750	182,410	
US 815,000	Intelsat Ltd. 7.625%, due April 15, 2012	736,211	907,373	764,063	889,137	
US 100,000	Intelsat Ltd. 10.484%, due January 15, 2012	102,128	121,829	101,375	117,970	
US 800,000	Iron Mountain Inc. 7.75%, due January 15, 2015	815,816	1,045,028	820,000	954,232	
US 400,000	Jean Coutru Group (PJC) Inc. 8.5%, due August 1, 2014	390,222	476,343	404,500	470,716	
US 225,000	Lyondell Chemical Company 11.125%, due July 15, 2012	252,844	295,361	243,000	282,778	
US 500,000	Mandalay Resort Group 6.375%, due December 15, 2011	490,895	563,253	500,000	581,849	
US 150,000	Metals USA Inc. 11.125%, due December 1, 2015	150,000	177,465	165,563	192,665	
US 500,000	MetroPCS Wireless Inc. 9.25%, due November 1, 2014	500,000	560,550	525,000	610,941	
US 125,000	MGM Mirage 7.625%, due January 15, 2017	125,000	145,150	125,938	146,553	
US 335,000	Mobile Mini Inc. 9.5%, due July 1, 2013	363,991	458,848	359,288	418,102	
US 300,000	Mohegan Gaming Tribal Authority 6.125%, due February 15, 2013	287,244	323,810	299,250	348,236	
US 350,000	Mueller Industries 6%, due November 1, 2014	344,184	412,186	327,688	381,329	
US 200,000	Network Communications Inc. 10.75%, due December 1, 2013	197,382	231,726	203,000	236,231	
US 800,000	Nextel Communications Inc. 6.875%, due October 31, 2013	839,283	1,006,658	809,084	941,529	
US 50,000	Novelis Inc. 7.25%, due July 15, 2015	46,470	55,099	48,625	56,585	
US 100,000	NXP Funding LLC, 7.87%, due October 15, 2014	100,000	113,150	103,875	120,879	
US 100,000	Omega Healthcare Investors, Inc. 7%, due January 15, 2016	99,422	116,692	100,750	117,243	
US 250,000	Owens-Brockway Glass Container Inc. 8.75%, due November 15, 2012	270,000	315,402	266,250	309,834	
US 340,000	R.H. Donnelley Corp 8.875%, due January 15, 2016	344,038	403,797	358,700	417,418	
US 920,000	Rite Aid Corporation 8.125%, due May 1, 2010	963,654	1,152,802	944,150	1,098,705	
CDN 770,000	Rogers Wireless Communications Inc. 7.625%, due December 15, 2011	—	797,690	—	854,654	
US 500,000	Seagate Technology 6.375%, due October 11, 2011	498,415	558,324	502,500	584,758	
CDN 500,000	Shaw Communications Inc. 6.15%, due May 9, 2016	—	490,260	—	497,092	
CDN 500,000	Shaw Communications Inc. 7.5%, due November 20, 2013	—	517,882	—	540,885	
CDN 250,000	Sherritt International Corporation 7.875%, due November 26, 2012	—	250,000	—	264,215	
US 500,000	Stater Bros. Holdings Inc. 8.125%, due June 15, 2012	507,653	610,711	510,000	593,486	
US 170,000	Stratos Global Corporation 9.875%, due February 15, 2013	160,556	182,071	164,900	191,894	
US 95,000	Syniverse Technologies Inc. 7.75%, due August 15, 2013	96,461	115,742	95,238	110,828	
US 400,000	Teekay Shipping Corporation 8.875%, due July 15, 2011	448,241	565,971	431,500	502,135	
US 1,205,000	United Rentals Inc. 6.5%, due February 15, 2012	1,156,511	1,425,306	1,195,963	1,391,738	
US 1,217,000	Western Financial Bank 9.625%, due May 15, 2012	1,294,112	1,753,843	1,330,364	1,548,140	
US 550,000	Western Oil Sands Inc. 8.375%, due May 1, 2012	582,938	799,741	613,250	713,637	
US 125,000	Westlake Chemical Corp. 6.625%, due January 15, 2016	125,154	144,278	121,563	141,462	
US 500,000	William Scotsman Inc. 8.5%, October 1, 2015	510,946	564,223	524,375	610,214	
US 520,000	Wind Acquisition Fin SA. 10.75%, due December 1, 2015	556,015	633,821	594,100	691,353	
		25,213,760	33,627,096	25,521,511	33,033,153	20.5%
Total		\$ 25,213,760	\$ 143,106,966	\$ 25,521,511	\$ 160,930,106	100.0%

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

Notes to the Financial Statements

December 31, 2006 and 2005

1. OPERATIONS

Brompton VIP Income Fund (the “Fund”) is a closed-end investment trust created under the laws of the Province of Ontario on October 25, 2001, pursuant to an amended and restated declaration of trust. In 2005, the name of the Fund was changed from Brompton VIP Income Trust to Brompton VIP Income Fund. Computershare Trust Company of Canada is the Trustee and Brompton Funds Management Limited (the “Manager”) is responsible for managing the affairs of the Fund. MFC Global Investment Management, a subsidiary of Manulife Financial Corp., manages the Fund’s portfolio. RBC Dexia Investor Services Trust is the custodian of the Fund’s assets and prepares the weekly valuations of the Fund. The Fund is listed on the Toronto Stock Exchange and commenced operations on February 19, 2002.

On October 26, 2005, special meetings of unitholders of the Fund and Brompton MVP Income Fund (“MVP”) were held. At the meetings, unitholders of each fund approved the merger of these two funds with Brompton VIP Income Fund remaining as the continuing fund. Pursuant to the merger, the Fund adopted the investment strategy of MVP, whose investment focus was on business funds with smaller weightings in real estate investment trusts, oil and gas funds, power and pipeline funds, high-yield debt and special situations. On December 31, 2005, the Fund merged with MVP by issuing 3,903,000 units of the Fund.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and they include estimates and assumptions made by management that affect the reported amounts of assets and liabilities at the date of these financial statements and the reported amounts of income and expenses during the periods for which the financial statements report. Actual results could differ from these estimates.

a) Valuation of Investments

The Fund’s investments are presented at estimated market value. Investments that are publicly traded are valued at their closing price. If a closing price is not available for publicly traded investments or if investments are traded over-the-counter, an average of the latest bid and ask prices is used. Short-term investments are valued at cost which, when taken together with accrued interest income thereon, is an approximation of their market value.

b) Investment Transactions and Income Recognition

Investment transactions are recorded on trade date and any realized gains or losses are recognized using the average cost of the investments. Interest income is recognized on an accrual basis. Distributions from income funds are recognized on the ex-distribution date. Net realized gains or losses on sale of investments include net realized gains or losses from foreign currency changes.

c) Income Taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). Provided the Fund makes distributions in each year of its net income and net realized capital gains, the Fund will not generally be liable for income tax. It is the intention of the Fund to distribute all of its net income and net realized capital gains on an annual basis. Accordingly, no income tax provision has been recorded.

d) Foreign Exchange

The market values of investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the noon rate of exchange on each valuation date. Purchases and sales of investments and income derived from investments are translated at the rate of exchange prevailing at the time of such transactions.

e) Fair Value of Financial Instruments

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

3. UNITS OF THE FUND

Authorized

The Fund is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Fund. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Fund. Units may be redeemed at the option of unitholders by tendering units of the Fund at least 20 business days prior to the second last business day of December (“Redemption Valuation Date”). Redemption of tendered units will be settled based on the net asset value per unit on the Redemption Valuation Date less associated costs of the redemption, including brokerage costs. Units tendered for redemption will be redeemed effective on the Redemption Valuation Date of each year and will be settled on or before the twentieth business day in January.

Notes to the Financial Statements (continued)

Issued

	2006		2005	
	Number of Units	Amount	Number of Units	Amount
Units, beginning of year	10,682,916	\$ 121,183,927	8,170,097	\$ 76,576,294
Units redeemed	(1,902,434)	(21,580,641)	(1,186,081)	(11,116,900)
Units repurchased pursuant to a normal course issuer bid	(415,543)	(4,713,794)	(204,100)	(1,912,989)
Units issued on acquisition of MVP (note 1)	—	—	3,903,000	57,637,522
Units, end of year	8,364,939	\$ 94,889,492	10,682,916	\$ 121,183,927

On December 28, 2006, 1,902,434 units were redeemed at \$13.65 per unit.

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid for the periods from November 8, 2005 to November 7, 2006 and from November 8, 2006 to November 7, 2007. Pursuant to these issuer bid periods, the Fund is permitted to purchase up to 788,000 units and 1,029,100 units, respectively, for cancellation. The Fund may only repurchase units when the net asset value per unit exceeds its trading price. During the year ended December 31, 2006, 415,543 (2005 – 204,100) units were purchased for cancellation.

The weighted average number of units outstanding for the year ended December 31, 2006 was 10,457,991 (2005 – 8,071,363).

4. DISTRIBUTIONS PAYABLE TO UNITHOLDERS

Distributions, as declared by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month. The distributions are payable by the tenth business day of the following month. For the year ended December 31, 2006, the Fund declared total distributions of \$10,499,912 (2005 – \$7,961,689), or \$1.02 (2005 – \$1.00) per unit. Under the Fund's distribution reinvestment plan, unitholders may elect to reinvest monthly distributions in additional units of the Fund which may be issued from treasury or purchased in the open market. For the year ended December 31, 2006, no (2005 – nil) units in respect of distributions were issued by the Fund.

5. MANAGEMENT AND SERVICE FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.85% per annum of the net asset value of the Fund plus applicable taxes. The Manager is responsible for paying fees to MFC Global Investment Management for the portfolio management services it provides to the Fund. The Fund also pays to the Manager a service fee equal to 0.40% per annum of the net asset value of the Fund. The service fee is in turn paid by the Manager to investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter.

6. INVESTMENT TRANSACTIONS

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

	2006	2005
Proceeds from sale of investments	\$ 59,844,122	\$ 42,076,711
Less cost of investments sold:		
Investments at cost, beginning of year	166,936,225	104,509,384
Investments purchased during the year	27,811,590	24,449,755
Investments acquired upon merger with MVP (note 1)	—	74,313,999
Investments at cost, end of year	(143,106,966)	(166,936,225)
Cost of investments sold during the year	51,640,849	36,336,913
Net realized gain on sale of investments	\$ 8,203,273	\$ 5,739,798

Foreign exchange losses arising from the disposition of investments of \$869,345 (2005 – \$1,611,029) are included in the net realized gain of \$8,203,273 (2005 – \$5,739,798) above.

Brokerage commissions on investments purchased and sold during the year ended December 31, 2006 amounted to \$79,151 (2005 – \$52,946).

For the years ended December 31, 2006 and 2005, there were no soft dollar amounts paid.

7. SECURITIES LENDING

The Fund entered into a securities lending program in August 2006 with its custodian, RBC Dexia Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or by the United States government or its agencies, or a permitted supranational agency as defined in National Instrument 81-102. The market values of the securities on loan and the related collateral at December 31, 2006 were \$29.5 million (2005 – nil) and \$31.5 million (2005 – nil), respectively.

8. LOANS PAYABLE

Pursuant to an agreement with a Canadian chartered bank, the Fund maintains a 364-day revolving credit facility and two term credit facilities. The revolving credit facility provides for maximum borrowings of \$23.0 million, with borrowings in Canadian currency at either the prime rate of interest or the bankers' acceptance rate plus a fixed percentage or in US currency at the LIBOR rate plus a fixed percentage.

As of December 31, 2006, the Fund had total borrowings of \$41 million under its three credit facilities, which represented 22.55% of total assets or 36.28% of net assets. The Fund currently has a 364-day revolving credit facility and two term credit facilities. The current revolving credit facility provides for maximum borrowings of \$23.0 million, with borrowings in Canadian currency at either the prime rate of interest or the bankers' acceptance rate plus a fixed percentage or in US currency at the LIBOR rate plus a fixed percentage. At December 31, 2006, the Fund had LIBOR based borrowings in the amount of \$5.9 million (US\$5.1 million) outstanding under its revolving facility. Under its term credit facilities, the Fund has borrowed US\$13.0 million at a fixed rate of interest of 3.89% for a five-year period ending May 28, 2008 and US\$8.0 million for a five-year term to July 14, 2010 at a fixed rate of interest of 4.86%. These loans represent \$24.4 million of the total borrowings at December 31, 2006.

As at December 31, 2006, the Fund had \$40.9 million (2005 – \$32.5 million) outstanding under this facility.

During the year ended December 31, 2006, the Fund realized a foreign exchange gain in the amount of \$134,107 (2005 – loss of \$15,790) on the repayment of borrowings in US dollars under the revolving credit facility. At December 31, 2006, borrowings in US dollars had an unrealized foreign exchange gain of \$2,494,980 (2005 – \$2,654,376). The credit facilities are secured by a first-ranking and exclusive charge on all of the Fund's assets. During the year ended December 31, 2006, the minimum and maximum amounts of borrowings were \$28.8 million (2005 – \$18.3 million) and \$44.7 million (2005 – \$32.5 million), respectively.

Costs incurred to establish the credit facilities and renewal fees are deferred and amortized over the term of the facilities. For the year ended December 31, 2006, the Fund recorded amortization of these costs in the amount of \$25,035 (2005 – \$24,967).

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

9. ADOPTION OF FUTURE ACCOUNTING STANDARDS

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) recently issued a new suite of financial reporting standards that address the accounting and disclosure for financial instruments. Of particular relevance to investment funds are changes outlined in CICA Handbook Section 3855: Financial Instruments – Recognition and Measurement. The new financial reporting standards for financial instruments are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. These standards will change the way in which investments are measured for financial statement purposes and will result in differences between the net asset value per unit ("NAVPU") presented in the financial statements and the NAVPU that is published weekly. The Fund has a financial year ending December 31, 2006, and as such, these changes will not be reflected until the interim financial statements are prepared in June 2007. Such differences will primarily result from marketable securities being valued using bid prices for financial statements and closing prices for the weekly published NAVPU.

Corporate Information

Directors

Peter A. Braaten, BA, MBA
James W. Davie, BComm, MBA
P. Michael Nedham, BSc, MBA, CBV
Arthur R.A. Scace, QC, CM
Ken S. Woolner, BSc, PEng

Officers

Peter A. Braaten, BA, MBA
Chairman
Raymond R. Pether, BA, MBA
Chief Executive Officer
Mark A. Caranci, BComm, CA
President
Craig T. Kikuchi, BA, CA, CFA
Chief Financial Officer
David E. Roode, BA, CA, MBA
Senior Vice President
Moyra E. MacKay, BA
Vice President and Corporate Secretary
Lorne J. Zeiler, BA, MBA, CFA
Vice President
Jessica Leung, BComm, CA
Controller
Ann P. Wong, BA, CA, CPA (Delaware),
CFA, Controller
Christopher Cullen, BAsc, MBA, CFA
Assistant Vice President
Janet Toffolo
Assistant Vice President

Continuous Disclosure Manager

Contact: David E. Roode
Phone: 416-642-6008
Email: roode@bromptongroup.com

Trustee

Computershare Trust Company
of Canada

Custodian

RBC Dexia Investor Services Trust

Auditors

PricewaterhouseCoopers LLP

Banker

Bank of Nova Scotia

Website

www.bromptongroup.com