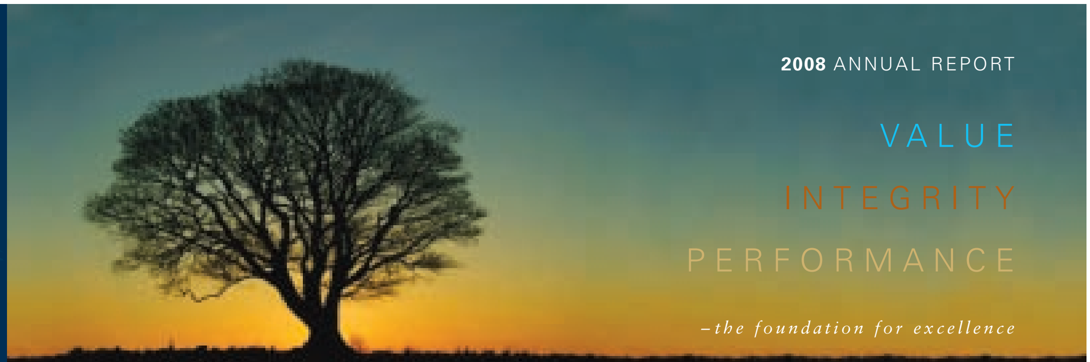
BROMPTON FUNDS



BROMPTON VIP INCOME FUND

VIP.UN, VIP.PR.A, VIP.WT

Actively managed, broadly diversified portfolio of income-producing securities.

Management Report of Fund Performance

March 12, 2009

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 of the Fund. The audited annual financial statements follow this report. You may obtain a copy of the annual financial statements at your request, at no cost, by calling 866-642-6001 or by sending a request to Investor Relations, Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, P.O. Box 793, Toronto, Ontario, M5J 2T3, or by visiting our website at www.bromptongroup.com or SEDAR at www.sedar.com.

Unitholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, independent review committee's report, or quarterly portfolio disclosure.

The Fund

Brompton VIP Income Fund is a closed-end investment trust managed by Brompton Funds Management Limited (the "Manager"). The units, Preferred securities and warrants of the Fund trade on the Toronto Stock Exchange ("TSX") under the symbols VIP.UN, VIP.PR.A and VIP.WT, respectively. The Fund is actively managed by MFC Global Investment Management (Canada)("MFC"), a subsidiary of Manulife Financial Corporation, a top-ranked manager of income fund investments with extensive experience in income trusts, other equity securities and fixed income investments. The Fund is RRSP, DPSP, RRIF, RESP and TFSA eligible.

Recent Developments

Merger
On July 4, 2008, Brompton VIP Income Fund was merged with six other Brompton funds and reorganized with a new investment strategy ("Merger"). For further information, visit the website at www.bromptongroup.com.

Warrants
On December 8, 2008, the Fund issued 23,619,047 TSX-listed warrants to unitholders on the basis of one-half of one warrant for each whole unit held. Each whole warrant entitles the holder to subscribe to one unit of the Fund at a subscription price of $6.84. The warrants must be exercised prior to May 27, 2009, or they will expire worthless. This offering was designed to provide the Fund with additional capital that can be used to take advantage of attractive investment opportunities, while also increasing the trading liquidity of the units and reducing the management expense ratio of the Fund.

Investment Objectives and Strategies

Brompton VIP Income Fund was originally designed to achieve a high level of income through an actively managed, diversified portfolio principally composed of income trusts and high-yield debt over a broad range of industries and to provide the opportunity for capital appreciation. With the reorganization of the Fund in July, the investment objectives remained unchanged, but the investment strategies were modified to achieve those objectives. The most fundamental change was the expansion of the Fund's investment universe beyond income trusts and high-yield debt to include other income-producing securities such as dividend-paying common shares, convertible debt, preferred shares and investment grade debt.

Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's 2008 annual information form, which is available on the Fund's website at www.bromptongroup.com or on SEDAR at www.sedar.com. There was one change to the Fund over the period that materially affected the risks associated with an investment in the units of the Fund. That change was the issuance of warrants in December 2008, which could result in a risk of dilution to existing unitholders. As disclosed in the prospectus of the Warrant Offering, if unitholders wish to retain their current percentage ownership in the Fund, and assuming that all warrants are exercised, then the unitholders should purchase all of the units for which they may subscribe pursuant to the warrants delivered under the offering. If a unitholder does not do so and other holders of warrants exercise any of their warrants, that unitholder's current percentage in the Fund will be diluted by the issue of units under the offering.

In accordance with investment fund industry practice, all figures presented in this management report of fund performance are based on the Fund's calculation of its weekly Net Asset Value ("Net Asset Value"), which is exempted from the application of Canadian Institute of Chartered Accountants ("CICA") Section 3855, except for the figures presented in the Net Assets per Unit table, which can be found under Financial Highlights. In accordance with National Instrument ("NI") 81-106, the figures in this table must be derived from the financial statements ("Net Assets").

Results of Operations

The results of operations in this report are based on the pre-Merger results of the Brompton VIP Income Fund to the effective date of July 4, 2008, and on the post-Merger results for the balance of the year.

Distributions
During the year ended December 31, 2008, cash distributions totaled $1.14 per unit, up from $1.08 in 2007. This increase was due to an increase in the monthly distribution from $0.09 per unit to $0.10 per unit following the Merger in July. Since inception in February 2002, the Fund has paid total cash distributions of $7.07 per unit.

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, 2008, 70,048 units were acquired in the market through this plan at an average price of $10.83 per unit, and 57,642 units were issued from treasury at an average price of $10.08 per unit.

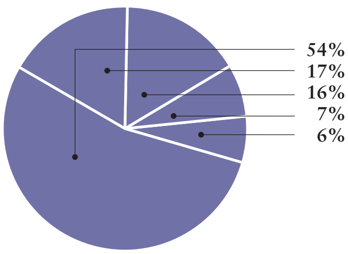
Revenues and Expenses
The Fund's distribution and dividend income increased to $1.36 per unit for the year ended December 31, 2008 from $1.27 per unit in 2007. This increase was due to a greater weighting in the Fund's portfolio of distribution and dividend-paying securities (93% in 2008 vs 84% in 2007). Interest income declined to $0.10 in 2008 from $0.25 in 2007. This change was primarily due to a significant change in the relative size of the fixed income portfolio following the Merger in 2008. In 2007, fixed income securities were 16% of the total portfolio; following the Merger in 2008, fixed income securities were just 7% of the total portfolio. Total expenses per unit declined from $0.39 per unit in 2007 to $0.27 per unit in 2008, primarily due to a decline in average Net Asset Value, which resulted in lower management and service fees on a per unit basis.

Net Asset Value
The Net Asset Value per unit of the Fund decreased by $7.25 per unit, or 49.6%, from $14.61 at December 31, 2007 to $7.36 at December 31, 2008. This decrease was due mainly to the decline in the market price of the securities in the Fund's portfolio in the last four months of 2008. The aggregate Net Asset Value of the Fund more than tripled from $102.8 million at December 31, 2007 to $347.4 million at December 31, 2008, due to the Merger, even after accounting for losses arising from the annual redemption in August 2008 and the decline in market price of securities, primarily in the fourth quarter.

Investment Portfolio
Since the Fund's Merger in July 2008, the Portfolio Manager has been repositioning the portfolio to a broader range of securities to meet the Fund's investment objectives in line with the expanded investment strategy. At year-end, the majority of the portfolio remained in income trusts (87% of the total, compared to 84% in 2007), with approximately 7% of the portfolio in fixed income investments (down from 16% in 2007) and 6% in dividend-paying Canadian equities (0% in 2007) to provide additional diversification and growth. As of December 31, 2008, the Fund's investments included a total of 87 income trusts, 12 Canadian equities and 127 fixed income investments. During the year, business trust holdings declined from 57% to 54% of the portfolio while oil and gas trust holdings grew from approximately 11% to 17% and real estate investment trust ("REIT") holdings increased from 13% to 16%. 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.

Due to the widespread decline in securities prices experienced in the fourth quarter, the Fund's portfolio had a net realized and unrealized loss of $304.1 million in 2008. The table below shows the net losses in the portfolio by sector. Business trusts were the major contributor to the loss, followed by oil and gas trusts. The fixed income securities are primarily 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 borrowings are included with the gains or losses on the fixed income securities to show the net gain or loss from this investment activity net of hedged US dollar investments.

Portfolio Sectors



Net Losses by Sector (millions)		Realized		Unrealized		Total
Business trusts	$	(7.4)	$	(126.2)	$	(133.6)
Oil and gas trusts		(19.9)		(71.2)		(91.1)
Real estate investment trusts		(4.1)		(44.0)		(48.1)
Fixed income securities		(1.1)		(9.5)		(10.6)
Canadian dividend-paying equities		(2.3)		(18.4)		(20.7)
Total	**$**	**(34.8)**	**$**	**(269.3)**	**$**	**(304.1)**

Liquidity and Capital Resources

The Fund has a 364-day revolving credit facility, which provides for maximum borrowings of $190.0 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 either the US base rate or the LIBOR rate plus a fixed percentage. The facility has been used to invest in additional portfolio investments and for working capital purposes. As at December 31, 2008, the Fund had total borrowings of $101.3 million under this facility, representing 21.6% of total assets, or 29.2% of Net Assets. During 2008, the Fund realized a foreign exchange gain of $0.9 million on the repayment of US dollar borrowings under the credit facility. During the year ended December 31, 2008, the minimum and maximum amounts of borrowings were $13.6 million and $163.1 million, respectively.

As a result of the Merger in July 2008, the Fund assumed the obligation for a Preferred security from one of the merging funds, which became part of the capital structure of the Fund. The Preferred security has a maturity date of May 31, 2009 and bears interest at the rate of 6.0% per annum, which is paid quarterly in arrears.

To provide liquidity, units, Preferred securities and warrants of the Fund are listed on the TSX under the symbols VIP.UN, VIP.PR.A and VIP.WT, respectively. The Fund's normal course issuer bid program allows it to purchase its units on the TSX for cancellation if 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 381,622 units were purchased during the year ended December 31, 2008, under this program at an average price of $10.56 per unit. During the year, units of the Fund traded at an average discount to their Net Asset Value per unit of 4.6%. Investors may also redeem their units annually in accordance with the Fund's redemption provisions. The Fund issued warrants to unitholders under the offering of December 8, 2008; no warrants were exercised during the year ended December 31, 2008.

Related Party Transactions

Related party transactions consist of services provided by the Manager pursuant to a management agreement. See the Management Fees section below.

Management 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 the fees of MFC for the portfolio management services it provides. All of the management fee is used by the Manager to cover its general administration expenses, the cost of portfolio management services and for profit. 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 the investment dealers based on the proportionate number of units held by clients of each dealer at the end of each calendar quarter. During the year ended December 31, 2008, management and service fees amounted to $2.8 million and $1.1 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 NI 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets 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 Assets per Unit[1]

For the Years Ended December 31		2008		2007		2006		2005		2004
Net Assets, beginning of year[2][3]	$	**14.51**	$	13.48	$	14.77	$	13.70	$	11.36
Increase (decrease) from operations:[4]										
Total revenue		**1.49**		1.53		1.48		1.32		1.25
Total expenses		**(0.27)**		(0.39)		(0.39)		(0.31)		(0.28)
Preferred securities distributions		**(0.02)**		—		—		—		—
Realized gain (loss) for the year		**(1.19)**		0.75		0.80		0.71		0.25
Unrealized gain (loss) for the year		**(9.45)**		0.20		(2.12)		0.30		2.20
Total increase (decrease) in Net Assets from operations	$	**(9.44)**	$	2.09	$	(0.23)	$	2.02	$	3.42
Distributions to unitholders:[3]										
From net investment income (excluding dividends)	$	**0.99964**	$	0.96	$	0.71	$	0.61	$	0.48
From dividends		**0.06378**		0.05		0.05		0.06		0.05
From net realized gain on investments		**—**		—		—		—		0.14
Return of capital		**0.08058**		0.07		0.26		0.33		0.43
Total distributions to unitholders	$	**1.14**	$	1.08	$	1.02	$	1.00	$	1.10
Net Assets, end of year[2][3]	$	**7.30**	$	14.51	$	13.55	$	14.77	$	13.70

(1) This information is derived from the Fund's audited annual financial statements. The Net Assets per unit presented in the financial statements differ from the Net Asset Value calculated for Fund pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

(2) The Net Assets per unit for periods prior to 2007 are based on the prior period financial statements and were not adjusted for the new accounting standards adopted in 2007.

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

(4) 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 (Based on Net Asset Value)

As at December 31		2008		2007		2006		2005		2004
Net Asset Value (in 000s)	$	**362,464**	$	102,820	$	113,349	$	157,761	$	111,913
Number of units outstanding (in 000s)		**47,202**		7,040		8,365		10,683		8,170
Management expense ratio ("MER")[1]		**2.70%**		2.66%		2.69%		2.24%		2.45%
Trading expense ratio[2]		**0.14%**		0.05%		0.05%		0.05%		N/A
Portfolio turnover rate[3]		**48.74%**		8.95%		14.68%		17.75%		14.34%
Net Asset Value per unit	$	**7.36**	$	14.61	$	13.55	$	14.77	$	13.70
Closing market price – units	$	**6.31**	$	13.86	$	12.61	$	13.80	$	13.30
Closing market price – Preferred securities	$	**9.60**	$	10.10	$	10.63	$	10.46	$	10.60
Closing market price – warrants	$	**0.08**	$	N/A	$	N/A	$	N/A	$	N/A

(1) MER is based on the requirements of NI 81-106 and includes the total expenses (excluding commissions and other portfolio transaction costs) of the Fund for the stated period, including interest expense and issuance costs, and is expressed as an annualized percentage of the average Net Asset Value of the period.

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

(3) The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Manager 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 the 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 was not provided when the Fund was 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.

Expense Ratio

The MER of the Fund was 2.70% during 2008, compared to 2.66% the previous year. This slight increase in the MER is due to the cost of the Merger in July, offset by the efficiency gained in administrative costs as a result of the Merger, and a one-time additional cost incurred by the issuance of warrants in December 2008. This ratio is exaggerated by the inclusion of interest expense on borrowings used to purchase additional portfolio investments. The MER, excluding interest expense, increased to 1.50% from 1.44% in 2007 for reasons described above.

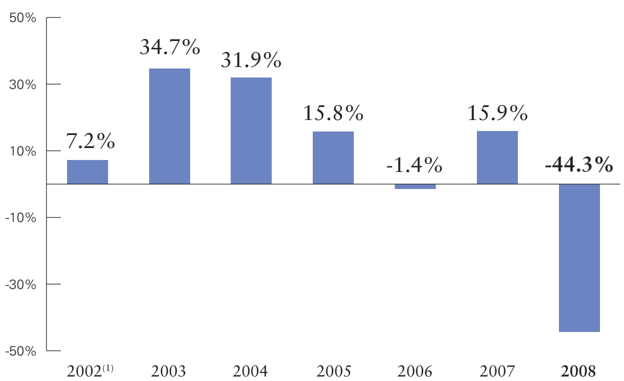
The portfolio turnover rate increased substantially, from 8.95% in 2007 to 48.74% in 2008, due to the sale of securities to fund the annual redemption and the rebalancing of the portfolio following the Merger in July 2008. The trading expense ratio increased to 0.14% in 2008 from 0.05% in 2007 as a result of the increase in the portfolio turnover rate.

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/period since inception to December 31, 2008. The chart shows, in percentage terms, how an investment held on the first day of each fiscal period would have changed by the last day of the fiscal period.

Year-by-Year Returns



(1) For the 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") and the S&P/TSX Composite Index ("Composite Index"). The Income Trust Index is a broad-based composite index which may encompass any or all Global Industry Classification Standard sectors of the income trust marketplace. Income trusts that qualify for inclusion must derive their distribution income from actual operating entities. The Composite Index tracks the performance, on a market weight basis, of approximately 300 large stocks on the TSX. The Income Trust Index and the Composite Index are calculated without the deduction 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	5 Year	Since Inception(1)
Brompton VIP Income Fund(2)	(44.3%)	(14.0%)	(0.6%)	5.1%
S&P/TSX Capped Income Trust Index	(26.1%)	(8.5%)	4.9%	10.4%
S&P/TSX Composite Index	(33.0%)	(4.8%)	4.2%	5.0%

(1) Period from February 19, 2002 (commencement of operations) to December 31, 2008.

(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.

During 2008, nearly all income-oriented investment funds with the majority of their investments in income trusts or dividend-paying equities incurred significant losses. With the exception of government bonds, there were no safe havens for investors as nearly all sectors experienced negative returns. Those funds that employed leverage experienced greater losses, as leverage exacerbates negative returns in a declining market. While the Portfolio Manager focuses on higher-quality income trusts and dividend-paying equities with sustainable business models, strong cash flow and reasonable levels of debt, the effects of the steep market decline and leverage resulted in highly negative returns for the Fund during 2008, which also had a negative impact on longer-term and since-inception performance.

Given the Portfolio Manager's conservative and disciplined investment style and focus on higher-quality assets, the Fund is positioned to perform well when markets rebound from their recent lows. In addition, the Fund's leverage position should enhance performance under these conditions, as leverage enhances returns during rising equity and income trust markets.

Summary of Investment Portfolio

As at December 31, 2008

Total Net Asset Value	$ 347,357,640

Portfolio Composition	% of Portfolio	% of Net Asset Value
Business trusts	53.8%	71.8%
Oil and gas trusts	17.5%	23.4%
Real estate investment trusts	16.0%	21.4%
Fixed income investments	6.6%	8.8%
Canadian dividend-paying equities	5.9%	7.7%
Cash and short-term investments	0.2%	0.3%
Total investment portfolio	100.0%	133.4%
Other net liabilities		(33.4%)
Total Net Asset Value		100.0%

Top 25 Holdings	% of Portfolio	% of Net Asset Value
Davis + Henderson Income Fund	3.2%	4.2%
Northland Power Income Fund	2.8%	3.7%
ARC Energy Trust	2.3%	3.1%
Energy Savings Income Fund	2.3%	3.0%
Enerplus Resources Fund	2.0%	2.7%
Bell Aliant Regional Communications Income Fund	1.9%	2.6%
Cineplex Galaxy Income Fund	1.9%	2.6%
Enerflex Systems Income Fund	1.9%	2.5%
RioCan REIT	1.9%	2.5%
Pembina Pipeline Income Fund	1.8%	2.4%
Canadian Apartment Properties REIT	1.8%	2.4%
Primaris Retail REIT	1.6%	2.2%
Keyera Facilities Income Fund	1.6%	2.2%
Daylight Resources Trust	1.6%	2.2%
Yellow Pages Income Fund	1.6%	2.2%
Crescent Point Energy Trust	1.6%	2.1%
Northern Property REIT	1.6%	2.1%
North West Company Fund	1.6%	2.1%
Superior Plus Income Fund	1.5%	2.0%
CML Healthcare Income Fund	1.5%	2.0%
Canadian REIT	1.4%	1.8%
Cominar REIT	1.4%	1.8%
Chemtrade Logistics Income Fund	1.4%	1.8%
Inter Pipeline Fund	1.3%	1.8%
Progress Energy Trust	1.3%	1.8%

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.

2008 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 shares 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 Other Income (Investment Income and Not Investment Income) in Box 26, Capital Gains in Box 21 and dividend income in Box 23 and Box 49. 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.

T5 supplementary slips will indicate interest from Canadian sources in Box 13.

The following table outlines the breakdown of the Fund's distributions declared in 2008 on a per unit basis.

Record Date	Payment Date	Return of Capital	Foreign Non-Business Income	Investment Income	Dividend Income	Total Distribution
Jan. 31, 2008	Feb. 14, 2008	$ 0.00289	$ 0.01892	$ 0.06389	$ 0.00430	$ 0.09
Feb. 29, 2008	Mar. 14, 2008	0.00289	0.01892	0.06389	0.00430	0.09
Mar. 31, 2008	Apr. 14, 2008	0.00289	0.01892	0.06389	0.00430	0.09
Apr. 30, 2008	May. 14, 2008	0.00289	0.01892	0.06389	0.00430	0.09
May 30, 2008	Jun. 13, 2008	0.00289	0.01892	0.06389	0.00430	0.09
Jun. 30, 2008	Jul. 15, 2008	0.00289	0.01892	0.06389	0.00430	0.09
Jul. 31, 2008	Aug. 15, 2008	0.01054	0.00437	0.07876	0.00633	0.10
Aug. 29, 2008	Sep. 15, 2008	0.01054	0.00437	0.07876	0.00633	0.10
Sep. 30, 2008	Oct. 15, 2008	0.01054	0.00437	0.07876	0.00633	0.10
Oct. 31, 2008	Nov. 14, 2008	0.01054	0.00437	0.07876	0.00633	0.10
Nov. 28, 2008	Dec. 12, 2008	0.01054	0.00437	0.07876	0.00633	0.10
Dec. 31, 2008	Jan. 15, 2009	0.01054	0.00437	0.07876	0.00633	0.10
Total		**$ 0.08058**	**$ 0.13974**	**$ 0.85590**	**$ 0.06378**	**$ 1.14**

Preferred Securities

Record Date	Payment Date	Interest Income	Total Distribution
Aug. 6, 2008	Aug. 15, 2008	$ 0.15000	$ 0.15000
Nov. 6, 2008	Nov. 17, 2008	0.15000	0.15000
Total		**$ 0.30000**	**$ 0.30000**

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 (Canada)

MFC Global Investment Management (Canada) ("MFC") is the Portfolio Manager of four Brompton Funds – Brompton VIP Income Fund, Brompton Advantaged VIP Income Fund, Brompton Oil & Gas Income Fund and Brompton Advantaged Oil & Gas Income Fund. MFC, a division of Elliott & Page Limited, is part of MFC Global Investment Management, the asset management division of Manulife Financial Corporation, a top-ranked portfolio manager of income-oriented investments, with extensive experience in income trusts, dividend-paying equities and both high-yield and investment-grade fixed income investments. MFC has more than 100 years of experience managing portfolios for the Manufacturers Life Insurance Company, John Hancock Life Insurance Company, and other major clients. MFC and related entities manage approximately $250 billion in assets under management.

MFC Global Investment Management

Portfolio Manager's Report

Markets were extremely volatile during 2008, particularly during the fourth quarter, driven by the compounding issues of the deepening financial crisis alongside an emerging global recession. Commodity prices, which performed well during the first half of the year, fell precipitously in the second half of the year as demand decreased rapidly with the onset of the global economic recession. Following the bankruptcies of Lehman Brothers and Washington Mutual, the US government bailed out a number of financial institutions, including Fannie Mae, Freddie Mac and AIG. To stabilize the financial system, the US government made approximately $350 billion of direct investments in qualifying banks and finance companies, and governments around the world took similar actions to ensure the stability of the global financial system. To combat the global recession, China, Japan, Europe, the United States and Canada have all committed to massive stimulus packages focused on job creation and retraining, updating infrastructure and encouraging consumer spending. As a result, equity and corporate debt markets performed poorly in 2008. The S&P/TSX Income Trust Index, a broad measure of income trust performance, returned -26.9% in 2008.

At the end of the year, the Fund remained predominately invested in income trusts with 54% of the portfolio invested in business trusts, 17% in energy trusts and 16% in real estate investment trusts ("REITs").

Within income trusts, the Fund is overweight in the business, resource, power, utilities and infrastructure, industrials and REITs sectors with an underweight position in energy. Given the volatility in the equity and trust markets as well as the weakness in the global economy, the Portfolio Manager continues to focus the Fund's investments on higher-quality, sustainable businesses with attractive yields. The portfolio also included a 7% weighting in high-yield bonds and a 6% position in dividend-paying equities.

Following the Merger of certain Brompton Funds into VIP in July 2008, the Portfolio Manager focused on improving the overall quality of the portfolio by selling positions in smaller capitalization income trusts and income trusts with weaker balance sheets and higher debt levels. In the current economic environment, the Portfolio Manager has been focusing on holding larger capitalization income trusts with the most sustainable business models and the strongest financial positions. The Portfolio Manager has also been building the position in US high-yield securities. The yield opportunities are very attractive within high-yield bonds and, as such, the Portfolio Manager has been selling some of the income trust positions to invest in high-yield securities. The Portfolio Manager also established a small position in dividend-paying equities to add additional diversification benefits and growth opportunities for the Fund.

Volatility peaked during the fourth quarter through what was extraordinary selling pressure on investors from margin calls, de-leveraging of portfolios, and fear. The markets are now in a transitional period, shifting from assessing the impact of the financial crisis to assessing the impact of the global economic recession. Given the massive amount of fiscal stimulus committed by governments around the world, in addition to accommodative monetary policy, the Portfolio Manager believes that the markets may start to normalize over the near term.

Economic and company-specific results are likely to remain negative during the first half of 2009. The Portfolio Manager is more optimistic about the markets, however, given attractive valuations and high yields coupled with the fact that equity and income trust markets tend to recover prior to an economic or earnings recovery.

Forward-Looking Statements

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook 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 on 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 a majority of independent directors.

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)

Mark A. Caranci
President and Chief Executive Officer
Brompton Funds Management Limited
March 12, 2009

(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, 2008, the statements of Net Assets as at December 31, 2008 and 2007 and the statements of operations and retained earnings (deficit), 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 the Fund's Manager, 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, 2008, the Net Assets as at December 31, 2008 and 2007 and the results of its operations and retained earnings (deficit), the changes in its Net Assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed)

PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
March 12, 2009

Statements of Net Assets

As at December 31	2008	2007
Assets		
Investments, at fair value	**$ 459,763,920**	$ 133,382,764
Cash and short-term investments	**971,945**	11,446,119
Income receivable	**6,197,306**	1,239,007
Total assets	**466,933,171**	146,067,890
Liabilities		
Accounts payable and accrued liabilities	**936,926**	269,616
Distributions payable to unitholders (note 8)	**4,836,510**	633,558
Redemptions payable to unitholders	**—**	14,294,845
Loans payable (note 12)	**101,279,528**	28,710,728
Preferred securities (note 5)	**15,106,060**	—
Total liabilities	**122,159,024**	43,908,747
Unitholders' equity		
Unitholders' capital (note 4)	**628,154,770**	79,854,541
Contributed surplus (note 4)	**1,004,163**	—
Retained earnings (deficit)	**(284,384,786)**	22,304,602
Net Assets representing unitholders' equity	**$ 344,774,147**	$ 102,159,143
Units outstanding (note 4)	**47,201,693**	7,039,538
Net Assets per unit – basic and diluted (note 6)	**$ 7.30**	$ 14.51

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

(Signed)

Peter A. Braaten
Director

(Signed)

Raymond R. Pether
Director

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

Statements of Operations and Retained Earnings (Deficit)

For the years ended December 31	2008	2007
Income		
Distribution and dividend income	**$ 39,152,101**	$ 10,325,203
Securities lending income (note 11)	**655,301**	73,878
Interest income	**2,960,773**	2,042,913
	42,768,175	12,441,994
Expenses		
Management fees (note 9)	**2,763,071**	1,068,503
Service fees (note 9)	**1,053,474**	454,524
Audit fees	**28,865**	29,949
Independent review committee fees	**16,999**	—
Trustee fees	**10,818**	28,152
Custodial fees	**28,674**	26,799
Legal fees	**14,366**	15,366
Unitholder reporting costs	**124,009**	18,003
Other administrative expenses	**168,114**	48,528
Interest and bank charges (note 12)	**3,404,378**	1,430,675
	7,612,768	3,120,499
Net investment income before distributions	**35,155,407**	9,321,495
Distributions on Preferred securities (note 8)	**(455,741)**	—
Net investment income	**34,699,666**	9,321,495
Net realized gain (loss) on sale of investments (note 10)	**(35,139,903)**	5,989,704
Transaction costs (note 2)	**(464,231)**	(64,409)
Net realized gain on loans payable (note 12)	**909,949**	69,803
Net change in unrealized gain/loss on investments, short-term investments and foreign currency transactions	**(265,141,858)**	(1,954,462)
Net change in unrealized gain/loss on loans payable (note 12)	**(6,088,133)**	3,595,348
Increase (decrease) in Net Assets from operations	**(271,224,510)**	16,957,479
Retained earnings, beginning of year (note 3)	**22,304,602**	17,834,032
Excess of stated value paid on repurchase and redemption of units	**(1,827,187)**	(3,810,705)
Issuance costs on warrants (note 6)	**(380,000)**	—
Distributions to unitholders (note 8)	**(33,257,691)**	(8,676,204)
Retained earnings (deficit), end of year	**$(284,384,786)**	$ 22,304,602
Increase (decrease) in Net Assets from operations per unit[1] **– basic and diluted** (note 6)	**$ (9.44)**	$ 2.09

[1] Based on the weighted average number of units outstanding for the year (note 4).

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

Statements of Cash Flows

For the years ended December 31	2008	2007
Cash flows from operating activities:		
Increase (decrease) in Net Assets from operations	**$(271,224,510)**	$ 16,957,479
Adjustments to reconcile net cash provided by operations (net of effects of Merger):		
Net realized (gain) loss on sale of investments (note 10)	**35,139,903**	(5,989,704)
Net realized (gain) loss on loans payable	**(909,949)**	(69,803)
Net change in unrealized gain/loss on investments	**265,119,112**	1,977,208
Net change in unrealized gain/loss on loans payable	**6,088,133**	(3,595,348)
Decrease (increase) in other assets	**—**	21,252
Decrease (increase) in income receivable	**2,396,964**	258,462
Increase (decrease) in accounts payable and accrued liabilities	**(860,669)**	(70,014)
Increase (decrease) in distributions payable on Preferred securities	**(9,890)**	—
Purchase of investments (note 10)	**(34,868,056)**	(13,079,972)
Proceeds from sale of investments (note 10)	**192,654,252**	44,014,403
Cash provided by operating activities	**193,525,290**	40,423,963
Cash flows from financing activities:		
Issuance costs on warrants (note 6)	**(380,000)**	—
Issuance costs on units issued upon Merger (note 4)	**(258,961)**	—
Proceeds from distribution reinvestment plan (note 8)	**580,972**	—
Increase (decrease) in loans payable	**(12,353,654)**	(8,526,208)
Distributions paid to unitholders (note 8)	**(34,094,912)**	(8,795,491)
Repurchase of units (note 4)	**(4,031,087)**	(4,550,811)
Amounts paid for redemption of units (note 4)	**(160,993,861)**	(25,914,385)
Amounts paid for redemption of Preferred securities (note 5)	**(829,920)**	—
Cash provided by (used in) financing activities	**(212,361,423)**	(47,786,895)
Cash flows from investing activities:		
Cash and short-term investments acquired from Merger (note 1)	**8,361,959**	—
Cash provided by investing activities	**8,361,959**	—
Decrease in cash and short-term investments	**(10,474,174)**	(7,362,932)
Cash and short-term investments, beginning of year	**11,446,119**	18,809,051
Cash and short-term investments, end of year	**$ 971,945**	$ 11,446,119
Supplemental information:		
Interest paid	**$ 3,585,539**	$ 1,444,214

Statements of Changes in Net Assets

For the years ended December 31	2008	2007
Net Assets, beginning of year (note 3)	**$ 102,159,143**	$ 112,723,524
Operations:		
Decrease (increase) in Net Assets from operations	**(271,224,510)**	16,957,479
Unitholder transactions:		
Distributions to unitholders (note 6)		
Net investment income	**(30,906,897)**	(8,095,487)
Return of capital	**(2,350,794)**	(580,717)
Total	**(33,257,691)**	(8,676,204)
Issuance costs on warrants (note 6)	**(380,000)**	—
Proceeds from distribution reinvestment plan (note 8)	**580,972**	—
Issuance of units upon Fund Merger, net (note 4)	**697,626,336**	—
Repurchase of units (note 4)	**(4,031,087)**	(4,550,811)
Redemption of units (note 4)	**(146,699,016)**	(14,294,845)
Total unitholder transactions	**513,839,514**	(27,521,860)
Net increase (decrease) in Net Assets	**242,615,004**	(10,564,381)
Net Assets, end of year	**$ 344,774,147**	$ 102,159,143
Distributions per unit (note 8)	**$ 1.14**	$ 1.08

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

Statement of Investments

As at December 31, 2008		Cost (CAD)	Fair Value (CAD)	% of Portfolio
No. of Units	**Business Trusts**			
130,643	AG Growth Income Fund	$ 3,853,969	$ 2,533,168	
1,130,416	Algonquin Power Income Fund	8,444,207	2,611,261	
323,980	AltaGas Income Trust	7,979,628	5,575,696	
377,110	Altus Group Income Fund	5,283,584	2,858,494	
165,134	Armtec Infrastructure Income Fund	3,612,472	2,805,627	
382,492	Bell Aliant Regional Communications Income Fund	11,165,979	8,977,087	
443,113	BFI Canada Income Fund	9,398,675	4,590,651	
735,931	Boralex Power Income Fund	3,981,387	2,325,542	
713,709	Boston Pizza Royalties Income Fund	9,529,133	5,359,955	
198,707	Canexus Income Fund	884,246	637,849	
407,966	Canfor Pulp Income Fund	4,793,601	1,264,695	
182,000	Cargojet Income Fund	1,790,400	429,520	
390,572	Cathedral Energy Services Income Trust	5,862,486	2,495,755	
730,325	Chemtrade Logistics Income Fund	10,499,423	6,339,221	
407,244	CI Financial Income Fund	9,384,947	5,896,893	
653,430	Cineplex Galaxy Income Fund	9,095,002	8,932,388	
535,975	CML Healthcare Income Fund	7,578,687	6,881,919	
580,402	Consumers' Waterheater Income Fund	6,970,628	5,397,739	
870,857	Davis + Henderson Income Fund	13,008,432	14,534,603	
126,400	Enbridge Income Fund	1,453,600	1,314,560	
836,486	Enerflex Systems Income Fund	11,317,656	8,657,630	
1,201,861	Energy Savings Income Fund	15,354,416	10,420,135	
1,027,053	Energy Savings Income Fund (Temporary Entitlement Units)	—	36,437	
344,076	EPCOR Power, L.P.	7,483,653	6,090,145	
742,170	Fort Chicago Energy Partners L.P.	8,149,027	5,284,250	
338,390	Gaz Metro LP	5,089,386	4,419,373	
154,438	Genivar Income Fund	3,660,181	3,865,583	
355,401	GMP Capital Fund	5,761,050	1,791,221	
237,071	Great Lakes Hydro Income Fund	4,219,864	3,769,429	
556,699	Innergex Power Income Fund	7,103,479	5,121,631	
886,147	Inter Pipeline Fund	8,763,994	6,247,336	
50,900	K-Bro Linen Income Fund	719,650	494,748	
427,608	Keyera Facilities Income Fund	9,001,149	7,594,318	
159,088	Labrador Iron Ore Royalty Income Fund	8,377,574	3,385,393	
27,511	Liquor Stores Income Fund	478,691	286,390	
499,135	Livingston International Income Fund	7,434,456	4,087,916	
451,300	Macquarie Power & Infrastructure Income Fund	3,547,218	2,134,649	
314,164	Morneau Sobeco Income Fund	3,537,487	2,755,218	
472,802	Mullen Group Income Fund	10,803,526	6,004,585	
656,470	NAL Oil & Gas Fund	10,989,308	5,153,290	
213,636	Newalta Income Fund	3,994,993	1,358,725	
468,212	Noranda Income Fund	3,881,477	1,905,623	
430,006	North West Company Fund	6,854,295	7,228,401	
1,122,194	Northland Power Income Fund	14,213,304	12,938,897	
556,743	Pembina Pipeline Income Fund	9,620,520	8,395,684	
528,066	Pizza Pizza Royalty Income Fund	4,880,744	3,221,203	
224,494	Precision Drilling Fund	5,935,621	2,258,410	
127,600	Richards Packaging Income Fund	1,002,683	754,116	
905,130	Rogers Sugar Income Fund	4,064,034	3,457,597	
382,600	SIR Royalty Income Fund	3,736,770	2,039,258	
644,143	Superior Plus Income Fund	7,658,860	6,976,069	
409,163	The Brick Group Income Fund	3,146,464	855,151	
270,360	The Data Group Income Fund	2,637,664	1,094,958	
253,100	The Keg Royalties Income Fund	2,783,766	1,683,115	
77,243	Wajax Income Fund	2,485,680	1,622,103	
564,578	Westshore Terminals Income Fund	10,162,404	5,386,074	
1,122,946	Yellow Pages Income Fund	11,364,714	7,445,132	
	Total Business Trusts	**364,786,244**	**247,982,816**	**53.9%**

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

Statement of Investments (continued)

As at December 31, 2008		Cost (CAD)	Fair Value (CAD)	% of Portfolio
No. of Units	**Oil and Gas Trusts**			
565,625	Advantage Energy Income Fund	$ 7,042,031	$ 2,850,750	
532,396	ARC Energy Fund	14,984,756	10,674,540	
405,995	Baytex Energy Fund	13,438,434	5,878,808	
288,911	Bonavista Energy Fund	10,335,170	4,873,929	
106,363	Bonterra Energy Income Fund	3,855,659	1,843,271	
280,635	Canadian Oil Sands Fund	11,475,492	5,901,754	
309,232	Crescent Point Energy Fund	11,750,816	7,421,568	
968,678	Daylight Resources Fund	11,566,016	7,468,507	
388,499	Enerplus Resources Fund	17,198,036	9,269,586	
401,202	Freehold Royalty Fund	9,231,658	4,172,501	
158,001	Penn West Energy Fund	5,327,794	2,144,074	
584,808	Peyto Energy Fund	11,310,248	5,742,815	
691,539	Progress Energy Fund	9,646,969	6,127,036	
200,762	Vermilion Energy Fund	8,355,715	5,025,073	
70,486	Zargon Energy Fund	1,819,949	1,217,293	
	Total Oil and Gas Trusts	**147,338,743**	**80,611,505**	**17.5%**
No. of Units	**Real Estate Investment Trusts**			
192,813	Allied Properties Fund	3,806,129	2,392,809	
290,300	Artis Fund	4,453,202	2,122,093	
110,857	Boardwalk Fund	4,210,349	2,832,396	
350,598	Calloway Fund	6,685,904	3,968,769	
526,262	Canadian Apartment Properties Fund	9,058,333	8,267,576	
284,508	Canadian Fund	8,208,055	6,421,346	
637,484	Chartwell Seniors Housing Fund	5,520,612	3,423,289	
399,379	Cominar Fund	8,614,605	6,394,058	
238,025	Dundee Fund	7,378,775	2,999,115	
583,916	H&R Fund	9,999,686	4,350,174	
1,009,985	InnVest Fund	9,965,859	3,898,542	
307,667	Morguard Fund	4,036,591	3,522,787	
448,497	Northern Property Fund	8,012,914	7,265,651	
712,884	Primaris Retail Fund	11,929,230	7,485,282	
639,110	RioCan Fund	11,645,004	8,730,243	
	Total Real Estate Investment Trusts	**113,525,248**	**74,074,130**	**16.1%**

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

Statement of Investments (continued)

As at December 31, 2008		Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
Par Value ($)	**Fixed Income Investments**					
600,000	Ace Cash Express Inc. *10.25%, due October 1, 2014*	$ 545,618	$ 673,569	$ 168,000	$ 207,397	
300,000	Actuant Corporation *6.875%, due June 15, 2017*	258,154	318,693	225,750	278,690	
250,000	AES Corp. *7.75%, due October 15, 2015*	199,108	245,800	210,000	259,246	
300,000	AGT Limited *8.8%, due September 22, 2025*	361,833	—	311,952		
50,000	Ahern Rentals Inc. *9.25%, due August 12, 2013*	48,627	60,030	10,000	12,345	
250,000	Alimentation Couche-Tard Inc. *7.5%, due December 15, 2013*	227,106	280,364	197,500	243,815	
149,558	Alliance Pipeline Limited Partnership *7.181%, due June 30, 2023*	—	165,674	—	155,008	
754,882	Alliance Pipeline Limited Partnership *7.23%, due June 30, 2015*	—	816,107	—	831,827	
300,000	AMC Entertainment Inc. *8%, due March 1, 2014*	269,894	333,186	184,500	227,767	
160,000	Anixter Inc. *5.95%, due March 1, 2015*	136,288	168,249	104,000	128,389	
24,000	AT&T Corp. *7.3%, due November 15, 2011*	26,121	32,246	24,935	30,783	
300,000	Atlas Pipeline Partners LP *8.75% June 15, 2018*	246,414	304,200	196,500	242,581	
140,000	Axcan Intermediate Holdings Inc. *9.25%, due March 1, 2015*	111,929	138,177	117,600	145,178	
59,000	Bank of America Corp. *5.15%, due May 30, 2017*	—	55,451	—	49,352	
998,000	Baytex Energy Trust *9.625%, due July 15, 2010*	879,095	1,085,249	918,160	1,133,475	
222,000	BC Gas Utility Ltd. *10.3%, due September 30, 2016*	—	301,032	—	286,991	
450,000	BC Telecom Inc. *10.65%, due June 19, 2021*	—	621,338	—	550,476	
240,000	BC Telecom Inc. *11.9%, due November 22, 2015*	—	333,461	—	316,543	
300,000	Bell Aliant Regional Communications Limited Partnership *4.95%, due January 23, 2013*	—	286,395	—	274,491	
50,000	Bell Aliant Regional Communications Limited Partnership *5.41%, due September 26, 2016*	—	45,158	—	43,077	
10,000	BMO Sub Note TR *5.75%, due September 26, 2022*	—	10,028	—	8,919	
135,000	Canadian Capital Auto Rec Trust *4.558%, due April 17, 2009*	—	134,345	—	134,529	
148,000	Canadian Natural Resources Ltd. *4.5%, due January 23, 2013*	—	144,427	—	140,843	
51,000	Canadian Pacific *6.25%, due June 1, 2018*	—	51,085	—	45,070	
229,000	Canadian Tire Corporation, Limited *6.32%, due February 24, 2034*	—	208,740	—	173,713	
350,000	Cascades Inc. *7.25%, due February 15, 2013*	303,962	375,243	178,500	220,359	
83,000	Caterpillar Financial Services Ltd. *4.94%, due June 1, 2012*	—	83,316	—	81,246	
25,000	Cendant Car Rental Group LLC *7.625%, due May 15, 2014*	23,321	28,790	7,250	8,950	
225,000	Cendant Car Rental Group LLC *7.75%, due May 15, 2016*	201,239	248,431	65,250	80,552	
155,000	Centra Gas Ontario Inc. *8.65%, due October 19, 2018*	—	193,327	—	190,213	
200,000	Century Aluminum Co. *7.5%, due August 15, 2014*	204,762	252,780	115,000	141,968	
1,295,000	Charter Communications Holdings, LLC *10.25%, due September 15, 2010*	1,287,290	1,589,169	595,700	735,396	
60,000	Citigroup Financial Corp. *5.5%, due May 21, 2013*	—	59,217	—	53,186	
68,000	Citigroup Inc. *5.16%, due May 24, 2027*	—	55,867	—	43,298	
306,000	Columbia/HCA Healthcare Corporation *8.36%, due April 15, 2024*	275,179	339,710	156,620	193,348	
80,000	Columbus McKinnon Corp. *8.875%, due November 1, 2013*	77,335	95,471	67,200	82,959	
45,000	Commerzbank AG *4.5%, due December 15, 2016*	—	43,007	—	44,300	
500,000	Conacher Oil & Gas *10.25%, due December 15, 2015*	393,467	485,738	200,000	246,901	
300,000	CSC Holdings Inc. *8.5%, due June 15, 2015*	241,044	297,570	264,000	325,910	
800,000	Dollarama Group LP *8.875%, due August 15, 2012*	764,410	943,670	584,000	720,952	
300,000	El Paso Natural *7.25%, due June 1, 2018*	240,971	297,480	238,101	293,937	
90,000	EnCana Corp. *5.8%, due January 18, 2018*	—	90,828	—	84,734	
250,000	Energy Partners Ltd. *9.75%, due April 15, 2014*	168,977	208,603	82,500	101,847	
91,000	EPCOR Utilities Inc. *5.80%, due January 31, 2018*	—	91,204	—	83,434	
175,000	EPCOR Utilities Inc. *6.6%, due November 2, 2011*	—	183,143	—	180,672	
47,000	Finning International *6.02%, due June 1, 2018*	—	47,220	—	42,870	
200,000	Flextronics Intl *6.5%, due May 15, 2013*	152,226	187,924	158,000	195,052	
250,000	Fontainebleau Las Vegas Holdings LLC *10.25%, June 15, 2015*	214,883	265,275	24,375	30,091	
500,000	Foot Locker Inc. *8.5%, due January 15, 2022*	541,571	668,573	380,000	469,113	
116,000	Ford Floorplan Auto Securitization Trust *4.61%, due November 15, 2009*	—	114,595	—	115,396	
60,000	France Telecom S.A. *5.5%, due June 23, 2016*	—	58,146	—	59,642	
170,000	Gaylord Entertainment Co. *8%, due November 15, 2013*	156,858	193,642	117,300	144,808	
74,000	GE Capital Canada *5.53%, due August 17, 2017*	—	73,002	—	68,061	
73,000	Great-West Lifeco *5.691%, due June 21, 2067*	—	66,667	—	57,210	
55,000	Great-West Lifeco *7.127%, due June 26, 2068*	—	54,798	—	46,551	
800,000	Harrahs Operating Co. *5.625%, due June 1, 2015*	617,620	762,456	136,000	167,893	
126,000	HBOS PLC FLTG *5.109%, due June 21, 2017*	—	123,669	—	118,766	
45,000	HCA Inc. *6.25%, due February 15, 2013*	32,270	39,837	28,125	34,721	
250,000	Helix Energy *9.50%, due January 15, 2016*	203,685	251,450	132,500	163,572	
281,000	Herbst Gaming Inc. *8.125%, due June 1, 2012*	269,093	332,197	1,054	1,301	
129,000	Honda Canada Financial *5.076%, due May 9, 2013*	—	127,971	—	122,273	
129,000	Honda Canada Financial *5.307%, due November 30, 2010*	—	130,276	—	129,858	
55,000	Honda Canada Financial *5.675%, due September 26, 2012*	—	55,542	—	54,189	
90,000	ING Bank of Canada *4.3%, due December 5, 2016*	—	87,128	—	85,873	
575,000	Investors Group Inc. *7%, due December 31, 2032*	—	638,365	—	511,405	
800,000	Iron Mountain Inc. *7.75%, due January 15, 2015*	846,514	1,045,028	718,000	886,376	
500,000	Manitoba Telecom Services Inc. *6.15%, due June 10, 2014*	—	515,290	—	477,290	
41,000	Merrill Lynch & Co., Canada Ltd. *4.5%, due January 30, 2012*	—	38,030	—	39,425	
150,000	Metals USA Inc. *11.125%, due December 1, 2015*	143,754	177,465	88,500	109,254	
500,000	MetroPCS Wireless Inc. *9.25%, due November 1, 2014*	454,068	560,550	447,500	552,442	
250,000	MGM Mirage *7.5%, due June 1, 2016*	220,614	272,350	158,437	195,592	
125,000	MGM Mirage *7.625%, due January 15, 2017*	117,577	145,150	80,625	99,532	
78,000	Morgan Stanley *4.5%, due February 23, 2012*	—	73,521	—	67,850	
38,000	Morgan Stanley *4.9%, due February 23, 2017*	—	33,341	—	28,143	
127,000	National Bank of Canada *5.55%, due November 15, 2018*	—	127,828	—	120,630	
81,000	NBC Asset Trust *7.235%, due June 30, 2049*	—	81,049	—	64,640	
500,000	Neff Corp. *10%, due June 1, 2015*	448,651	553,863	50,000	61,725	

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

Statement of Investments (continued)

As at December 31, 2008		Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
Par Value ($)	**Fixed Income Investments** (continued)					
521,000	Newfoundland Light & Power Inc. *10.125%, due June 15, 2022*	$ —	$ 748,547	$ —	$ 671,808	
800,000	Nextel Communications Inc. *6.875%, due October 31, 2013*	815,433	1,006,658	340,000	419,732	
55,000	Nordea Bank AB, *3.95%, due August 5, 2015*	—	53,873	—	54,145	
660,000	Nova Gas Transmission Ltd. *12.2%, due February 28, 2016*	—	941,906	—	900,273	
300,000	Nova Scotia Power Inc. *8.85%, due May 19, 2025*	—	397,323	—	334,755	
325,000	Nova Scotia Power Inc. *9.75%, due August 2, 2019*	—	445,003	—	399,636	
50,000	Novelis Inc. *7.25%, due July 15, 2015*	44,632	55,099	29,000	35,801	
100,000	NXP Funding LLC *7.87%, due October 15, 2014*	91,656	113,150	39,000	48,146	
100,000	Omega Healthcare Investors, Inc. *7%, due January 15, 2016*	94,525	116,692	75,000	92,588	
500,000	OPTI Canada Inc. *8.25%, due December 15, 2014*	478,579	590,809	270,000	333,317	
1,000,000	Petroplus Finance Ltd. *7.00%, due May 1, 2017*	725,725	895,913	610,000	753,049	
81,000	Real Estate Asset Liquidity Trust *4.595%, due April 12, 2023*	—	71,874	—	71,237	
59,000	RONA Inc. *5.4%, due October 20, 2016*	—	47,463	—	44,298	
336,000	Royal Bank of Canada *5.45%, due November 4, 2018*	—	340,405	—	326,306	
77,000	Royal Bank of Canada *4.84%, due March 11, 2018*	—	76,215	—	74,200	
124,000	Royal Bank of Canada *5.00%, due June 6, 2018*	—	123,139	—	119,370	
500,000	Ryerson Tull Inc. *12%, due January 11, 2015*	415,224	512,597	308,750	381,153	
811,000	Scotiabank Capital Trust *6.282%, due June 30, 2049*	—	824,471	—	760,134	
235,000	Scotiabank Capital Trust *6.626%, due June 30, 2052*	—	241,573	—	226,963	
500,000	Seagate Technology *6.375%, due October 11, 2011*	452,265	558,324	345,000	425,905	
300,000	Sears Canada Inc. *7.05%, due September 20, 2010*	—	310,200	—	306,009	
1,212,000	Sears Canada Inc. *7.45%, due May 10, 2010*	—	1,255,426	—	1,243,293	
500,000	Shaw Communications Inc. *6.15%, due May 9, 2016*	—	490,260	—	465,040	
500,000	Shaw Communications Inc. *7.5%, due November 20, 2013*	—	517,882	—	512,410	
250,000	Sherritt International Corporation *7.875%, due November 26, 2012*	—	250,000	—	222,210	
250,000	Sherritt International Corporation *7.75%, due October 15, 2015*	—	250,000	—	190,240	
250,000	Sherritt International Corporation *8.25%, due October 24, 2014*	—	250,000	—	211,473	
100,000	Snoqualmie Entertainment Authority *9.125%, due February 1, 2015*	95,658	118,090	62,000	76,539	
65,000	St. George Bank Limited *4.65%, due April 23, 2017*	—	61,855	—	61,548	
500,000	Stater Bros. Holdings Inc. *8.125%, due June 15, 2012*	494,700	610,711	452,500	558,613	
500,000	Steel Dynamics *7.375%, due November 1, 2012*	398,297	491,700	365,000	450,595	
170,000	Stratos Global Corporation *9.875%, due February 15, 2013*	147,485	182,071	160,650	198,324	
88,000	Sun Life Financial Inc. *4.8%, due November 23, 2035*	—	86,310	—	77,551	
61,000	Sun Life Financial Inc. *5.4%, due May 29, 2042*	—	55,814	—	40,569	
134,000	Suncor Energy Inc. *5.39%, due March 26, 2037*	—	119,131	—	86,856	
95,000	Syniverse Technologies Inc. *7.75%, due August 15, 2013*	93,756	115,742	48,568	59,958	
300,000	Targa Resources Partners LP *8.25%, due July 1, 2016*	250,886	309,720	186,000	229,618	
400,000	Teekay Shipping Corporation *8.875%, due July 15, 2011*	458,459	565,971	338,000	417,263	
38,000	Terasen Gas *6.05%, due February 15, 2038*	—	39,192	—	33,332	
500,000	Tesoro Corporation *6.25%, due November 1, 2012*	379,488	468,480	345,000	425,905	
300,000	Texas Competitive Electric Holdings *10.25%, due November 15, 2015*	243,965	301,176	213,000	262,950	
189,000	The Thomson Corp. *5.20%, due December 1, 2014*	—	185,097	—	178,800	
66,000	Toronto-Dominion Bank *5.763%, due December 18, 2016*	—	62,098	—	53,166	
250,000	U.S. Concrete Inc. *8.375%, due April 1, 2014*	190,615	235,316	135,000	166,658	
250,000	Viterra Inc., *8.50%, due August 1, 2017*	—	250,000	—	257,610	
310,000	Westcoast Energy Inc. *7.15%, due March 20, 2031*	—	359,154	—	303,657	
450,000	Westcoast Energy Inc. *7.3%, due December 18, 2026*	—	521,694	—	451,449	
350,000	Western Oil Sands Inc. *8.375%, due May 1, 2012*	411,965	508,574	334,124	412,478	
125,000	Westlake Chemical Corp. *6.625%, due January 15, 2016*	116,871	144,278	72,500	89,502	
520,000	Wind Acquisition Fin. SA. *10.75%, due December 1, 2015*	513,420	633,821	447,200	552,072	
	Total Fixed Income Investments	**18,463,299**	**38,950,396**	**12,607,774**	**30,536,667**	**6.6%**
No. of Shares	**Canadian Dividend-Paying Equities**					
103,263	Atlantic Power Corporation		850,887		809,582	
46,000	Bank of Montreal		2,124,875		1,436,120	
50,000	IGM Financial Inc.		2,157,122		1,771,000	
382,641	Medical Facilities Corp.		3,719,270		2,885,113	
369,643	New Flyer Industries Inc.		4,505,948		3,060,644	
79,150	Power Corporation of Canada		2,553,834		1,757,922	
195,800	Power Financial Corp.		5,832,108		4,638,502	
141,212	Student Transportation of America Ltd.		1,563,498		1,118,399	
32,800	The Toronto-Dominion Bank		1,742,175		1,424,176	
818,197	TimberWest Forest Corp.		11,031,253		2,896,417	
963,546	TransForce Inc.		6,484,665		3,979,445	
179,239	Trinidad Drilling Ltd.		2,527,273		781,482	
	Total Canadian Dividend-Paying Equities		**45,092,908**		**26,558,802**	**5.9%**
	Embedded Broker Commission (note 2)		(40,605)		—	
	Total	**$ 18,463,299**	**$ 709,652,934**	**$ 12,607,774**	**$ 459,763,920**	**100.0%**

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

Notes to the Financial Statements

December 31, 2008 and 2007

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. 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.

At a special meeting held on June 9, 2008, unitholders of the Fund, Brompton Stable Income Fund, Brompton Equal Weight Income Fund, Business Trust Equal Weight Income Fund, BG Top 100 Equal Weighted Income Fund, Brompton Tracker Fund, and BG Income + Growth Split Trust approved an extraordinary resolution to make the following changes to the Fund.

i) Amend the investment strategies and restrictions of the Fund to provide exposure to a portfolio including income trusts, dividend-paying common equities, convertible debt, preferred shares, and investment grade and high-yield debt;

ii) Amend the redemption provisions of the Fund, including the annual redemption date; and

iii) Approve the acquisition of Brompton Stable Income Fund, Brompton Equal Weight Income Fund, Business Trust Equal Weight Income Fund, BG Top 100 Equal Weighted Income Fund, Brompton Tracker Fund and BG Income + Growth Split Trust by the Fund (the "Merger").

These changes became effective on July 4, 2008. As of that date, the Fund issued 51,373,482 units, with a fair value of $697,885,297, to the unitholders of the aforementioned funds as a result of the Merger. The following table summarizes the fair value of assets acquired and liabilities assumed.

Assets	
Investments	$ 784,426,367
Cash and short-term investments	8,361,959
Other assets	7,355,263
Total assets acquired	800,143,589
Liabilities	
Current liabilities	1,527,979
Preferred securities	15,935,980
Distributions payable to unitholders	5,050,063
Loans payable	79,744,270
Total liabilities assumed	102,258,292
Net Assets acquired	$ 697,885,297

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), 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) Adoption of New Accounting Standards

Section 3862 – Financial Instruments – Disclosures

On January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3862, "Financial Instruments – Disclosures." Section 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Fund manages those risks. This standard impacts the Fund's disclosure provided but does not affect the Fund's results or financial position.

Section 3863 – Financial Instruments – Presentation

On January 1, 2008, the Fund adopted CICA Section 3863, "Financial Instruments – Presentation." Section 3863 carries forward the presentation requirements of Section 3861 with respect to financial instruments. This standard impacts the Fund's disclosure provided but does not affect the Fund's results or financial position.

Section 3855 – Financial Instruments – Recognition and Measurement

Effective January 1, 2007, the Fund adopted CICA Section 3855, "Financial Instruments – Recognition and Measurement," which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires that bid prices (for investments held) and ask prices (for investments sold short) be used in determining the fair value of investments. Prior to the adoption of this standard, fair value was commonly based on the closing price of an investment for the day. For financial reporting purposes, on January 1, 2007, the Fund adopted the amended valuation policy for actively traded securities held by the Fund without retroactive restatement of prior periods. The impact of the initial adoption of the valuation policy on January 1, 2007 has been disclosed in note 3.

Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of investments by the Fund be expensed in the period incurred. Prior to the adoption of Section 3855, transaction costs were capitalized and included in the cost of purchases or proceeds from sale of investments.

Section 1535 – Capital Disclosures
On January 1, 2008, the Fund adopted CICA Section 1535, "Capital Disclosures," which requires that the Fund disclose information about its objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This standard impacts the Fund's disclosure provided but does not affect the Fund's results or financial position.

b) Valuation of Investments
Investments are deemed held for trading in accordance with Section 3855 and Accounting Guideline 18. The Fund's investments are valued at estimated fair value. Investments held long that are publicly traded are valued at their bid prices on the valuation date. Investments with no available bid prices are valued at their closing price. Short-term investments and bonds are valued at the average bid quotations from recognized investment dealers. The cost of investments is based on their average cost.

c) Cash and Short-term Investments
Cash and short-term investments consist of cash on hand and short-term debt investments with maturities of less than three months on acquisition. Cash and short-term investments are deemed held for trading and are therefore carried at fair value.

d) Investment Transactions and Income Recognition
Investment transactions are recorded on trade date and any realized gains or losses are recognized using the average cost of the investments. Interest income is recognized on an accrual basis. Dividend income is recognized on the ex-dividend date. Net realized gains or losses on investments include net realized gains or losses from foreign currency changes.

e) Transaction Costs
Transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities are expensed and are recognized in the Statement of Operations and Retained Earnings (Deficit).

f) 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.

g) 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.

h) Securities Lending
The Fund may enter into securities lending transactions. These transactions involve the temporary exchange of securities as collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on securities held as collateral. Income earned from these transactions is recognized on the accrual basis and included in the Statement of Operations and Retained Earnings (Deficit).

i) Other Assets and Liabilities
For the purposes of categorization in accordance with Section 3855, income receivable is designated as loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities, distributions payable to unitholders, redemptions payable to unitholders and loans payable are designated as financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short-term nature. For purposes of categorization in accordance with Section 3862, Preferred securites are designated as financial liabilities and are recorded at cost or amortized cost. The ask price on the Toronto Stock Exchange for the Preferred securities as at December 31, 2008, amounted to $15,408,181.

j) Recent Accounting Pronouncements
The Canadian Accounting Standards Board ("AcSB") has confirmed its plan to adopt all International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board, on or by January 1, 2011. In accordance with Canadian GAAP and AcSB's plan, the Fund will adopt all the IFRS.

At December 31, 2008, the Fund has developed a plan to meet the timetable published by the CICA for changeover to IFRS. Key elements of the plan include the determination of the qualitative impact and the quantitative impact, if any, on the Fund's financial statements in accordance with IFRS. The Fund has presently determined that there will be no impact to Net Asset Value per unit from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of presentation of unitholders' equity and certain items in the financial statements of the Fund.

Notes to the Financial Statements (continued)

3. RECONCILIATION OF NET ASSETS TO NET ASSET VALUE

As a result of the adoption of Section 3855 on January 1, 2007, and in accordance with National Instrument 81-106, an adjustment was required to the opening Net Assets of the Fund between the Net Assets for financial reporting purposes (the "Net Assets") and the Net Asset Value for reporting other than in the financial statements (the "Net Asset Value").

The decrease to the Net Assets and the retained earnings as at January 1, 2007, as a result of applying Section 3855 was $625,407. The reconciliation of the Net Assets to Net Asset Value is as follows:

As at December 31		2008		2007
	Total	Per Unit	Total	Per Unit
Net Asset Value	$ 347,357,640	$ 7.36	$ 102,819,843	$ 14.61
Section 3855 adjustment	(2,583,493)	(0.06)	(660,700)	(0.10)
Net Assets	$ 344,774,147	$ 7.30	$ 102,159,143	$ 14.51

4. 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 Asset Value 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. At a special meeting on June 9, 2008, unitholders approved a change in the annual redemption date from the second last business day of December to the second last business day of August, commencing in August 2008. Units may be redeemed at the option of unitholders by tendering units of the Fund by the last business day of July for redemptions on the second last business day of August ("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 the Redemption Valuation Date of each year and will be settled on or before the tenth business day in September.

At the special meeting, unitholders also approved a monthly redemption privilege. Units may be redeemed at the option of unitholders at least 10 business days prior to the second last business day of each month except for the month of August. Unitholders whose units are redeemed will receive a redemption price per unit equal to the lesser of (i) 94% of the market price and (ii) 100% of the closing market price of the units, less any costs associated with the redemption, including brokerage costs.

Issued

		2008		2007
	Number of Units	Amount	Number of Units	Amount
Units, beginning of year	7,039,538	$ 79,854,541	8,364,939	$ 94,889,492
Issuance of units upon Fund Merger, net	51,373,482	697,626,336	—	—
Repurchase of units	(381,622)	(4,976,887)	(336,200)	(3,813,751)
Redemption of units	(10,887,347)	(144,930,192)	(989,201)	(11,221,200)
Units issued under the distribution reinvestment plan	57,642	580,972	—	—
Units, end of year	47,201,693	$ 628,154,770	7,039,538	$ 79,854,541

The value ascribed to the units issued in conjunction with the Merger (note 1) is net of related unit issuance costs of $258,961.

On July 4, 2008, the Fund completed the Merger by exchanging the units of the merging funds for units of the Fund. As a result of the Merger, the Fund issued 51,373,482 units based on the exchange ratios calculated of each merging fund for a total of $697,626,336.

On August 28, 2008, 10,886,918 units were redeemed at $13.47 per unit.

Pursuant to the monthly redemption option, 429 (2007 – nil) units were redeemed at an average price of $10.09 during the year.

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid program for the period from November 8, 2007, to November 7, 2008. Pursuant to the issuer bid, the Fund was permitted to purchase up to 801,500 units for cancellation. The Fund renewed its issuer bid for the period from November 10, 2008 to November 9, 2009. Pursuant to this issuer bid, the Fund is permitted to purchase up to 4,722,900 units 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, 2008, 381,622 (2007 – 336,200) units were purchased for cancellation.

As at December 31, 2008, the Fund had accumulated contributed surplus of $1,004,163 (2007 – nil). Contributed surplus is recorded when units of the Fund are redeemed or repurchased at prices per unit which are below the average cost per unit of unitholders' capital.

The weighted average number of units outstanding for the year ended December 31, 2008, was 28,723,566 (2007 – 8,125,156).

5. PREFERRED SECURITIES

As a result of the Fund Merger, the Fund issued 1,593,598 Preferred securities at $10.00 per security in exchange for the Preferred securities of BG Income + Growth Split Trust. The Preferred securities are unsecured debt obligations of the Fund. Holders of Preferred securities are entitled to fixed quarterly interest payments in the amount of $0.15 per Preferred security. The interest will be paid quarterly in arrears on the fifteenth day of February, May, August and November in each year.

On August 28, 2008, 82,922 Preferred securities were redeemed at $10.02 per security.

6. WARRANTS

Unitholders received warrants on the basis of one-half of one warrant for each unit held on December 8, 2008. A warrant entitles the holder to subscribe for one unit of the Fund at a subscription price of $6.84. Warrants not exercised prior to May 27, 2009, will be void and will have no value. Upon the exercise of a warrant, the Fund will pay a fee equal to $0.12 per warrant to the dealer whose client is exercising the warrant.

The Fund issued 23,619,047 warrants to unitholders of record on December 8, 2008. No warrants were exercised during the year ended December 31, 2008. The fair value of each warrant on the date of issuance was nil. Costs associated with the issuance of these warrants amounted to $380,000.

Diluted Net Assets per unit is calculated when the closing price on the Toronto Stock exchange of the Fund's units on a valuation date is greater than the subscription price. To calculate diluted Net Assets per unit, Net Assets are increased by the net proceeds received from the exercise of all warrants and units are increased by the number of units issued from the exercise of all warrants.

Diluted increase (decrease) in Net Assets from operations per unit is calculated using the treasury stock method.

7. CAPITAL MANAGEMENT

The Fund's objectives in managing its capital are to provide unitholders with a high level of income through monthly cash distributions and to preserve the Net Asset Value per unit. The Fund's capital includes unitholders' equity, loans payable and Preferred securities. The Fund manages its capital taking into consideration the risk characteristics of its holdings. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to unitholders, return capital to unitholders, increase or decrease its level of borrowing, issue warrants or purchase units for cancellation.

8. 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, 2008, the Fund declared total distributions of $1.14 (2007 – $1.08) per unit, which amounted to $33,257,691 (2007 – $8,676,204), and recorded distributions of $0.30 (2007 – nil) per Preferred security, which amounted to $455,741 (2007 – nil). 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, 2008, 57,642 (2007 – nil) units in respect of distributions were issued by the Fund.

9. 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 of MFC Global Investment Management (Canada) 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 the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter.

10. INVESTMENT TRANSACTIONS

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

	2008	2007
Proceeds from sale of investments	**$ 192,654,252**	$ 44,014,403
Less cost of investments sold:		
Investments at cost, beginning of year	**118,152,666**	143,097,393
Investments purchased during the year	**34,868,056**	13,079,972
Investments transferred in upon the Merger	**784,426,367**	—
Investments at cost, end of year	**(709,652,934)**	(118,152,666)
Cost of investments sold during the year	**227,794,155**	38,024,699
Net realized gain (loss) on sale of investments	**$ (35,139,903)**	$ 5,989,704

Foreign exchange gains arising from the disposition of investments of $1,045,212 (2007 – gains of $414,489) are included in the net realized loss of $35,139,903 (2007 – gain of $5,989,704) above.

The brokerage commissions paid to dealers included $8,070 (2007 – nil) that was available for paying to third party vendors, of which $5,190 (2007 – nil) was used for research and $2,880 (2007 – nil) was used for market data services by the Portfolio Manager.

11. 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 the United States Government or its agencies, or a permitted supranational agency as defined in NI 81-102. The market values of the securities on loan and the related collateral at December 31, 2008, were $113.0 million (2007 – $24.0 million) and $120.7 million (2007 – $25.7 million), respectively.

Notes to the Financial Statements (continued)

12. LOANS PAYABLE

Pursuant to an agreement with a Canadian chartered bank, the Fund maintains a 364-day revolving credit facility. The revolving credit facility provides for maximum borrowings of $190.0 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 either the US base rate or the LIBOR rate plus a fixed percentage. There was $101.3 million outstanding under this facility as at December 31, 2008.

During the year ended December 31, 2008, the Fund realized a foreign exchange gain in the amount of $909,949 (2007 – gain of $69,803) on the repayment of borrowings in US dollars under the credit facility. At December 31, 2008, borrowings in US dollars had an unrealized foreign exchange gain of $2,195 (2007 – gain of $6,090,328). The credit facility is secured by a first-ranking and exclusive charge on all of the Fund's assets. During the year ended December 31, 2008, the minimum and maximum amounts of borrowings were $13.6 million (2007 – $27.5 million) and $163.1 million (2007 – $41.3 million), respectively.

13. FINANCIAL RISK MANAGEMENT

The Fund's investment activities expose it to a variety of financial risks. The Statement of Investments presents the securities held by the Fund as at December 31, 2008, and groups the securities by asset type and market segment. Significant risks that are relevant to the Fund are discussed below.

The Manager attempts to minimize the potential adverse effects of these risks on the Fund's performance by employing a professional, experienced portfolio manager, by diversifying the investment portfolio within the constraints of the investment objectives, and by using financial instruments to hedge certain risk exposures. To assist in managing risks, the Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and restrictions, internal guidelines, and securities regulations.

The investment portfolio is primarily comprised of income trusts, Canadian equities and US dollar denominated debt securities. It is the Manager's intention to hedge substantially all of the US dollar foreign exchange exposure through its US dollar denominated loans.

a) Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments such as corporate debt. The Fund is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates for such securities.

The Fund is also exposed to interest rate risk on its variable rate loans. Fluctuations in interest rates have a direct impact on the interest payments the Fund makes on its loans.

The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity.

	Less than 1 Year	1–3 Years	3–5 Years	> 5 Years	Total
Short-term and fixed income investments	$ 1,163,824	$ 4,602,654	$ 5,475,550	$ 20,208,542	$ 31,450,570
Loans payable	101,279,528	—	—	—	101,279,528

As at December 31, 2008, had prevailing interest rates increased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have decreased by approximately $2.4 million or 0.7%. Similarly, had prevailing interest rates decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have increased by approximately $2.8 million or 0.8%. The Fund's sensitivity to interest rate changes was estimated using the weighted average duration of the portfolio and the impact on annual interest expense for the loans payable. In practice, the actual trading results may differ, and the difference could be material.

b) Currency Risk

Currency risk is the risk that the fair value or future cash flows of financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. The investment portfolio is comprised of income trusts and US denominated debt securities. As at December 31, 2008, the Fund's exposure to US dollar foreign exchange was substantially hedged through its US dollar denominated loans; see note 12.

c) Other Price Risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer, or all factors affecting all instruments traded in a market or market segment. All securities present a risk of loss of capital. The Portfolio Manager attempts to moderate this risk through the careful selection of securities and other financial instruments within the parameters of the investment strategy. The maximum risk of loss resulting from financial instruments is equivalent to their fair value.

The Fund is exposed to other price risk from its investment in income trusts and equity securities. As at December 31, 2008, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, Net Assets would have increased or decreased by approximately $42.9 million (approximately 12.5% of Net Assets). In practice, the actual trading results may differ, and the difference could be material.

d) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund's greatest concentration of credit risk is in debt securities. The fair value of debt securities includes consideration of the creditworthiness of the issuer. The carrying amount of investments, as presented on the Statement of Investments, represents the maximum credit risk exposure as at December 31, 2008. The carrying amount of the Fund's other assets also represents the maximum credit risk exposure, as they will be settled in the short term.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. The trade will fail if either party fails to meet its obligation.

The Portfolio Manager evaluates the credit quality of the securities prior to purchase and performs ongoing monitoring of the credit quality of the securities. The Fund will not invest more than 10% of its total assets in the securities of any one issuer in accordance with investment restrictions.

The Fund has entered a securities lending program with its custodian; see note 11. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient, approved credit rating and the value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned.

As at December 31, 2008, the Fund invested 6.6% of its portfolio in debt securities and short-term investments with the following credit ratings. Credit ratings are obtained from Standard & Poor's.

Debt Securities by Rating Category

AAA	1%
AA	3%
A	17%
BBB	26%
Below BBB	53%
Total	100%

e) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to liquidity risk through its annual redemption and loans payable. For the annual redemption, the Fund receives notice at least 20 business days prior to the date of redemption and has up to 10 business days following the date of redemption to settle the redemption, which provides the Portfolio Manager time to sell securities, although there may not be sufficient time to sell the securities at a reasonable price.

The Fund also has a 364-day revolving credit facility, due July 3, 2009, which can be used to fund redemptions or finance investments; see note 12. The credit facility contains several financial covenants that require the Fund to meet certain financial ratios and financial condition tests. The Fund is within its financial covenants with respect to the credit facility. The Manager monitors the use of the credit facility on a regular basis.

14. INCOME TAXES

The Fund had accumulated capital losses as at December 31, 2008 of $39,452,483 (2007 – nil). The capital losses can be carried forward for an indefinite period.

Corporate Information

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