

VALUE
INTEGRITY
PERFORMANCE

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VIP.UN

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

Management Report of Fund Performance

August 12, 2010

This interim management report of fund performance for Brompton VIP Income Fund (the “Fund”) contains financial highlights but does not contain the interim financial statements of the Fund. The interim financial statements follow this report. You may obtain a copy of the interim or annual financial statements, 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.

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.

THE FUND

Brompton VIP Income Fund is a closed-end investment trust 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. The Fund is actively managed by MFC Global Investment Management (Canada) (“MFC GIM”), a subsidiary of Manulife Financial Corporation, which has extensive experience in equity securities and fixed income investments. The Fund is RRSF, DPSP, RRIIF, RESP and TFSA eligible.

INVESTMENT OBJECTIVES AND STRATEGIES

Brompton VIP Income Fund is designed to achieve a high level of income through an actively managed, diversified portfolio composed of dividend-paying common shares, high-yield debt, income trusts, convertible debt, preferred shares and investment grade debt, over a broad range of industries, and to provide the opportunity for capital appreciation.

RECENT DEVELOPMENTS

Exercise of Warrants

On November 16, 2009, the Fund issued 13.7 million TSX-listed warrants to unitholders on the basis of one-third of a warrant for each unit held, with each warrant entitling the holder to subscribe to one unit of the Fund at a subscription price of \$8.33. The issue was fully subscribed, with gross proceeds of \$113.8 million received by the expiry date of April 15, 2010.

Harmonized Sales Tax (“HST”)

Effective July 1, 2010, Ontario and British Columbia combined the provincial sales tax (“PST”) with the federal goods and services tax (“GST”) to create the HST. These provinces join Nova Scotia, New Brunswick and Newfoundland and Labrador as HST participants.

Prior to the implementation of the HST, management fees and most operating expenses on investment funds were subject only to the 5% GST. Effective with the second half of 2010, these costs are now subject to the higher HST rate, which will increase the management expense ratio (“MER”). The HST rate payable by the Fund as of July 1, 2010 is a “blended” rate, which is based on the provincial residency of unitholders, the value of their investments in the Fund and whether their home province is an HST province. With this blended approach, the Fund is required to pay HST on expenditures regardless of the location of the source of its supplies. As at June 30, 2010, the Fund estimated that its blended HST rate for the second half of 2010 will be approximately 9.7%.

Future Accounting Changes

In June 2010, the Canadian Accounting Standards Board (“AcSB”) released an exposure draft to propose that investment companies may defer the adoption of International Financial Reporting Standards (“IFRS”), as published by the International Accounting Standards Board, from fiscal years beginning on or after January 1, 2011 until fiscal years beginning on or by January 1, 2012. The Fund will adopt IFRS by the deadline to be set out in the AcSB’s proposed amendment or such earlier time as required by the Canadian Securities Administrators.

RISKS

Risks associated with an investment in the units of the Fund are discussed in the Fund’s 2009 annual information form, which is available on the Fund’s website at www.bromptongroup.com or on SEDAR at www.sedar.com. There were no changes to the Fund in the six months ended June 30, 2010 that materially affected the risks associated with an investment in the units of the Fund.

RESULTS OF OPERATIONS

Distributions

During the six months ended June 30, 2010, distributions totaled \$0.42 per unit, compared to \$0.50 the previous year. The lower distribution rate in 2010 reflects distribution cuts or conversions to corporate structures by a number of income trusts in the portfolio and a greater portfolio weighting to dividend-paying equities. Since inception in February 2002, the Fund has paid total cash distributions of \$8.44 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 six months ended June 30, 2010, 67,066 units were acquired in the market through this plan at an average price of \$8.72 per unit.

Revenues and Expenses

The Fund’s distribution and dividend income declined to \$0.26 per unit for the six months ended June 30, 2010, from \$0.44 per unit the previous year. This reflects the increased weighting of dividend paying equities, which generally pay lower dividends than income trusts. Income trust holdings have been reduced substantially from 44 trust holdings in the Fund’s portfolio to 13, in the six months ended June 30, 2010. Income trust holdings have been reduced, as income trusts have converted to corporations or have been replaced with more liquid dividend paying equities ahead of the implementation of the income trust tax in 2011. Interest income increased to \$0.09 per unit in the first six months of 2010 from \$0.03 per unit in 2009, reflecting a higher level of fixed income investments in the Fund’s portfolio, which more than doubled to 26.3% of the portfolio at June 30, 2010 from 13.1% the previous year.

Total expenses per unit for the period were \$0.11 per unit in 2010, up from \$0.07 per unit in 2009, mainly due to a higher average Net Asset Value in the first six months of 2010 compared to the first six months of 2009, resulting in higher management and service fees on a per unit basis. Net investment income of the Fund in the first six months of 2010 was less than the amount distributed over the period; however, the Fund had net realized and unrealized gains of \$0.12 per unit in the six months ended June 30, 2010, which partially offset the over distribution.

Net Asset Value

The Net Asset Value per unit of the Fund declined slightly in the first six months of 2010, from \$8.94 at December 31, 2009 to \$8.69 as at June 30, 2010, reflecting volatility in the securities markets. The aggregate Net Asset Value of the Fund grew by \$107 million, from \$366.3 million at December 31, 2009, to \$473.3 million at June 30, 2010, as a result of the exercise of warrants which generated net proceeds of \$112 million from the issue of 13.7 million units.

Investment Portfolio

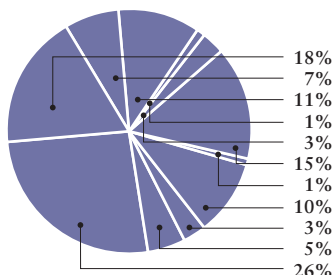
Over the past two years, the Portfolio Manager has repositioned the portfolio in line with the Fund's investment strategy to a greater weighting of dividend-paying equities and fixed income investments and a lower weighting of income trust holdings. In the six months ended June 30, 2010, income trusts decreased from 59.6% to 18.3% of the portfolio, while equities increased from 27.3% to 55.5% and fixed income investments increased from 13.1% to 26.2%.

As of June 30, 2010, the Fund's investments included a total of 13 income funds, 12 Canadian equities, four US equities and 154 fixed income investments. The four US dollar dividend-paying equities acquired during the period were Wal-Mart Stores Inc., Coca-Cola Company, Becton Dickinson and Co. and Medtronic Inc. The breakdown of the portfolio (excluding cash and short-term investments) is shown in the following pie chart, and a detailed listing of the Fund's security holdings is provided in the financial statements.

The Fund's portfolio recorded net gains (realized and unrealized) of \$4.5 million for the six months ended June 30, 2010. The table below shows the net gains and losses in the portfolio by sector. The oil and gas and telecommunication sectors were the major contributors to the gain, providing \$6.6 million and \$5.8 million, respectively, while the financial sector recorded the largest loss in the period at \$6.9 million.

The fixed income securities are primarily high-yield debt and are mostly denominated in US dollars. Substantially all of the US dollar foreign exchange exposure of the Fund's portfolio is hedged by the Fund to the Canadian dollar. As at June 30, 2010, the Fund's US dollar exposure of US\$126.2 million was substantially hedged through its US dollar denominated loans of US\$54.5 million and foreign currency forward agreements of US\$65.9 million notional. As a result, gains or losses on the US dollar borrowings and foreign currency forward agreements 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 Gains (Losses) by Sector (millions)	Realized	Unrealized	Total
Financial	\$ 0.5	(7.4)	(6.9)
Oil and gas	(6.5)	13.1	6.6
Energy	2.0	0.1	2.1
Material	(7.0)	2.4	(4.6)
Real estate investment trusts	1.5	2.0	3.5
Consumer discretionary	(0.6)	(1.5)	(2.1)
Consumer staples	0.0	0.0	0.0
Telecommunications	1.3	4.5	5.8
Industrial	0.5	0.6	1.1
Healthcare	(0.3)	(0.3)	(0.6)
Fixed income investments	(0.6)	0.2	(0.4)
Total	\$ (9.2)	\$ 13.7	\$ 4.5

Liquidity and Capital Resources

The Fund has a 364-day revolving credit facility which provides for maximum borrowings of \$95.0 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 June 30, 2010, the Fund had total borrowings of \$57.9 million under this facility, representing 10.6% of total assets or 12.2% of Net Asset Value. During the six months ended June 30, 2010, the Fund realized a foreign exchange gain of \$0.4 million on the repayment of US dollar borrowings under the credit facility and had an unrealized foreign exchange gain of \$1.1 million. During the period, the minimum and maximum amounts of borrowings were \$57.0 million and \$81.3 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 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 115,300 units were purchased during the six months ended June 30, 2010 under this program at an average price of \$8.67 per unit.

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 the Portfolio Manager. The management fee is used by the Manager to cover its costs to obtain the Fund's assets, the cost to administer the Fund, the cost of the Portfolio Manager 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 six months ended June 30, 2010, management and service fees amounted to \$1.9 million and \$0.9 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 and unaudited interim 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 Six Months Ended June 30, 2010	For the Year Ended December 31				
		2009	2008	2007	2006	2005
Net Assets, beginning of period/year ⁽²⁾⁽³⁾⁽⁴⁾	\$ 8.91	\$ 7.30	\$ 14.51	\$ 13.48	\$ 14.77	\$ 13.70
Increase (decrease) from operations: ⁽⁵⁾						
Total revenue	0.34	0.87	1.49	1.53	1.48	1.32
Total expenses	(0.11)	(0.16)	(0.27)	(0.39)	(0.39)	(0.31)
Preferred securities distributions	—	(0.01)	(0.02)	—	—	—
Realized gain (loss) for the period/year	(0.18)	(2.39)	(1.19)	0.75	0.80	0.71
Unrealized gain (loss) for the period/year	0.30	4.48	(9.45)	0.20	(2.12)	0.30
Total increase (decrease) in Net Assets from operations	\$ 0.35	\$ 2.79	\$ (9.44)	\$ 2.09	\$ (0.23)	\$ 2.02
Distributions to unitholders: ⁽³⁾						
From net investment income (excluding dividends)	\$ N/A ⁽⁶⁾	\$ 0.49	\$ 1.00	\$ 0.96	\$ 0.71	\$ 0.61
From dividends	N/A ⁽⁶⁾	0.10	0.06	0.05	0.05	0.06
From net realized gain on investments	N/A ⁽⁶⁾	—	—	—	—	—
Return of capital	N/A ⁽⁶⁾	0.36	0.08	0.07	0.26	0.33
Total distributions to unitholders	\$ 0.42	\$ 0.95	\$ 1.14	\$ 1.08	\$ 1.02	\$ 1.00
Net Assets, end of period/year⁽²⁾⁽³⁾⁽⁴⁾	\$ 8.67	\$ 8.91	\$ 7.30	\$ 14.51	\$ 13.55	\$ 14.77

⁽¹⁾ This information is derived from the Fund's audited annual and unaudited interim financial statements. The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for weekly Net Asset Value purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for weekly Net Asset Value purposes.

⁽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⁾ Represents basic Net Asset Value per unit as at December 31, 2009 and 2008.

⁽⁵⁾ The increase (decrease) in Net Assets from operations per unit is based on the weighted average number of units outstanding over the fiscal period.

⁽⁶⁾ Allocations for the period ended June 30, 2010 are not determinable until year-end.

Ratios and Supplemental Data (Based on Net Asset Value)

As at	June 30, 2010	December 31				
		2009	2008	2007	2006	2005
Net Asset Value (in 000s)	\$ 473,272	\$ 366,289	\$ 362,464	\$ 102,820	\$ 113,349	\$ 157,761
Number of units outstanding (in 000s)	54,493	40,952	47,202	7,040	8,365	10,683
Management expense ratio ("MER") ⁽¹⁾	2.46%	2.03%	2.70%	2.66%	2.69%	2.24%
Trading expense ratio ⁽²⁾	0.45%	0.23%	0.14%	0.05%	0.05%	0.05%
Portfolio turnover rate ⁽³⁾	51.71%	32.57%	48.74%	8.95%	14.68%	17.75%
Net Asset Value per unit – basic	\$ 8.69	\$ 8.94	\$ 7.36	\$ 14.61	\$ 13.55	\$ 14.77
Net Asset Value per unit – diluted	\$ N/A	\$ 8.76	\$ 7.36	\$ —	\$ —	\$ —
Closing market price – units	\$ 8.47	\$ 8.47	\$ 6.31	\$ 13.86	\$ 12.61	\$ 13.80
Closing market price – Preferred securities	\$ N/A	\$ N/A	\$ 9.60	\$ 10.10	\$ 10.63	\$ 10.46
Closing market price – warrants ⁽⁴⁾	\$ N/A	\$ 0.14	\$ 0.08	\$ 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.

⁽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. 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.

⁽⁴⁾ The closing prices for warrants are for the class of warrants then outstanding.

Expense Ratio

The MER of the Fund, including interest expenses, was 2.46% for the six months ended June 30, 2010, compared to 2.03% in 2010. This increase in the MER was due to warrant fees which were a one-time expense paid upon exercise of the warrants during the period. The MER is exaggerated by the inclusion of interest expense on borrowings used to purchase additional portfolio investments without taking into account income earned from borrowings.

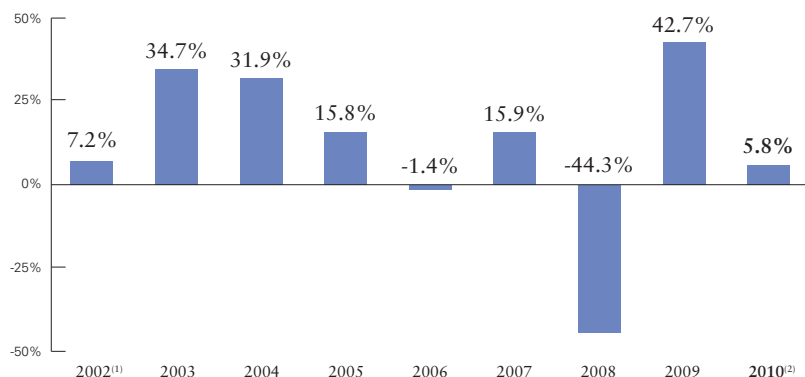
The MER excluding interest expense and issuance costs, which is more representative of the ongoing efficiency of the administration of the Fund, was 1.41% at June 30, 2010, compared to 1.35% as at December 31, 2009. The trading expense ratio increased to 0.45% for the six months ended June 30, 2010 from 0.23% for the year ended December 31, 2009 due to increased trading activity related to the repositioning of the Fund's portfolio and to investment of proceeds from the exercise of warrants during the interim period. These factors also resulted in a higher portfolio turnover rate, which increased from 32.57% in 2009 to 51.71% for the six months ended June 30, 2010.

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 (including deemed distributions based on the intrinsic value of the warrants at the exercise dates of the warrants) 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 return in each year/period since inception to June 30, 2010. 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⁾ Period from February 19, 2002 (commencement of operations) to December 31, 2002.

⁽²⁾ Period from January 1, 2010 to June 30, 2010.

The following table shows the Fund's 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") and the US High Yield Master II 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 market. Income trusts that qualify for inclusion must derive their distribution income from actual operating entities. The Composite Index tracks the performance of a broad index of large-capitalization issuers listed on the TSX. The US High Yield Master II Index tracks the performance of US dollar denominated corporate debt publicly issued in the US domestic market with a below investment grade rating, at least a one-year remaining term to final maturity, and a minimum amount outstanding of \$100 million. The indices 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

	Six Months Ended June 30, 2010	Since Inception ⁽¹⁾
Brompton VIP Income Fund	5.8%	9.4%
S&P/TSX Composite Index	(2.5%)	7.6%
S&P/TSX Capped Income Trust Index	3.6%	13.6%
US High Yield Master II Index	4.8%	8.6%

⁽¹⁾ Period from February 19, 2002 (commencement of operations) to June 30, 2010.

With 18% in income trusts, 56% in equities and 26% in fixed income investments as at June 30, 2010, the Fund delivered a return of 5.8% for the period and outperformed the three benchmarks, primarily due to the careful selection of investments by the Portfolio Manager. Since inception the Fund has provided a high total return of 9.4%.

SUMMARY OF INVESTMENT PORTFOLIO

As at June 30, 2010

Total Net Asset Value		\$ 473,170,992	
Portfolio Composition	% of Portfolio	% of Net Asset Value	
Equities			
Financial	15.6%	17.7%	
Consumer discretionary	11.7%	13.3%	
Energy	9.7%	11.0%	
Telecommunication	9.3%	10.5%	
Healthcare	4.7%	5.4%	
Oil and gas	2.7%	3.0%	
Consumer staples	0.3%	0.4%	
	54.0%	61.3%	
Income Trusts			
Oil and gas	4.3%	4.9%	
Industrial	3.2%	3.6%	
Consumer discretionary	3.0%	3.4%	
Real estate investment trusts	2.6%	2.9%	
Financial	2.1%	2.4%	
Energy	1.5%	1.7%	
Material	1.1%	1.3%	
	17.8%	20.2%	
Fixed Income Investments			
Financial	4.9%	5.6%	
Consumer discretionary	4.0%	4.6%	
Energy	3.6%	4.1%	
Oil and gas	3.1%	3.5%	
Telecommunications	2.8%	3.1%	
Materials	2.1%	2.4%	
Consumer staples	1.8%	2.1%	
Healthcare	1.5%	1.7%	
Industrial	1.0%	1.2%	
Technology	0.7%	0.8%	
Government	0.1%	0.0%	
	25.6%	29.1%	
Cash and short-term investments	2.6%	2.9%	
Total investment portfolio	100.0%	113.5%	
Other net liabilities		(13.5%)	
Total Net Asset Value		100.0%	

Top 25 Holdings	% of Portfolio	% of Net Asset Value
Shoppers Drug Mart Corporation	6.2%	7.1%
TransCanada Corporation	6.2%	7.1%
BCE Inc.	4.9%	5.6%
TELUS Corporation	4.4%	5.0%
IGM Financial Inc.	4.4%	4.9%
Power Corporation of Canada	3.6%	4.1%
Innergex Renewable Energy Inc.	3.5%	4.0%
Brookfield Asset Management Inc.	3.2%	3.6%
Becton Dickinson and Co.	3.1%	3.5%
Wal-Mart Stores Inc.	2.9%	3.3%
TMX Group Inc.	2.8%	3.2%
Freehold Royalty Trust	2.7%	3.0%
Husky Energy Inc.	2.7%	3.0%
Dundee REIT	2.6%	2.9%
Cash and short-term investments	2.6%	2.9%
Canadian Tire Corporation	2.6%	2.9%
Westshore Terminals Income Fund	2.3%	2.6%
Davis + Henderson Income Fund	2.1%	2.4%
Medtronic Inc.	1.7%	1.9%
Power Financial Corp.	1.6%	1.8%
Peyto Energy Trust	1.6%	1.8%
Yellow Pages Income Fund	1.4%	1.6%
Consumers' Waterheater Income Fund	1.2%	1.4%
Canexus Income Fund	1.1%	1.3%
RTL-Westcan Limited Partnership, 9.5% due April 7, 2017	0.9%	1.1%

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.

PORTFOLIO MANAGER

MFC Global Investment Management (Canada)

MFC Global Investment Management (Canada) (“MFC GIM”) is the Portfolio Manager of five Brompton funds – Brompton VIP Income Fund, Brompton Advantaged VIP Income Fund, Brompton Oil & Gas Income Fund, Brompton Advantaged Oil & Gas Income Fund and Manulife Brompton Advantaged Bond Fund. MFC Global Investment Management is the asset management division of Manulife Financial Corporation. MFC GIM’s diversified group of companies and affiliates provides comprehensive asset management solutions for institutional investors in key markets around the world. This investment expertise extends across a full range of asset classes including equity, fixed income and alternative assets, with investment offices in the US, Canada, the UK, Japan, Hong Kong, and throughout Asia. As of June 30, 2010, MFC GIM managed \$116 billion in assets for institutional investors.



PORTFOLIO MANAGER'S REPORT

The first half of 2010 was dominated by market volatility. The S&P/TSX Composite Index marked a high for the year in April before succumbing to negative investor sentiment that resulted in the markets falling by 2.6% in the quarter. Bonds performed better as they were sought out in a flight to quality. The DEX Universe Bond Index gained 4.2%, with governments performing in-line with corporates with returns of 4.5% each. Corporate bonds performed well during the first quarter but underperformed governments in the second quarter as the market volatility drew investors to governments in a flight to quality. Issues including the sovereign debt and deficit problems of Europe as well as slowing momentum in the global economic recovery weighed on the minds of investors. These concerns are not completely unfounded as government austerity measures to rein in runaway deficits may impede an already weakening global economic recovery.

In the United States, while the economic growth has been positive, it is not to the degree that we would expect in a recovery. The first quarter GDP growth was 2.7% on an annualized basis. The lack of significant job growth is also a concern. Canada is performing better from an economic and job creation perspective, as the economy grew by 6.1% annualized in the first quarter and, since last July, 310,000 new jobs have been created. In light of the stronger than expected economic growth, the Bank of Canada became the first of the G7 nations to raise interest rates in this recovery. The targeted overnight rate of the Bank of Canada was increased by 0.25% to 0.5% in June. The increase might have been higher had it not been for the persistent issues stemming from Europe.

We continue to increase the portfolio's weight to dividend-paying common equity. We have been adding to our telecommunications weight including BCE Inc. and TELUS. As well we added a new position in Shoppers Drug Mart and added to TransCanada Corp. We initiated new positions into US dividend-paying equities. These include Wal-Mart Stores Inc., Medtronic, and Becton Dickinson.

The trust weight of the portfolio is naturally declining due to the pending regulatory changes to the way trusts are taxed due January 2011. As such, we have seen a number of trusts announce their intent to convert to a corporation, including Yellow Pages Income Fund and Armtech Infrastructure Income Fund.

The portfolio has a 26% weight to fixed income, broken down into 21% high yield and 5% investment grade. During the period we were adding to our investment grade bond positions to enhance the portfolio's yield.

We see greater opportunities for companies to increase their dividend yield and are positioning the portfolio towards companies that are exhibiting dividend growth with the intention of sustaining the dividend yield on a go forward basis.

We remain optimistic about the markets through the remainder of 2010. Company earnings continue to show positive growth and balance sheets are quite strong, with significant cash holdings. Valuation is attractive and the dividend yield on the S&P/TSX Composite Index is now approximately 90% of the long-term Government of Canada bond yield. In order for markets to move meaningfully forward we need to see stronger macro-economic results out of the United States, including job growth and lower first-time jobless claims.

As a result of the recent volatility, we believe that the portfolio is exhibiting very attractive risk/reward characteristics. Given expectations for the market volatility to continue perhaps through the remainder of the summer, we are comfortable with the current positioning and will continue to take advantage of attractive valuations where they present themselves.

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.

NOTICE

The accompanying unaudited financial statements of Brompton VIP Income Fund for the six months ended June 30, 2010 have been prepared by management and have not been reviewed by the external auditors of the Fund.

Signed

Mark A. Caranci
Chief Executive Officer
August 12, 2010

Signed

Craig T. Kikuchi
Chief Financial Officer

STATEMENTS OF NET ASSETS (Unaudited)

As at	June 30, 2010	Dec. 31, 2009
Assets		
Investments, at fair value ⁽¹⁾	\$ 522,043,693	\$ 400,788,196
Cash and short-term investments	13,887,195	49,651,943
Income receivable	5,968,259	4,099,984
Amounts receivable for investments sold	1,817,001	—
Total assets	543,716,148	454,540,123
Liabilities		
Unrealized loss on forward contracts (note 11)	1,518,185	—
Accounts payable and accrued liabilities	1,320,270	775,676
Distributions payable to unitholders (note 8)	3,814,510	2,866,665
Amounts payable for investments purchased	6,929,123	6,881,689
Loans payable (note 13)	57,914,648	78,971,274
Total liabilities	71,496,736	89,495,304
Unitholders' equity		
Unitholders' capital (note 4)	578,708,360	465,683,929
Warrants (note 6)	—	2,311,486
Contributed surplus (note 4)	91,560,379	91,293,797
Deficit	(198,049,327)	(194,244,393)
Net Assets representing unitholders' equity	\$ 472,219,412	\$ 365,044,819
Units outstanding (note 4)	54,493,006	40,952,360
Net Assets per unit – basic (note 6)	\$ 8.67	\$ 8.91
Net Assets per unit – diluted (note 6)	\$ N/A	\$ 8.74

⁽¹⁾ Investments, at fair value, exclude the value of derivative contracts, which are disclosed separately on the Statement of Net Assets.

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

STATEMENTS OF OPERATIONS AND DEFICIT (Unaudited)

For the six months ended June 30	2010	2009
Income		
Distribution and dividend income	\$ 12,086,397	\$ 22,272,455
Securities lending income (note 12)	155,749	377,489
Interest income	4,201,749	1,463,824
	16,443,895	24,113,768
Expenses		
Management fees (note 9)	1,919,622	1,615,853
Service fees (note 9)	850,352	794,197
Audit fees	23,505	35,007
Independent review committee fees	14,876	14,793
Trustee fees	6,248	6,212
Custodial fees	12,174	12,429
Legal fees	3,573	29,498
Unitholder reporting costs	10,758	16,082
Other administrative expenses	137,357	160,984
Interest and bank charges (note 13)	1,347,756	876,830
	4,326,221	3,561,885
Net investment income before distributions	12,117,674	20,551,883
Distributions on Preferred securities (note 8)	—	(376,252)
Net investment income	12,117,674	20,175,631
Net realized loss on sale of investments (note 10)	(8,178,770)	(54,849,553)
Transaction costs	(966,925)	(194,570)
Net realized gain (loss) on loans payable (note 13)	(379,757)	1,675,299
Net change in unrealized gain/loss on forward contracts (note 11)	(1,518,185)	—
Net change in unrealized gain/loss on investments, short-term investments and foreign currency transactions	16,914,115	80,130,322
Net change in unrealized gain/loss on loans payable (note 13)	(1,548,713)	(708,625)
Increase in Net Assets from operations	16,439,439	46,228,504
Deficit, beginning of period	(194,244,393)	(284,384,786)
Distributions to unitholders (note 8)	(20,244,373)	(26,641,530)
Deficit, end of period	\$(198,049,327)	\$(264,797,812)
Increase in Net Assets from operations per unit (note 6) ⁽¹⁾	\$ 0.36	\$ 0.91

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

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

STATEMENTS OF CASH FLOWS (Unaudited)

For the six months ended June 30	2010	2009
Cash flows from operating activities:		
Increase in Net Assets from operations	\$ 16,439,439	\$ 46,228,504
Adjustments to reconcile net cash provided by (used in) operations:		
Net realized loss on sale of investments (note 10)	8,178,770	54,849,553
Net realized (gain) loss on loans payable	379,757	(1,675,299)
Net change in unrealized gain/loss on investments	(16,916,222)	(80,126,121)
Net change in unrealized gain/loss on forward contracts	1,518,185	—
Net change in unrealized gain/loss on loans payable	1,548,713	708,625
Decrease (increase) in income receivable	(1,868,275)	1,305,172
Increase (decrease) in accounts payable and accrued liabilities	544,594	230,589
Increase (decrease) in distributions payable on Preferred securities	—	(116,341)
Purchase of investments (note 10)	(353,919,030)	(58,899,782)
Proceeds from sale of investments (note 10)	239,631,418	47,098,806
Cash provided by (used in) operating activities	(104,462,651)	9,603,706
Cash flows from financing activities:		
Proceeds from issuance of units upon exercise of warrants (note 6)	111,979,930	131,410,265
Increase (decrease) in loans payable	(22,985,096)	(76,969,804)
Distributions paid to unitholders (note 8)	(19,296,528)	(26,040,987)
Repurchase of units (note 4)	(999,251)	(1,657,003)
Amounts paid for redemption of units (note 4)	(1,152)	(513)
Amounts paid for redemption of Preferred securities (note 5)	—	(15,106,060)
Cash provided by financing activities	68,697,903	11,635,898
Increase (decrease) in cash and short-term investments	(35,764,748)	21,239,604
Cash and short-term investments, beginning of period	49,651,943	971,945
Cash and short-term investments, end of period	\$ 13,887,195	\$ 22,211,549
Supplemental information:		
Interest paid	\$ 1,268,134	\$ 815,163

STATEMENTS OF CHANGES IN NET ASSETS (Unaudited)

For the six months ended June 30	2010	2009
Net Assets, beginning of period	\$ 365,044,819	\$ 344,774,147
Operations:		
Increase in Net Assets from operations	16,439,439	46,228,504
Unitholder transactions:		
Distributions to unitholders (note 8)	(20,244,373)	(26,641,530)
Proceeds from issuance of units upon exercise of warrants, net (note 6)	111,979,930	131,410,265
Repurchase of units (note 4)	(999,251)	(1,657,003)
Redemption of units (note 4)	(1,152)	(513)
Total unitholder transactions	90,735,154	103,111,219
Net increase in Net Assets	107,174,593	149,339,723
Net Assets, end of period	\$ 472,219,412	\$ 494,113,870
Distributions per unit (note 8)	\$ 0.42	\$ 0.50

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

STATEMENT OF INVESTMENTS (Unaudited)

As at June 30, 2010		Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
Income Trusts						
No. of Units	Financial					
690,129	Davis + Henderson Income Fund	\$ —	\$ 10,380,313	\$ —	\$ 11,435,438	
	Total Financial	—	10,380,313	—	11,435,438	2.2%
No. of Units	Oil and Gas					
904,159	Freehold Royalty Trust	—	16,076,473	—	14,312,837	
593,690	Pepto Energy Trust	—	9,308,029	—	8,620,379	
	Total Oil and Gas	—	25,384,502	—	22,933,216	4.4%
No. of Units	Energy					
231,285	Capital Power Income L.P.	—	5,030,449	—	3,765,320	
330,859	Just Energy Income Fund	—	4,226,904	—	4,188,675	
	Total Energy	—	9,257,353	—	7,953,995	1.5%
No. of Units	Consumer Discretionary					
1,382,251	Consumers' Waterheater Income Fund	—	8,673,543	—	6,386,000	
226,746	SIR Royalty Income Fund	—	2,210,439	—	2,086,063	
1,294,399	Yellow Pages Income Fund	—	10,846,605	—	7,714,618	
	Total Consumer Discretionary	—	21,730,587	—	16,186,681	3.1%
No. of Units	Industrial					
191,704	Armtec Infrastructure Income Fund	—	4,157,627	—	3,556,109	
127,600	Richards Packaging Income Fund	—	1,002,683	—	1,008,040	
719,907	Westshore Terminals Income Fund	—	11,895,403	—	12,461,590	
	Total Industrial	—	17,055,713	—	17,025,739	3.3%
No. of Units	Material					
964,422	Canexus Income Fund	—	5,593,380	—	5,921,551	
	Total Material	—	5,593,380	—	5,921,551	1.1%
No. of Units	Real Estate Investment Trusts					
570,066	Dundee REIT	—	13,387,087	—	13,938,114	
	Total Real Estate Investment Trusts	—	13,387,087	—	13,938,114	2.7%
	Total Income Trusts	\$ —	\$ 102,788,935	\$ —	\$ 95,394,734	18.3%
Equities						
No. of Units	Financial					
703,151	Brookfield Asset Management Inc.	\$ —	\$ 16,680,483	\$ —	\$ 16,917,813	
631,040	IGM Financial Inc.	—	25,482,655	—	23,424,205	
753,549	Power Corporation of Canada	—	21,208,718	—	19,223,035	
319,380	Power Financial Corp.	—	9,680,821	—	8,712,686	
549,543	TMX Group Inc.	—	16,129,153	—	15,271,800	
	Total Financial	—	89,181,830	—	83,549,539	16.0%
No. of Units	Oil and Gas					
566,047	Husky Energy Inc.	—	15,673,129	—	14,287,026	
	Total Oil and Gas	—	15,673,129	—	14,287,026	2.7%
No. of Units	Energy					
2,238,401	Innergex Renewable Energy Inc.	—	18,593,113	—	18,578,728	
937,053	TransCanada Corporation	—	31,336,440	—	33,368,457	
	Total Energy	—	49,929,553	—	51,947,185	9.9%
No. of Units	Consumer Discretionary					
258,204	Canadian Tire Corporation	—	14,339,918	—	13,723,543	
1,018,493	Shoppers Drug Mart Corporation	—	37,384,734	—	33,518,605	
US 304,015	Wal-Mart Stores Inc.	15,528,597	16,281,127	14,607,921	15,523,167	
	Total Consumer Discretionary	15,528,597	68,005,779	14,607,921	62,765,315	12.0%
No. of Units	Consumer Staples					
US 35,163	Coca-Cola Company	1,771,937	1,877,899	1,761,314	1,871,668	
	Total Consumer Staples	1,771,937	1,877,899	1,761,314	1,871,668	0.4%
No. of Units	Healthcare					
US 229,281	Becton Dickinson and Co.	16,106,688	16,654,280	15,487,932	16,458,314	
US 230,115	Medtronic Inc.	8,811,377	9,110,811	8,346,271	8,869,199	
	Total Healthcare	24,918,065	25,765,091	23,834,203	25,327,513	4.9%
No. of Units	Telecommunications					
849,312	BCE Inc.	—	23,006,446	—	26,379,631	
584,159	TELUS Corporation	—	19,343,691	—	23,465,667	
	Total Telecommunications	—	42,350,137	—	49,845,298	9.6%
	Total Equities	\$ 42,218,599	\$ 292,783,418	\$ 40,203,438	\$ 289,593,544	55.5%

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

STATEMENT OF INVESTMENTS (Unaudited) (continued)

As at June 30, 2010		Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
	Fixed Income Investments					
Par Value (\$)	Government					
60,000	Government of Canada, 4.0%, due June 1, 2016	\$ —	\$ 64,287	\$ —	\$ 64,701	
	Total Government	—	64,287	—	64,701	0.1%
Par Value (\$)	Financial					
600,000	Ace Cash Express Inc., 10.25%, due October 1, 2014	603,000	673,569	480,000	510,074	
1,000,000	ARS Finance Inc., 12.00%, due April 15, 2015	995,601	1,003,178	1,000,000	1,062,654	
59,000	Bank of America Corp., 5.15%, due May 30, 2017	—	55,451	—	55,770	
250,000	CB Richard Ellis Services Inc., 11.625%, due June 15, 2017	242,183	274,998	280,000	297,543	
1,000,000	CIT Group Inc., 7.00% due May 1, 2015	872,500	912,722	922,500	980,298	
60,000	Citigroup Financial Corp., 5.5%, due May 21, 2013	—	59,217	—	61,847	
68,000	Citigroup Inc., 5.16%, due May 24, 2027	—	55,867	—	58,148	
2,210,000	Citigroup Finance Canada Inc., 6.75% September 22, 2014	—	2,360,170	—	2,367,666	
1,630,000	CNG Holdings Inc., 12.25%, due February 15, 2015	1,552,437	1,636,232	1,646,300	1,749,447	
45,000	Commerzbank AG, 4.5%, due December 15, 2016	—	43,007	—	41,172	
2,000,000	Commonwealth Bank of Australia, 5.150%, due April 9, 2020	—	1,981,600	—	2,043,882	
1,000,000	Ford Motor Credit Co. LLC, 7.5%, due August 1, 2012	915,890	990,993	1,022,570	1,086,638	
3,000,000	Icahn Enterprises Finance Corp., 7.75% due January 15, 2016	2,891,250	2,912,645	2,917,500	3,100,293	
126,000	HBOS PLC FLTG, 5.109%, due June 21, 2017	—	123,669	—	114,204	
90,000	ING Bank of Canada, 4.3%, due December 5, 2016	—	87,128	—	91,808	
2,000,000	Kimco North Trust III, 5.99% due April 13, 2018	—	2,025,500	—	2,058,348	
100,000	Omega Healthcare Investors, Inc., 7%, due January 15, 2016	99,422	116,692	98,750	104,937	
1,000,000	Petroplus Finance Ltd., 7.00%, due May 1, 2017	875,000	895,913	815,000	866,063	
750,000	Reliance Intermediate Holdings LP, 9.5%, due December 15, 2019	714,735	774,201	790,313	839,829	
1,000,000	SLM Corporation, 4.625%, due June 15, 2011	—	885,000	—	992,605	
2,000,000	SLM Corporation, 8.00%, due March 25, 2020	1,966,360	1,992,316	1,756,380	1,866,424	
2,500,000	SquareTwo Financial Corp., 11.625% due April 1, 2017	2,456,625	2,466,206	2,365,625	2,513,841	
65,000	St. George Bank Limited, 4.65%, due April 23, 2017	—	61,855	—	66,204	
3,000,000	TD Capital Trust IV, 6.631% due June 30, 2108	—	3,293,100	—	3,351,610	
	Total Financial	14,185,003	25,681,229	14,094,938	26,281,305	5.0%
Par Value (\$)	Oil and Gas					
1,000,000	Allis-Chalmers Energy Inc., 9.00% due January 15, 2014	922,500	962,075	922,500	980,298	
1,500,000	Altugas Income Trust, 5.49% due March 27, 2017	—	1,518,150	—	1,539,109	
1,000,000	ATP Oil & Gas Corp., 11.875% due April 15, 2015	995,310	994,713	725,000	770,424	
250,000	Canadian Oil Sands Ltd., 7.750%, due May 15, 2019	249,480	291,193	301,625	320,523	
500,000	Conacher Oil & Gas, 10.25% due December 15, 2015	493,285	485,738	493,750	524,685	
4,000,000	Gibson Energy ULC., 10.00%, due January 15, 2018	3,935,870	4,018,470	3,800,000	4,038,086	
250,000	Gibson Energy ULC., 11.75%, due May 27, 2014	243,177	272,990	270,000	286,917	
250,000	Helix Energy, 9.50%, due January 15, 2016	250,000	251,450	230,000	244,410	
250,000	Hercules Offshore Inc., 10.5%, due October 15, 2017	243,458	251,394	221,875	235,776	
750,000	Hilcorp Finance Co., 8.00% due February 15, 2020	737,363	793,550	740,625	787,028	
4,000,000	North American Energy Partners Inc., 9.125% due April 7, 2017	—	4,010,000	—	3,987,500	
500,000	OPTI Canada Inc., 8.25% due December 15, 2014	533,125	590,809	435,000	462,255	
1,000,000	Pacific Rubiales Energy Corp., 8.75%, due November 10, 2016	990,900	1,048,769	1,080,000	1,147,666	
134,000	Suncor Energy Inc., 5.39%, due March 26, 2037	—	119,131	—	128,263	
500,000	Tesoro Corporation, 6.25%, due November 1, 2012	461,875	468,480	506,250	537,969	
350,000	Western Oil Sands Inc., 8.375%, due May 1, 2012	370,611	508,574	388,748	413,105	
	Total Oil and Gas	10,426,954	16,585,486	10,115,373	16,404,014	3.1%
Par Value (\$)	Energy					
250,000	AES Corp., 7.75%, due October 15, 2015	250,000	245,800	253,125	268,984	
150,000	AES Corporation, 9.750%, due April 15, 2016	144,000	176,501	161,250	171,353	
145,558	Alliance Pipeline Limited Partnership, 7.181%, due June 30, 2023	—	161,243	—	170,738	
599,882	Alliance Pipeline Limited Partnership, 7.23%, due June 30, 2015	—	648,536	—	656,502	
1,000,000	Atlas Pipeline Partners LP, 8.1255%, due December 15, 2015	575,000	705,468	920,000	977,642	
300,000	Atlas Pipeline Partners LP, 8.75%, due June 15, 2018	300,000	304,200	279,000	296,480	
2,000,000	Atlas Pipeline Partners LP, 8.75%, due June 15, 2018	1,930,000	1,992,532	1,860,000	1,976,537	
1,500,000	Edison Mission Energy, 7.50%, due June 15, 2013	1,308,750	1,504,332	1,290,000	1,370,824	
300,000	El Paso Natural, 7.25%, due June 1, 2018	300,000	297,480	300,810	319,657	
3,000,000	Enbridge Inc., 4.53%, due March 9, 2020	—	2,937,150	—	3,014,645	
3,000,000	Epcor Utilities Inc., 5.8%, due January 31, 2018	—	3,221,400	—	3,334,288	
3,000,000	Husky Energy Inc, 5.00%, due March 12, 2020	—	2,963,040	—	3,072,710	
1,000,000	Niska Gas Storage, 8.875%, due March 15, 2018	1,000,000	1,043,500	1,015,000	1,078,594	
660,000	Nova Gas Transmission Ltd., 12.2%, due February 28, 2016	—	941,906	—	943,334	
250,000	Regency Energy Partners LP, 9.375%, due June 1, 2016	236,240	274,724	265,000	281,603	
1,000,000	Superior Plus Corp., 8.25%, due October 27, 2016	—	1,000,000	—	1,023,750	
300,000	Targa Resources Partners LP, 8.25%, due July 1, 2016	300,000	309,720	294,750	313,217	
300,000	Texas Competitive Electric Holdings, 10.25%, due November 15, 2015	294,750	301,176	198,000	210,406	
	Total Energy	6,638,740	19,028,708	6,836,935	19,481,264	3.7%

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

STATEMENT OF INVESTMENTS (Unaudited) (continued)

As at June 30, 2010	Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
Fixed Income Investments (continued)					
Par Value (\$)	Consumer Discretionary				
250,000					
250,000	\$ 252,808	\$ 280,364	\$ 251,250	\$ 266,992	
250,000	243,955	265,277	251,250	266,992	
500,000	250,000	265,275	937	996	
1,000,000	524,584	668,573	470,000	499,447	
3,000,000	990,000	1,053,558	985,000	1,046,714	
800,000	—	3,278,160	—	3,352,019	
250,000	669,644	762,456	530,000	563,207	
3,000,000	241,880	273,953	269,375	286,252	
250,000	2,540,312	2,653,357	2,640,000	2,805,407	
125,000	250,000	272,350	196,875	209,210	
250,000	125,000	145,150	97,813	103,941	
800,000	240,585	250,690	247,500	263,007	
2,000,000	605,000	637,608	608,000	646,094	
1,000,000	1,947,264	2,055,337	2,005,000	2,130,621	
5,000,000	988,340	1,053,373	1,045,000	1,110,474	
300,000	—	5,000,000	—	5,006,250	
100,000	—	310,200	—	301,491	
500,000	100,000	118,090	83,750	88,997	
2,000,000	486,995	566,375	546,250	580,475	
2,000,000	—	2,104,160	—	2,138,937	
	10,456,367	22,014,306	10,228,000	21,667,523	4.1%
Par Value (\$)	Consumer Staples				
2,750,000	2,617,368	3,032,482	2,798,125	2,973,439	
1,000,000	1,000,000	1,162,100	973,750	1,034,759	
25,000	25,000	28,790	24,062	25,570	
225,000	219,545	248,431	210,094	223,257	
500,000	500,000	522,050	495,625	526,678	
2,000,000	1,977,080	2,074,155	2,005,000	2,130,621	
500,000	490,740	504,334	507,500	539,297	
1,000,000	1,017,500	1,044,362	832,500	884,660	
250,000	250,000	260,575	245,000	260,350	
250,000	240,503	277,203	276,875	294,222	
265,000	222,931	244,600	262,517	278,965	
500,000	507,653	610,711	500,000	531,327	
	9,068,320	10,009,793	9,131,048	9,703,145	1.9%
Par Value (\$)	Industrial				
300,000	298,821	318,693	292,500	310,826	
160,000	146,202	168,249	152,600	162,161	
500,000	484,330	559,740	539,375	573,169	
500,000	494,205	525,834	496,250	527,342	
250,000	230,625	245,385	240,625	255,701	
1,000,000	985,970	1,052,424	955,000	1,014,835	
80,000	80,032	95,471	80,600	85,650	
250,000	237,953	276,739	264,062	280,607	
1,000,000	979,670	1,044,524	985,000	1,046,714	
47,000	—	47,220	—	51,939	
1,000,000	990,380	991,073	990,000	1,052,028	
55,000	55,000	62,233	50,462	53,624	
125,000	123,204	125,729	122,812	130,507	
	5,106,392	5,513,314	5,169,286	5,545,103	1.1%

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

STATEMENT OF INVESTMENTS (Unaudited) (continued)

As at June 30, 2010		Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
	Fixed Income Investments (continued)					
Par Value (\$)	Materials					
500,000	American Pacific Corp., 9.00% due February 1, 2015	\$ 495,000	\$ 516,137	\$ 485,000	\$ 515,387	
2,000,000	Appleton Papers Inc., 10.25% June 15, 2015	1,960,700	2,089,714	1,890,000	2,008,416	
1,000,000	Cascades Inc., 7.75%, due December 15, 2016	—	986,700	—	1,023,230	
200,000	Century Aluminum Co., 7.5%, due August 15, 2014	204,547	252,780	188,750	200,576	
250,000	Essar Steel Algoma Inc., 9.375%, due March 15, 2015	246,284	260,175	237,500	252,380	
750,000	Hexion Nova Scotia Finance ULC, 8.875% due February 1, 2018	752,615	794,385	676,875	719,284	
500,000	Huntsman International LLC, 8.625% due March 15, 2020	500,000	511,200	462,500	491,478	
1,000,000	Newpage Corp., 11.375% due December 31, 2014	965,000	1,024,348	907,500	964,359	
50,000	Novelis Inc., 7.25%, due July 15, 2015	46,470	55,099	48,250	51,273	
1,000,000	Potlatch Corp., 7.50% November 1, 2019	982,840	1,056,258	1,007,500	1,070,624	
500,000	Ryerson Inc., 12%, due November 1, 2015	521,250	512,597	511,250	543,282	
250,000	Sherritt International Corporation 7.875%, due November 26, 2012	—	250,000	—	260,099	
250,000	Sherritt International Corporation 7.75%, due October 15, 2015	—	250,000	—	262,751	
250,000	Sherritt International Corporation, 8.25%, due October 24, 2014	—	250,000	—	265,048	
500,000	Solutia Inc., 7.875% due March 15, 2020	497,500	512,475	498,750	529,999	
1,000,000	Southern State Cooperative Inc., 11.25% due May 15, 2015	972,220	975,428	960,000	1,020,148	
500,000	Steel Dynamics, 7.375%, due November 1, 2012	500,000	491,700	517,500	549,923	
700,000	UPM-Kymmene Corp., 7.45% due November 26, 2027	574,000	585,652	595,000	632,279	
125,000	Westlake Chemical Corp., 6.625%, due January 15, 2016	125,154	144,278	120,000	127,518	
	Total Materials	9,343,580	11,518,926	9,106,375	11,488,054	2.2%
Par Value (\$)	Telecommunication					
300,000	AGT Limited, 8.8%, due September 22, 2025	—	361,833	—	390,756	
24,000	AT&T Corp., 7.3%, due November 15, 2011	27,029	32,246	25,942	27,567	
450,000	BC Telecom Inc., 10.65%, due June 19, 2021	—	621,338	—	653,839	
240,000	BC Telecom Inc., 11.9%, due November 22, 2015	—	333,461	—	329,334	
949,724	CCH II LLC, 13.5%, due November 30, 2016	949,724	988,216	1,106,429	1,175,751	
1,000,000	Columbus International Inc., 11.25%, due November 20, 2014	1,000,000	1,051,600	1,065,071	1,131,802	
2,500,000	Corus Entertainment, 7.25% due February 10, 2017	—	2,500,000	—	2,550,000	
1,000,000	Crickler Communications Inc, 9.375% due November 1, 2014	1,002,500	1,047,913	1,015,000	1,078,594	
500,000	Crown Castle International Corp., 7.125%, due November 1, 2019	497,500	521,927	488,750	519,372	
300,000	CSC Holdings Inc., 8.5% due June 15, 2015	300,000	297,570	311,250	330,751	
1,250,000	Intelsat Corp., 9.25% due August 15, 2014	1,278,125	1,361,587	1,278,125	1,358,205	
500,000	McClatchy Co., 11.5% due February 15, 2017	494,120	528,461	507,500	539,297	
1,000,000	MetroPCS Wireless Inc., 9.25%, due November 1, 2014	1,002,500	1,086,517	1,030,001	1,094,535	
800,000	Nextel Communications Inc., 6.875%, due October 31, 2013	839,283	1,006,658	775,000	823,557	
1,500,000	Paetec Holding Corp., 8.875%, due June 30, 2017	1,448,235	1,665,760	1,500,001	1,593,982	
500,000	Sirius XM Radio Inc., 8.75% due April 1, 2015	500,000	507,200	492,500	523,357	
95,000	Syniverse Technologies Inc., 7.75%, due August 15, 2013	96,461	115,742	92,625	98,428	
520,000	Wind Acquisition Fin SA., 10.75%, due December 1, 2015	556,015	633,821	538,200	571,920	
	Total Telecommunication	9,991,492	14,661,850	10,226,394	14,791,047	2.8%
Par Value (\$)	Healthcare					
500,000	Alliance HealthCare Services, 8.00%, due December 1, 2016	493,450	522,860	462,501	491,479	
250,000	Apria Healthcare Group Inc., 11.25%, due November 1, 2014	242,625	272,832	266,250	282,932	
140,000	Axcian Intermediate Holdings Inc., 9.25% due March 1, 2015	138,232	138,177	142,800	151,747	
306,000	Columbia/HCA Healthcare Corporation 8.36%, due April 15, 2024	287,811	339,710	284,580	302,410	
45,000	HCA Inc., 6.25%, due February 15, 2013	40,163	39,837	44,213	46,983	
250,000	HCA Inc., 8.5%, due April 15, 2019	253,750	301,760	265,000	281,603	
3,000,000	OnCure Holdings Inc., 11.75% due May 15, 2017	2,947,830	3,066,038	3,003,751	3,191,948	
1,000,000	PharmaNet Development Group Inc. 10.875% due April 15, 2017	1,000,000	1,012,300	975,001	1,036,089	
1,000,000	Select Medical Corp., 7.625% due February 1, 2015	925,000	950,345	940,001	998,896	
1,000,000	Sun Healthcare Group, Inc, 9.125%, due April 15, 2015	992,500	1,088,971	1,047,500	1,113,130	
	Total Healthcare	7,321,361	7,732,830	7,431,597	7,897,217	1.5%
Par Value (\$)	Technology					
700,000	Equinix Inc., 8.125% due March 1, 2018	700,000	733,390	715,750	760,595	
500,000	Seagate Technology, 6.375%, due October 11, 2011	498,415	558,324	512,500	544,610	
9,380	Stratus Technologies Bermuda Holdings Ltd. – B1 Preference Shares	—	—	—	—	
41,200	Stratus Technologies Bermuda Holdings Ltd. – B1 Ordinary Shares	—	—	—	—	
103,160	Stratus Technologies Inc., 12.00% due March 29, 2015	1,928,200	1,938,439	2,283,750	2,426,837	
	Total Technology	3,126,615	3,230,153	3,512,000	3,732,042	0.7%
	Total Fixed Income Investments	\$ 85,664,824	\$136,040,882	\$ 85,851,946	\$137,055,415	26.2%
	Embedded Broker Commission	—	(573,680)	—	—	
	Total	\$127,883,423	\$531,039,555	\$126,055,384	\$522,043,693	100.0%

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

NOTES TO THE FINANCIAL STATEMENTS (Unaudited)

June 30, 2010 and 2009

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 (Canada), 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.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and should be read in conjunction with the most recent audited financial statements at December 31, 2009. The significant accounting policies used for preparing these unaudited interim financial statements are consistent with those used in preparing the audited annual financial statements with the following additional accounting policy:

a) Foreign Currency Forward Contracts

The Fund may enter into foreign currency forward contracts, which are agreements between two parties to buy and sell currencies at a set price on a future date. The market value of such contract will fluctuate with changes in currency exchange rates. The contract is marked-to-market and the change in market value is recorded as an unrealized gain or loss. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract on the date it was opened and the value on the date it was closed.

Future Accounting Changes

In June 2010, the Canadian Accounting Standards Board (“AcSB”) released an exposure draft to propose that investment companies may defer the adoption of International Financial Reporting Standards (“IFRS”), as published by the International Accounting Standards Board, until fiscal years beginning on or by January 1, 2012. The Fund will adopt IFRS by the deadline to be set out in the AcSB’s proposed amendment or such earlier time as required by the Canadian Securities Administrators.

The Fund has developed a plan to meet the timetable published by Canadian Institute of Chartered Accountants (“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 Assets per unit from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the area of additional note disclosures and, potentially, different presentation of unitholder interests in the financial statements of the Fund.

Comparative Figures

Certain comparative figures have been reclassified to conform to the current year’s presentation.

3. RECONCILIATION OF NET ASSETS TO NET ASSET VALUE

In accordance with National Instrument (“NI”) 81-106, a reconciliation was required 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 reconciliation is as follows:

As at	June 30, 2010		December 31, 2009		
	Total	Per Unit	Total	Per Unit – Basic	Per Unit – Diluted
Net Asset Value	\$ 473,170,992	\$ 8.68	\$ 366,288,886	\$ 8.94	\$ 8.76
Section 3855 adjustment	(951,580)	(0.01)	(1,244,067)	(0.03)	(0.02)
Net Assets	\$ 472,219,412	\$ 8.67	\$ 365,044,819	\$ 8.91	\$ 8.74

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. 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 a 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.

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid for the period from November 10, 2009 to November 9, 2010. Pursuant to this issuer bid, the Fund is permitted to purchase up to 4,090,900 units for cancellation. The Fund may only repurchase units when the Net Asset Value per unit exceeds its trading price.

Issued

During the period ended June 30, 2010, 13,656,089 (2009 – 19,555,099) units were issued upon the exercise of warrants for net proceeds of \$111,979,930 (2009 – \$131,410,265) (note 6).

Pursuant to the monthly redemption option, 143 (2009 – 89) units were redeemed at an average price of \$8.06 during the period.

As at June 30, 2010, the Fund had accumulated contributed surplus of \$91,560,379 (2009 – \$91,293,797). 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 period ended June 30, 2010, was 47,092,894 (2009 – 50,797,384).

5. PREFERRED SECURITIES

The Fund was authorized to issue 1,593,598 Preferred securities at \$10.00 per security, which were accounted for as direct unsecured debt obligations. Holders of Preferred securities were entitled to fixed, quarterly interest payments in the amount of \$0.15 per Preferred security. The interest was paid quarterly in arrears on the fifteenth day of February, May, August and November in each year. All Preferred securities matured on May 31, 2009 at \$10.00 per security.

6. WARRANTS

The Fund issued 23,619,047 warrants to unitholders of record on December 8, 2008. Unitholders received warrants on the basis of one-half of one warrant for each unit held. A whole warrant entitled 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 were void and of no value. Upon the exercise of a warrant, the Fund paid a fee equal to \$0.12 per warrant to the dealer whose client was exercising the warrant. During the year ended December 31, 2009, 19,555,099 warrants were exercised for net proceeds of \$131,410,265. Based on the Black-Scholes model calculation, the fair value of each warrant on the date of issuance was nil. Costs associated with the issuance of these warrants amounted to \$235,570.

The Fund issued 13,663,062 Class A warrants to unitholders of record on November 16, 2009. Unitholders received Class A warrants on the basis of one-third of one warrant for each unit held. A whole Class A warrant entitled the holder to subscribe for one unit of the Fund at a subscription price of \$8.33. Class A warrants not exercised prior to April 15, 2010 were void and of no value. Upon the exercise of a Class A warrant, the Fund paid a fee equal to \$0.13 per warrant to the dealer whose client was exercising the warrant. All Class A warrants were exercised by April 15, 2010. Pursuant to the Class A warrant offering, the Fund issued 13,663,062 units for net proceeds of \$112,037,108. Based on the closing price of the first trading day, the fair value of each Class A warrant on the date of issuance was \$0.185 per Class A warrant. Costs associated with the issuance of these warrants amounted to \$215,000.

While the warrants and Class A warrants were outstanding, diluted Net Assets per unit was calculated when the closing price of the Fund’s units on a valuation date was greater than the subscription price. To calculate diluted Net Assets per unit, Net Assets were increased by the net proceeds received from the exercise of all warrants, and units were increased by the number of units issued from the exercise of all warrants.

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’ capital, loans payable, Preferred securities and warrants. 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.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited) (continued)

June 30, 2010 and 2009

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 period ended June 30, 2010, the Fund declared total distributions of \$0.42 (2009 – \$0.50) per unit, which amounted to \$20,244,373 (2009 – \$26,641,530). For the period ended June 30, 2009, the Fund recorded distributions of \$0.30 per Preferred security, which amounted to \$376,252. All Preferred securities matured on May 31, 2009. 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 period ended June 30, 2010, no units (2009 – nil) 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 period ended June 30 were as follows:

	2010	2009
Proceeds from sale of investments	\$ 241,448,419	\$ 47,098,806
Less cost of investments sold:		
Investments at cost, beginning of period	426,700,280	709,652,934
Investments purchased during the period	353,966,464	67,614,604
Investments at cost, end of period	(531,039,555)	(675,319,179)
Cost of investments sold during the period	249,627,189	101,948,359
Net realized loss on sale of investments	\$ (8,178,770)	\$ (54,849,553)

Foreign exchange losses arising from the disposition of investments of \$12,790 (2009 – losses of \$141,574) are included in the net realized loss of \$8,178,770 (2009 – loss of \$54,849,553) above.

The brokerage commissions paid to dealers included \$21,360 (2009 – \$12,678) that was available for paying to third party vendors, all of which was used for research by the Portfolio Manager.

11. FOREIGN CURRENCY FORWARD CONTRACTS

The Fund may use foreign currency forward contracts to hedge foreign exchange risks associated with its US dollar investment portfolio.

At June 30, 2010, the Fund had entered into the following foreign currency forward contracts with a Canadian chartered bank with an AA rating:

Canadian Dollars Purchased	US Dollars Sold	Delivery Date	Forward Rate (USD/CAD)	Unrealized Loss
\$ 68,569,231	\$ (65,944,000)	July 30, 2010	0.96171	\$ (1,518,185)

12. SECURITIES LENDING

The Fund has entered into a securities lending program 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 June 30, 2010, were \$110.8 million (2009 – \$96.3 million) and \$113.7 million (2009 – \$98.9 million), respectively.

13. 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 \$95.0 million (2009 – \$140 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 \$57.9 million outstanding under this facility as at June 30, 2010.

During the period ended June 30, 2010, the Fund realized a foreign exchange loss in the amount of \$379,757 (2009 – gain of \$1,675,299) on the repayment of borrowings in US dollars under the credit facility. At June 30, 2010, borrowings in US dollars had an unrealized foreign exchange loss of \$1,142,989 (2009 – loss of \$405,724). The credit facility is secured by a first-ranking and exclusive charge on all of the Fund's assets. During the period ended June 30, 2010, the minimum and maximum amounts of borrowings were \$57.0 million (2009 – \$20.1 million) and \$81.3 million (2009 – \$101.3 million), respectively.

14. 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 June 30, 2010, 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 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, equities and 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 and foreign currency forward contracts.

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 as at June 30, 2010 by remaining term to maturity.

	Less Than 1 Year	1-3 Years	3-5 Years	>5 Years	Total
Short-term and fixed income investments	\$ 15,057,267	\$ 6,355,951	\$ 36,383,540	\$ 93,021,828	\$ 150,818,586
Loans payable	57,914,648	—	—	—	57,914,648

As at December 31, 2009:

	Less Than 1 Year	1-3 Years	3-5 Years	>5 Years	Total
Short-term and fixed income investments	\$ 51,094,268	\$ 6,697,746	\$ 11,327,697	\$ 33,017,249	\$ 102,136,960
Loans payable	78,971,274	—	—	—	78,971,274

As at June 30, 2010, had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have decreased or increased by approximately \$6.6 million or 1.4% (December 31, 2009 – \$2.2 million or 0.6%). 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 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 dollar denominated debt securities. As at June 30, 2010, the Fund's exposure to US dollar foreign exchange of US\$126.1 million (December 31, 2009 – US\$41.7 million) was substantially hedged through its US dollar denominated loans of US\$54.5 million (December 31, 2009 – US\$39.2 million) and currency forward contracts of \$65.9 million notional; see note 11 and note 13.

c) Other Price Risk

Other price risk is the risk that the value 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 June 30, 2010, 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 \$38.5 million or 8.2% of total Net Assets (December 31, 2009 – approximately \$34.8 million or 9.5% of total 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 debt securities, as presented on the Statement of Investments, represents the maximum credit risk exposure as at June 30, 2010. 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.

NOTES TO THE FINANCIAL STATEMENTS (Unaudited) (continued)

June 30, 2010 and 2009

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 Fund 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 into a securities lending program with its custodian; see note 12. Credit risk associated with these transactions is considered minimal as all counterparties have sufficient, approved credit 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 June 30, 2010, the Fund invested 25.6% (2009 – 22.7%) of its portfolio in debt securities with the following credit ratings. Credit ratings are obtained from Standard & Poor's.

Debt Securities by Rating Category

AAA	9%
AA	1%
A	10%
BBB	13%
Below BBB	67%
Total	100%

As at December 31, 2009:

AAA	48%
AA	1%
A	2%
BBB	3%
Below BBB	46%
Total	100%

As of June 30, 2010 and December 31, 2009, securities rated AAA were comprised of short-term investments.

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 redemptions 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 redemptions, 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, which can be used to fund redemptions or finance investments; see note 13. 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.

All of the Fund's other financial liabilities at June 30, 2010 and December 31, 2009 had maturities of less than one year.

15. FAIR VALUE DISCLOSURES

The Fund's assets and liabilities recorded at fair value have been categorized in accordance with CICA Handbook Section 3862, "Financial Instruments – Disclosure."

Section 3862 requires the Fund to classify its investments and derivative assets/liabilities into three categories based on the nature of the inputs used to determine their fair value. The categories and the nature of the inputs used in each category are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgement or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Assets at fair value as at June 30, 2010	Level 1	Level 2	Level 3	Total
Income trusts	\$ 95,394,734	\$ —	\$ —	\$ 95,394,734
Canadian dividend-paying equities	289,593,544	—	—	289,593,544
Fixed income investments	—	137,055,415	—	137,055,415
Total	\$ 384,988,278	\$ 137,055,415	\$ —	\$ 522,043,693

Liabilities at fair value as at June 30, 2010	Level 1	Level 2	Level 3	Total
Foreign currency forward contracts	\$ —	\$ (1,518,185)	\$ —	\$(1,518,185)
Total	\$ —	\$ (1,518,185)	\$ —	\$(1,518,185)

Assets at fair value as at December 31, 2009	Level 1	Level 2	Level 3	Total
Income trusts	\$ 238,799,707	\$ —	\$ —	\$ 238,799,707
Canadian dividend-paying equities	109,469,713	—	—	109,469,713
Fixed income investments	—	52,518,776	—	52,518,776
Total	\$ 348,269,420	\$ 52,518,776	\$ —	\$ 400,788,196

There were no transfers of financial assets between the levels during the period ended June 30, 2010 and the year ended December 31, 2009.

CORPORATE INFORMATION

Independent Review Committee

James W. Davie, BComm, MBA

Arthur R.A. Scace, QC, CM

Ken S. Woolner, BSc, PEng

Directors and Officers

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Director

Raymond R. Pether, BA, MBA
Director

Mark A. Caranci, BComm, CA
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Chief Executive Officer

Craig T. Kikuchi, BA, CA, CFA
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Christopher Cullen, BAsc, MBA, CFA
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Moyra E. MacKay, BA
Vice President and Corporate Secretary

Ann P. Wong, BA, MAcc, CA,
CPA (Delaware), CFA
Vice President and Controller

Trustee

Computershare Trust Company of Canada

Custodian

RBC Dexia Investor Services Trust

Banker

Bank of Nova Scotia

Auditors

PricewaterhouseCoopers LLP

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