

BROMPTON **VIP** INCOME TRUST

The Fund

Brompton VIP Income Trust is a closed-end investment trust that is listed on the Toronto Stock Exchange under the symbol VIP.UN. The Fund invests in a broadly diversified portfolio of income generating investments including business funds, real estate investment trusts, oil and gas funds, power and pipeline funds and high-yield debt in order to deliver to investors a high level of monthly distributions. VIP is actively managed by MFC Global Investment Management, a subsidiary of Manulife Financial Corp. The trust is RRSP, DPSP, RRIF and RESP eligible and does not constitute foreign property for such plans.

Management's Discussion and Analysis

The following information provides an analysis of the operations and financial position of the Fund and it should be read in conjunction with the financial statements and accompanying notes.

We are pleased to report that the Fund continued its strong performance in 2004. A total of \$1.10 per unit was distributed to unitholders during the year, which when combined with an appreciation in net asset value of \$2.34 per unit, represents a 30.3% total return for 2004. Since the inception of the Fund in February 2002, the Fund has generated a total return of 76.2%.

Distributions

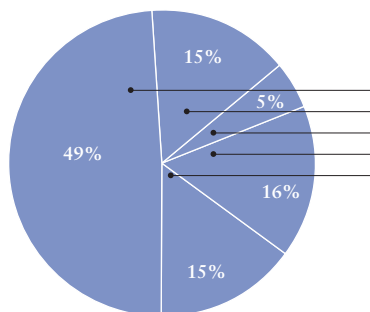
During the year ended December 31, 2004, the Fund distributed \$1.10 per unit comprised of \$1.00 per unit in regular monthly distributions and \$0.10 per unit as a special distribution. Since inception, the Fund has paid regular monthly distributions at or exceeding its original objective. In 2004, approximately 39% of the distributions was classified as a return of capital for tax purposes. See the section titled 2004 Tax Information in this Annual Report for more information on the income tax characteristics of the distributions for 2004.

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, 2004, 62,534 units were acquired in the market at an average price of \$11.61 per unit.

Investment Portfolio

As of December 31, 2004, the Fund's investments included a total of 49 income funds and 60 fixed income investments, which provide diversification by issuer, industry and asset class. The breakdown of the portfolio is shown in the accompanying pie chart, and a detailed listing of the Fund's security holdings is provided in the financial statements.

The Fund recorded net gains (realized and unrealized) of \$22.0 million during the year as detailed in the table below. Business funds provided the largest contribution, while all other sectors added to the Fund's excellent performance. It should be noted that the Fund's fixed income securities are high-yield debt, which are mostly denominated in US dollars. In order to hedge this foreign exchange exposure, an amount approximately equal to these US dollar denominated assets was borrowed under the Fund's credit facilities in US dollars. As a result, gains or losses on the US dollar foreign exchange hedging are included with the gains or losses on the fixed income securities to show the net gain from this investment activity.



Net Gains (Losses) by Sector (millions)

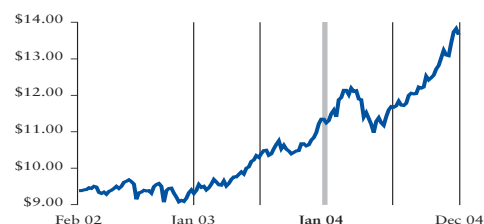
	Realized	Unrealized	Total
Business funds	\$ 2.6	\$ 12.5	\$ 15.1
Oil and gas funds	0.6	3.3	3.9
Power and pipeline funds	—	0.4	0.4
Real estate investment trusts	—	2.3	2.3
Fixed income securities and foreign exchange	(1.0)	1.3	0.3
Total	\$ 2.2	\$ 19.8	\$ 22.0

Net Asset Value

During the year ended December 31, 2004 the net asset value of the Fund increased by \$2.34 per unit or 21% to \$13.70, broken down as follows:

	Per Unit
Net investment income	\$ 0.98
Net realized gain on investments	0.23
Net realized gain on loans payable	0.01
Net change in unrealized gain on investments	2.07
Net change in unrealized gain on loans payable	0.13
Results of operations	3.42
Capital transactions	0.02
Less: distributions	(1.10)
Increase in net asset value	\$ 2.34

Net Asset Value Since Inception



Liquidity and Capital Resources

As of December 31, 2004, the Fund had total borrowings of \$21.1 million under its credit facility, which represented 14.5% of total assets. These borrowings were comprised of US\$13 million at a fixed rate of interest of 3.89% until May 2008, US\$2.8 million based on floating rates of interest priced against LIBOR and \$2.2 million on floating rate borrowing based on the bankers' acceptance rate. The portion of the borrowings on a fixed interest rate basis reduces the Fund's exposure to rising interest rates until 2008. The borrowings have been used principally to invest in additional portfolio investments to increase the overall distributions paid by the Fund.

To provide liquidity, units of the Fund are listed on the TSX under the symbol VIP.UN. The Fund's normal course issuer bid allows it to purchase its units on the TSX when they trade below net asset value. As a result, purchases under the issuer bid are accretive to the net asset value of the Fund. A total of 120,200 units were purchased during the year at an average price of \$11.11 per unit.

Unitholders may also redeem units of the Fund on the last business day of December of each year at the then current net asset value. In December 2004, the Fund announced that it had amended the method by which it was determining the net asset value for redemption purposes. The securities in the portfolio that are listed or traded on a stock exchange will now be valued by taking the weighted average trading price of the securities for the last three days of the month in which the redemption occurs. This method of calculating the net asset value is intended to maintain a fair redemption price for the unitholders who redeem their units, while minimizing the likelihood that long-term unitholders will be adversely affected by unusual short-term increases in the values of the portfolio securities. On December 31, 2004, a total of 786,205 units were redeemed for total proceeds of \$10.9 million (\$13.84 per unit).

Management Expense Ratio

The Fund has a low management fee for an actively managed fund of 0.85% of net asset value per annum. Combined with the 0.40% service fee that is paid to investment dealers and the general and administrative expenses of the Fund, the management expense ratio for 2004 was 1.51% based on net assets and 1.24% based on total assets.

Risk Analysis

The Fund is subject to a number of risks and uncertainties which are discussed on page 95 of this report. Unitholders are encouraged to review these risks.

Outlook

The Fund's two principal objectives are to maintain a high level of monthly distributions and to maintain net asset value per unit. The Fund has exceeded these objectives since inception, particularly with respect to the substantial cumulative gains in net asset value it has achieved. While we continue to believe in the long-term fundamentals of the sectors in which the Fund invests, values of the underlying investments and consequently the net asset value of the Fund may fluctuate over time. Based on current levels of distributions received from the underlying portfolio, we expect the Fund will maintain its level of regular monthly distributions.