



**BROMPTON**  
**FUNDS**

Annual Report 2002

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## Brompton Group

Brompton Group is a leading provider of specialized financial products and services to corporate, institutional and individual clients. Brompton's success is achieved by offering innovative, well conceived products on fair terms with low fees and supported by the highest levels of corporate governance. Brompton aligns its interests with those of its clients by co-investing in the products that it manages.

The management and directors of Brompton are a highly respected group of accomplished business leaders. The extensive experience, track record and integrity of its people are Brompton's most valuable assets.

Asset management services are provided by Brompton Management Limited and its subsidiaries. Brompton currently manages three public investment funds and private capital totaling \$300 million in assets. Brompton also offers financial advisory and merchant banking services to its clients.



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## The Brompton Approach

Brompton's commitment to high quality investments and fair investor terms is continuously demonstrated in its approach to product development and fund management. This fundamental approach to conducting business is applied to all Brompton investment products and features the following attributes:

- **Top-Ranked Performance**

Brompton partners with top-ranked portfolio managers to achieve superior performance.

- **Innovative Financial Structure**

The growing family of Brompton funds is designed to meet specific needs of investors on a tax-efficient basis.

- **Fair Investor Terms**

Product terms are incorporated to protect the interests of the investors. Annual redemption rights at 100% of net asset value and protection against entrenched management and dilutive secondary issues are built into every fund.

- **Low Cost**

Low management fees and administrative expenses enhance the overall return to investors.

- **Strong Corporate Governance**

A strong, experienced and independent Board of Directors is engaged to protect the interests of investors. Brompton has adopted the TSX's recommended guidelines for corporate governance.

- **Alignment of Interests**

Brompton co-invests its own capital in each of its funds thereby aligning its interests with those of its investors.

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## Message to Unitholders

We are very pleased to report on the performance and status of the Brompton funds for the year ended December 31, 2002. These funds are Brompton VIP Income Trust, Brompton MVP Income Fund and Brompton Stable Income Fund.

The three Brompton investment funds commenced operations in 2002 following the successful completion of their initial public offering of trust units. A total of \$235 million was raised by the Brompton funds through these offerings during the year.

All of the Brompton funds are invested in a diversified portfolio of operating income funds and either high-yield debt or investment-grade debt. Each of the funds has a unique investment strategy and corresponding investment objectives. As of the date hereof, all of the funds have shown growth in their net asset values and two of the funds have increased their level of distributions.

### **The Brompton Funds**

Brompton VIP Income Trust was Brompton's first investment income fund closing in February, 2002 and raising approximately \$100 million. This fund was designed to provide investors with a high level of monthly income targeted at \$0.975 per unit per annum. Through 2002, the fund made all of its targeted distributions and in March of 2003, increased its distributions to \$1.00 per unit per annum.

Brompton's second fund, Brompton MVP Income Fund, completed its initial public offering in July, 2002 raising a total of \$82 million. This fund employs an active asset and sector allocation strategy focused on business income funds designed to deliver annual distributions targeted at \$0.90 per unit and an opportunity for growth in income. Brompton MVP Income Fund has made all of its distributions as planned and in March 2003 increased its distributions to \$0.925 per unit per annum.

Brompton Stable Income Fund was the third investment fund launched by Brompton in 2002 completing its initial public offering of \$54 million in December. This fund has a more conservative investment strategy than Brompton's first two funds. It has been assigned Standard & Poor's highest Stability Rating for income funds of SR-1 by investing a significant core amount of its investment portfolio in the more stable income classes of investment-grade debt and power and pipeline funds. The fund is designed to deliver an annual distribution targeted at \$0.75 per unit. Distributions commenced as scheduled in February, 2003.

More detailed updates on each of these funds are provided in later sections of this report.

### **Corporate Governance**

Each of the funds has been structured to reflect Brompton's investor-friendly approach. They all incorporate features such as low management fees, an opportunity for unitholders to redeem their units annually at net asset value, a strong board of directors to represent the interests of the unitholders, protection against entrenched management and a prohibition against unit offerings that dilute the net asset value of existing unitholders.

Brompton has adopted the proposed TSX guidelines to corporate governance. As a result, the Boards of Directors of each of the funds' management companies were restructured in March, 2003. Messrs. Arthur Scace and James Davie, two of Canada's leading business executives, have been added to each of the fund boards as unrelated directors. To accommodate these new board members, certain directors have resigned to ensure each board has a majority of unrelated directors in accordance with the proposed guidelines. The departing board members will continue to have a significant interest in the well-being of the funds through their position as directors of Brompton Management Limited, the parent company of each of the fund managers.

Brompton and its directors have demonstrated their belief in the investment merits of the Brompton funds by making a significant investment in the funds thereby aligning management's interests with those of the investors.



### Portfolio Management

The investment portfolio of each of the funds is managed by MFC Global Investment Management, a division of Elliott & Page Limited and a member of the Manulife Group of Companies.

MFC Global is a top ranked portfolio manager of income fund investments and brings proven expertise in all areas of investment and a depth of management and analytical resources unsurpassed in the industry.

### Outlook

The income sector continues to grow rapidly in Canada. This market activity is beneficial to our funds in two ways. First, the large supply of product competing for investors' capital is expected to keep the yields on income funds relatively high, for the near term, which provides a yield enhancing opportunity for the Brompton funds. Secondly, new names allow for even greater selectivity and diversification by the Brompton funds.

The income fund sector does, however, pose challenges to the investing public. Not every new name will prove to be successful and the diversity in industries and operating funds, as well as limited research makes investment in this sector difficult. Brompton's approach of offering diversified investment funds managed by proven, professional management on fair terms represents an attractive basis for investors to participate in the high income sector.

Respectfully, submitted on behalf of the Boards of Directors of the Managers.

March 6, 2003

signed

signed

Raymond R. Pether  
Chief Executive Officer

Donald W.C. Lillie  
President

Brompton VIP Management Limited  
Brompton MVP Management Limited  
Brompton SI Fund Management Limited

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## Brompton Funds At-A-Glance

### BROMPTON INCOME TRUST

Brompton VIP Income Trust is a closed-end investment trust that is listed on the Toronto Stock Exchange under the symbol VIP.UN. This fund invests in a broadly diversified portfolio of high-income investments including business funds, real estate investment trusts, oil and gas funds, power and pipeline funds, high-yield debt and other securities in order to deliver to investors a high level of distributions. The trust is RRSP, DPSP, RRIF and RESP eligible and will not constitute foreign property for such plans. Approximately 47% of the fund's distributions in 2002 were tax deferred.

### BROMPTON INCOME FUND

Brompton MVP Income Fund is a closed-end investment trust that is listed on the Toronto Stock Exchange under the symbol MVP.UN. This fund utilizes an active asset and sector allocation process to invest in a diversified portfolio of income funds and high-yield debt across a broad range of industries and geographic areas. Its initial focus is on business funds with smaller weightings in high-yield debt and real estate investment trusts. The fund may also invest in oil and gas funds, power and pipeline funds and special situations. The fund is RRSP, DPSP, RRIF and RESP eligible and will not constitute foreign property for such plans. Approximately 44% of the fund's distributions in 2002 were tax deferred.

### BROMPTON INCOME FUND

Brompton Stable Income Fund is a closed-end investment trust that is listed on the Toronto Stock Exchange under the symbol BSR.UN. The fund invests in a diversified portfolio of investment-grade securities, power and pipeline funds and other income funds. The fund has been designed to have the lowest variability and highest sustainability of distributions as compared to other income funds and has been assigned Standard & Poor's highest stability rating of SR-1. The fund is RRSP, DPSP, RRIF and RESP eligible and will not constitute foreign property for such plans. Based on 2002 tax information for the fund investments, up to 67% of the fund's distributions would be tax deferred.

<p><b>Investment Objectives</b></p> <ul style="list-style-type: none"> <li>• Provide holders with high monthly cash distributions</li> <li>• Preserve the net asset value per unit</li> </ul>	<p><b>Performance *</b></p> <ul style="list-style-type: none"> <li>• Distributions commenced as planned at the rate of \$0.08125 per unit per month (\$0.975 per annum)</li> <li>• In March, 2003 distributions increased to \$0.08333 per unit per month (\$1.00 per annum)</li> <li>• Achieved growth in net asset value</li> </ul>
<p><b>Investment Objectives</b></p> <ul style="list-style-type: none"> <li>• Provide holders with high monthly cash distributions</li> <li>• Preserve the net asset value per unit</li> </ul>	<p><b>Performance *</b></p> <ul style="list-style-type: none"> <li>• Distributions commenced as planned at the rate of \$0.075 per unit per month (\$0.90 per annum)</li> <li>• In March, 2003 distributions increased to \$0.07708 per unit per month (\$0.925 per annum)</li> <li>• Achieved growth in net asset value</li> </ul>
<p><b>Investment Objectives</b></p> <ul style="list-style-type: none"> <li>• Provide holders with stable monthly cash distributions</li> <li>• Maintain Standard &amp; Poor's SR-1 stability rating</li> <li>• Preserve the net asset value per unit</li> </ul>	<p><b>Performance *</b></p> <ul style="list-style-type: none"> <li>• Distributions commenced as planned in February, 2003 at the rate of \$0.0625 per unit per month (\$0.75 per annum)</li> <li>• Achieved growth in net asset value</li> </ul>

\* As at March 6, 2003



## Portfolio Manager

MFC Global Investment Management is the portfolio manager for all three of Brompton's public funds. MFC Global is a division of Elliott & Page Limited, a Manulife company and has over \$73 billion of assets under management.

Manulife's investment philosophy relies heavily on utilizing fundamental equity research to identify exceptional investment opportunities at reasonable valuations. Manulife favours investing in entities with proven, successful management teams and is a long-term investor in successful businesses as opposed to a short-term speculator in equity securities.

Manulife provides many other advantages to the portfolio management function including well developed systems and procedures for managing investment portfolios supported by strong internal controls. It employs proven individual portfolio managers who are supported by extensive research capabilities.

Alan Wicks is one of the country's leading income fund managers and has been Manulife's high-income portfolio manager since 1997. He has achieved top quartile returns over the past five years. Mr. Wicks draws upon a 9 person team to support him with in-depth independent research.

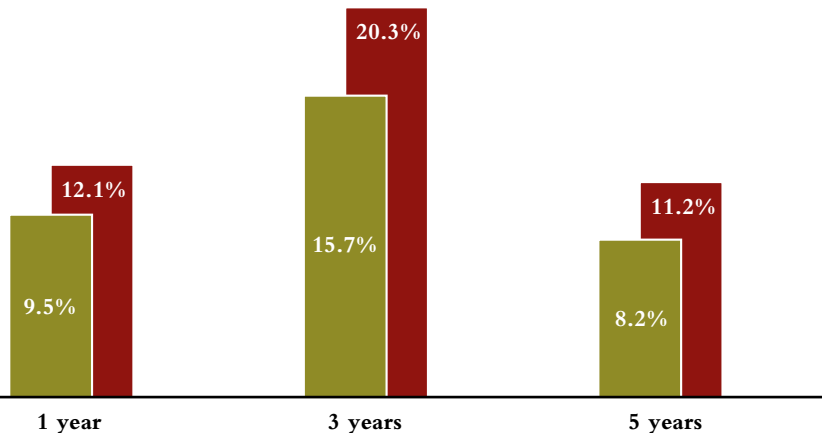
Gary Stewart and Terry Carr, managers of investment-grade and high-yield debt respectively, have long proven track records and are assisted by a team of 12 analysts.

### Elliott & Page Performance

For the periods ending January 31, 2003

■ Morningstar\*  
■ Elliott & Page Monthly High Income Fund

\* Average of the Morningstar Canadian Income Trust Universe, comprising open-end mutual funds that invest primarily in income trusts.



## 2002 Tax Information

The following information will assist holders of trust units of Brompton VIP Income Trust and Brompton MVP Income Fund in the preparation of their 2002 Income Tax Returns. This information is applicable to holders who, for the purposes of the Income Tax Act (Canada), are resident in Canada and hold trust units as capital property.

Holders of trust units outside of an RRSP, RRIF or DPSP should have received a T3 slip from their investment dealer.

The following tables outline the breakdown of cash distributions of each fund payable in 2002 on a per unit basis.

### Brompton VIP Income Trust

Record Date	Payment Date	Return of Capital	Foreign Non-Business Income	Other Taxable Income	Dividend Income	Total Distribution
April 30, 2002	May 14, 2002	\$ 0.03802	\$ 0.01742	\$ 0.02094	\$ 0.00487	\$ 0.08125
May 31, 2002	June 14, 2002	\$ 0.03802	\$ 0.01742	\$ 0.02094	\$ 0.00487	\$ 0.08125
June 28, 2002	July 15, 2002	\$ 0.03802	\$ 0.01742	\$ 0.02094	\$ 0.00487	\$ 0.08125
July 31, 2002	August 15, 2002	\$ 0.03802	\$ 0.01742	\$ 0.02094	\$ 0.00487	\$ 0.08125
August 30, 2002	September 16, 2002	\$ 0.03802	\$ 0.01742	\$ 0.02094	\$ 0.00487	\$ 0.08125
September 30, 2002	October 15, 2002	\$ 0.03802	\$ 0.01742	\$ 0.02094	\$ 0.00487	\$ 0.08125
October 31, 2002	November 14, 2002	\$ 0.03802	\$ 0.01742	\$ 0.02094	\$ 0.00487	\$ 0.08125
November 29, 2002	December 13, 2002	\$ 0.03802	\$ 0.01742	\$ 0.02094	\$ 0.00487	\$ 0.08125
December 31, 2002	January 15, 2003	\$ 0.03802	\$ 0.01742	\$ 0.02094	\$ 0.00487	\$ 0.08125
		<b>\$ 0.34218</b>	<b>\$ 0.15678</b>	<b>\$ 0.18846</b>	<b>\$ 0.04383</b>	<b>\$ 0.73125</b>

### Brompton MVP Income Fund

Record Date	Payment Date	Return of Capital	Foreign Non-Business Income	Other Taxable Income	Dividend Income	Total Distribution
September 30, 2002	October 15, 2002	\$ 0.03293	\$ 0.01317	\$ 0.02169	\$ 0.00721	\$ 0.075
October 31, 2002	November 14, 2002	\$ 0.03293	\$ 0.01317	\$ 0.02169	\$ 0.00721	\$ 0.075
November 29, 2002	December 13, 2002	\$ 0.03293	\$ 0.01317	\$ 0.02169	\$ 0.00721	\$ 0.075
December 31, 2002	January 15, 2003	\$ 0.03293	\$ 0.01317	\$ 0.02169	\$ 0.00721	\$ 0.075
		<b>\$ 0.13172</b>	<b>\$ 0.05268</b>	<b>\$ 0.08676</b>	<b>\$ 0.02884</b>	<b>\$ 0.300</b>

T3 supplementary slips will indicate Foreign Non-Business Income in Box 25, Other Taxable Income in Box 26 and Dividend Income in Box 23.

The return of capital component is a non-taxable amount that serves to reduce the adjusted cost base of trust units. Dividend income will be subject to the standard gross-up and federal dividend tax credit rules.

### Brompton Stable Income Fund

Brompton Stable Income Fund commenced operations in December, 2002 and paid its first distribution in February, 2003 to unitholders of record on January 31, 2003. Therefore, there are no taxable distributions for 2002.

# BROMPTON INCOME TRUST

## Management's Discussion and Analysis

Brompton VIP Income Trust ("VIP" or the "fund") commenced operations on February 19, 2002 when it issued 9,600,000 units at \$10 per unit through an initial public offering. An additional 275,000 units at \$10 per unit were issued in March, 2002 through the exercise of the over-allotment option.

The following supplementary information provides an analysis of the operations and financial position of the fund. It should be read in conjunction with the financial statements and accompanying notes. The financial statements reflect operating results for the period from February 19, 2002 to December 31, 2002. Since this period represents the fund's first year of operations, no comparative figures are presented.

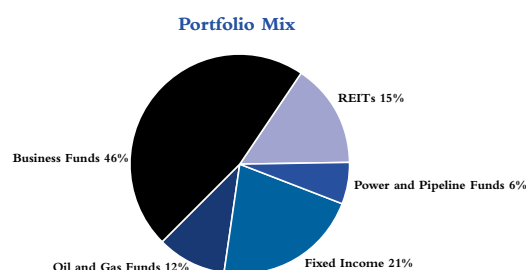
## Investment Objectives and Strategy

VIP is an investment income fund, designed to invest in a portfolio of high-income securities comprised primarily of income funds and to a lesser extent, fixed-income investments the majority of which is high-yield debt. The objectives of the fund are to: (i) provide unitholders with a high level of monthly income in a tax efficient manner; (ii) enhance performance by reducing the risk of investing in high-income securities through diversification, careful selection and active management of the fund's assets; and (iii) preserve the net asset value per unit.

## Financial Position and Results of Operations

As at December 31, 2002, VIP held a total of 39 income funds and 41 fixed income investments which provided diversification both by issuer and industry concentration. The breakdown of the portfolio is shown in the accompanying pie chart and a detailed listing of VIP's security holdings is provided in the financial statements.

The following table illustrates the contribution of each asset class to the overall return of the fund for the period ended December 31, 2002.



Asset Class (millions)	Distribution or Interest Income	Realized/Unrealized Gains(Losses)	Total Contribution
Business Funds	\$ 3.9	\$ 2.4	\$ 6.3
Fixed Income Investments	1.9	(3.1)	(1.2)
Other Income Funds	3.5	(0.5)	3.0
Cash and Short-Term Investments	0.1	-	0.1
Foreign exchange (net of futures contracts)	-	0.1	0.1
<b>Total</b>	<b>\$ 9.4</b>	<b>\$ (1.1)</b>	<b>\$ 8.3</b>

The largest holding of the fund was in Business Funds which provided the highest total contribution of all the asset classes. This part of the portfolio contributed \$6.3 million to operations. The Other Income Funds category contributed \$3.0 million to operations.

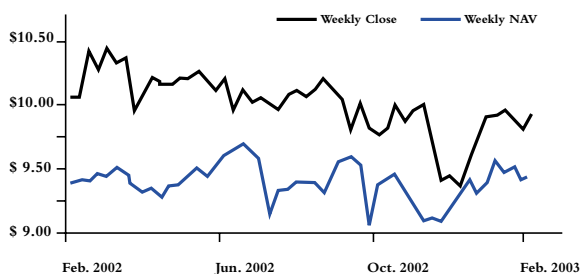
The fund's fixed-income investments and in particular its high-yield debt component were adversely affected by the declining credit markets during the first three quarters of the year and had a negative contribution of \$1.2 million to operations. Commencing in the fourth quarter, this segment experienced some strengthening in conjunction with improving economic conditions.

In October 2002, the fund implemented a hedging program using currency futures contracts. The amount of the contracts is approximately equal to the amount of US dollar denominated securities held by the fund, which at December 31, 2002 totalled \$22.7 million, all of which were fixed-income investments. The fund realized gains on currency futures contracts during the period of \$0.6 million. Open contracts held over year end had an unrealized loss of \$0.3 million. Realized and unrealized gains and losses resulting from currency futures contracts offset exchange losses on the US dollar portion of the fixed income portfolio of \$0.2 million resulting in a small net gain from foreign exchange for the fund in 2002.

Expenses during 2002 included \$727,390 of management fees, which at .85% of net asset value per annum, is one of the lowest percentages in the industry.

Management fees, service fees paid to investment dealers and general and administrative costs total \$1.3 million, which when annualized, represents a management expense ratio of 1.59% for the fund.

Overall, the fund's results from operations, after deducting expenses of the fund, amounted to \$6.4 million during 2002, or \$0.65 per unit.



### Fund Performance

VIP declared monthly distributions commencing in April, 2002 at its targeted monthly rate of \$0.08125 per unit. In 2002, the fund generated net investment income of \$0.76 per unit out of which distributions of \$0.73125 per unit were declared to unitholders. In March, 2003 the fund increased its rate of distributions to \$0.08333 per unit per month (\$1.00 per annum).

The net asset value per unit at December 31, 2002 was \$9.29. On March 6, 2003 the net asset value had grown to \$9.62 per unit. VIP's share price on December 31, 2002 was \$9.50. Throughout 2002, VIP consistently traded at a premium to its net asset value.

### Liquidity and Capital Resources

At the end of 2002, the fund had borrowed \$23.0 million under its credit facility in the form of bankers' acceptances, which represented 19.8% of total assets. These borrowings were used to invest in additional high-income securities to enhance the overall yield of the fund.

VIP has implemented a normal course issuer bid program whereby the fund may purchase up to 926,000 units for cancellation when units trade below the net asset value per unit. In such situations, purchases under the issuer bid will be accretive to the net asset value of the fund. No units were purchased under this program in 2002.

The fund has a distribution reinvestment plan ("DRIP") which allows participating unitholders to automatically reinvest monthly distributions in additional units of the fund. In 2002, a total of 40,130 units were issued from treasury pursuant to this plan at an average price per unit of \$9.50.

VIP also allows unitholders to redeem their units of the fund effective on December 31 of every year at the then current net asset value. On December 31, 2002, a total of 152,205 units were redeemed for proceeds of \$1,426,237.

### Risks and Mitigating Factors

There are a number of risks associated with the fund's investment business and its ability to meet its stated objectives. A complete list of the fund's risk factors is available in its annual information form. Some of the principal risks include:

#### Fluctuations in Net Asset Value

Fluctuations in the market value of the securities in which the fund invests may occur for a number of reasons beyond the control of the manager or the portfolio manager and may adversely affect the net asset value of the fund. Overweighting investments in certain sectors or industries creates a risk that the fund will suffer a significant loss should the prices of securities in those sectors or industries decline. At year end, the fund was invested in 39 income funds and 41 fixed income securities across a broad range of industries and only 1 investment represented more than 4% of its assets, being Davis + Henderson Income Fund which was 5.6% of the fund.

#### Interest Rate Risk

Interest rate risk refers to the potential adverse impact on the fund's earnings and net asset value due to changes in interest rates. The fund currently borrows to enhance its performance by investing in securities with yields greater than its borrowing costs. An increase in interest rates will increase interest expense on those borrowings and will reduce the positive effect that leverage has on the fund's performance. The greater the leverage, the greater the adverse impact that increased interest rates will have on the fund's ability to generate sufficient returns to meet its targeted distributions. Another interest rate risk is the potential for the net asset value per unit to decline to the extent that the value of the portfolio investments of VIP are sensitive to interest rate changes.

#### Foreign Currency Exposure

As a significant portion of VIP's fixed income investments are comprised of securities denominated in US dollars, the net asset value per unit and the value of distributions received by VIP are affected by fluctuations in the value of the US dollar relative to the Canadian dollar. In order to mitigate the impact of currency fluctuations on the net asset value of the fund, the fund has implemented a hedging program using currency futures contracts, as described in the Financial Position and Results of Operations section above.

#### Commodity Price Fluctuations

The operations and financial condition of commodity sensitive investments of VIP, the amount of distributions paid on such investments and the prices of such entities are dependent on commodity prices applicable to such issuers. Prices for commodities may vary and are determined by supply and demand factors including weather and general economic and political conditions. Commodity sensitive investments are primarily included in the oil and gas and power and pipeline funds sectors.

### Outlook

Based on the fund's current portfolio and current rate of distributions from portfolio investments, the manager anticipates that VIP will continue to provide unitholders with a monthly distribution at \$0.08333 per unit or \$1.00 per annum.

### Directors

Peter A. Braaten		Chairman, Brompton Limited
James W. Davie, <sup>1,2</sup>	Unrelated	Corporate Director
P. Michael Nedham		Managing Director, Newport Partners Inc.
Arthur R. A. Scace, <sup>1,2</sup>	Unrelated	Partner, McCarthy Tétrault LLP
Ken S. Woolner, <sup>1,2</sup>	Unrelated	President and CEO, Lightning Energy Ltd.

<sup>1</sup> Member of Corporate Governance Committee

<sup>2</sup> Member of Audit Committee

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## Management's Responsibility Statement

The financial statements of Brompton VIP Income Trust (the "Fund") have been prepared by Brompton VIP 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. These 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 unrelated directors of the Board.

The Manager, with the approval of its Board of Directors, has appointed the external firm of PricewaterhouseCoopers LLP as the auditor 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

signed

**Raymond R. Pether**  
Chief Executive Officer  
Brompton VIP Management Limited

**Mark A. Caranci**  
Chief Financial Officer  
Brompton VIP Management Limited

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## Auditors' Report to Unitholders

To the Unitholders of Brompton VIP Income Trust:

We have audited the statement of net assets of Brompton VIP Income Trust and the statement of investments as at December 31, 2002 and the statements of operations and changes in net assets for the period from February 19, 2002, the date of commencement of operations of the Fund, to December 31, 2002. These financial statements are the responsibility of management of the Fund's Manager. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2002 and the results of its operations and the changes in its net assets for the period from February 19, 2002, the date of commencement of operations of the Fund, to December 31, 2002 in accordance with Canadian generally accepted accounting principles.

signed

**PricewaterhouseCoopers LLP**  
Chartered Accountants  
Toronto, Ontario  
January 31, 2003

## Statement of Net Assets

As at December 31, 2002

### Assets

Investments, at market value (cost - \$112,808,436)	\$ 113,572,208
Cash and short-term investments	965,233
Distributions and interest receivable	1,384,458
Variation margin receivable on futures contracts	133,720
Other receivables	58,229
Deferred financing costs (note 8)	16,613
<b>Total assets</b>	<b>116,130,461</b>

### Liabilities

Accounts payable and accrued liabilities	284,160
Distributions payable to unitholders (note 4)	793,238
Redemptions payable to unitholders (note 3)	1,426,237
Loan payable (note 8)	22,936,762
<b>Total liabilities</b>	<b>25,440,397</b>

**Net assets representing unitholders' equity** \$ 90,690,064

**Units outstanding** (note 3) 9,762,925

**Net asset value per unit** \$ 9.29

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

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

signed

signed

**Peter A. Braaten**

Director

**P. Michael Nedham**

Director

## Statement of Operations

For the period from February 19, 2002 to December 31, 2002

### Income

Distributions from income funds	\$ 7,402,162
Interest income	2,047,283
	<hr/> 9,449,445

### Expenses

Management fee (note 5)	727,390
Service fee (note 5)	324,685
General and administrative	243,429
Interest and bank charges (note 8)	639,026
	<hr/> 1,934,530

<b>Net investment income</b>	<b>7,514,915</b>
<b>Net realized loss on sale of investments and futures contracts</b> (notes 6 & 7)	<b>(1,556,807)</b>
<b>Net change in unrealized gain on investments and futures contracts</b> (note 7)	<b>451,880</b>
<b>Results of operations</b>	<b>\$ 6,409,988</b>

### Results of operations per unit <sup>(1)</sup>

Net investment income	\$ 0.76
Net realized loss on sale of investments and futures contracts	(0.16)
Net change in unrealized gain on investments and futures contracts	0.05
	<hr/> \$ 0.65

<sup>(1)</sup> Based on the weighted average number of units outstanding for the period (note 3).

## Statement of Changes in Net Assets

For the period from February 19, 2002 to December 31, 2002

<b>Net assets – beginning of period</b>	<b>\$ -</b>
Operations:	
Net investment income	7,514,915
Net realized loss on sale of investments and futures contracts (notes 6 & 7)	(1,556,807)
Net change in unrealized gain on investments and futures contracts (note 7)	451,880
	<hr/> 6,409,988
Unitholder Transactions:	
Proceeds from issuance of units, net (note 3)	92,546,402
Distributions to unitholders (note 4)	(7,221,468)
Proceeds from distribution reinvestment plan (note 4)	381,379
Redemption of units (note 3)	(1,426,237)
	<hr/> 84,280,076
Net increase in net assets	<hr/> 90,690,064
<b>Net assets – end of period</b>	<b>\$ 90,690,064</b>
<b>Distributions per unit</b>	<b>\$ 0.73125</b>

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

## Statement of Investments

As at December 31, 2002

Par Value (\$)	Fixed Income Investments	Cost	Market Value	% of Portfolio
US 600,000	Labranche & Co Inc. 12%, due March 2, 2007	\$ 1,111,590	\$ 1,056,889	
US 650,000	Allied Waste North America, Inc. 8.875%, due April 1, 2008	1,053,398	1,042,276	
US 650,000	Rogers Wireless Communications Inc. 9.625%, due May 1, 2011	1,058,930	970,394	
US 600,000	Western Financial Bank 9.625%, due May 15, 2012	937,937	919,446	
US 650,000	Compagnie Generale de Geophysique 10.625%, due November 15, 2007	1,085,585	903,648	
US 500,000	MGM Grand Inc. 9.75%, due June 1, 2007	860,922	872,842	
US 500,000	Lear Corporation 8.11%, due May 15, 2009	825,050	835,321	
US 600,000	IPC Acquisition Corp. 11.5%, due December 15, 2009	956,111	815,179	
US 500,000	Cinemark USA Inc. 9.625%, due August 1, 2008	772,772	789,902	
US 600,000	United Rentals Inc. 9.25%, due January 15, 2009	977,100	772,524	
US 500,000	Century Aluminum Co. 11.75%, due April 15, 2008	837,720	766,205	
US 500,000	Revlon Consumer Products Corporation 12%, due December 1, 2005	775,226	762,255	
US 485,000	Insight Health Services Corp. 9.875%, due November 1, 2011	801,265	731,726	
US 450,000	Pierce Leahy Command Company 8.125%, due May 15, 2008	697,245	726,907	
US 435,000	L-3 Communications Corp. 8.5%, due May 15, 2008	722,995	712,985	
US 400,000	Echostar Broadband Corporation 10.375%, due October 1, 2007	639,515	683,265	
US 400,000	Flextronics International Ltd. 9.875%, due July 1, 2010	666,437	680,895	
US 410,000	Intrawest Corporation 10.5%, due February 2, 2010	663,995	680,106	
US 425,000	Alderwoods Group Inc. 11%, due January 2, 2007	666,833	671,417	
US 400,000	Park Place Entertainment Corporation 8.125%, due May 15, 2011	644,097	655,619	
US 400,000	Biovail Corporation 7.875%, due April 1, 2010	626,442	654,039	
US 400,000	United Surgical Partners Holdings, Inc. 10%, due December 15, 2011	640,464	647,720	
US 400,000	Lyondell Chemical Company 11.125%, due July 15, 2012	633,837	622,443	
CDN 650,000	Rogers Communications Inc. 8.75%, due July 15, 2007	643,500	620,286	
US 375,000	Tembec Industries Inc. 8.5%, due February 1, 2011	590,054	596,870	
US 300,000	Station Casinos Inc. 8.875%, due December 1, 2008	490,090	492,899	
US 300,000	Western Oil Sands Inc. 8.375%, due May 1, 2012	470,102	471,571	
US 600,000	Charter Communications Holdings, LLC 10.75%, due October 1, 2009	972,448	433,656	
US 250,000	Owens Brockway Glass Container Inc. 8.875%, due February 15, 2009	402,908	406,799	
US 300,000	Amkor Technology Inc. 9.25%, due February 15, 2008	460,069	400,480	
US 250,000	AK Steel Corporation 7.875% due February 15, 2009	387,150	398,900	
US 250,000	D.R. Horton, Inc. 8.5%, due April 15, 2012	378,835	394,951	
CDN 800,000	Calpine Canada Energy Finance ULC 8.75%, due October 15, 2007	635,000	372,000	
CDN 355,000	Telus Corporation 7.5%, due June 1, 2006	312,497	351,256	
US 200,000	Buckeye Cellulose Corp. 9.25%, due September 15, 2008	275,731	271,726	
US 150,000	Avis Group Holdings, Inc. 11%, due May 1, 2009	239,067	259,483	
CDN 275,000	Russel Metals Inc. 8%, due June 15, 2006	252,313	257,125	
US 175,000	Healthsouth Corporation 6.875%, due June 15, 2005	209,278	237,760	
US 175,000	Radiologix Inc. 10.5%, due December 15, 2008	281,616	215,643	
US 125,000	Triton PCS Holdings Inc 8.75%, due November 15, 2011	158,671	159,955	
US 25,000	Healthsouth Corporation 7.375%, due October 1, 2006	33,654	34,163	
		25,848,449	24,349,526	21.4%
<b>No. of Units</b>	<b>Business Funds</b>			
508,126	Davis + Henderson Income Fund	5,358,522	6,534,500	
325,000	Connors Bros. Income Fund	3,850,500	4,452,500	
355,000	Sun Gro Horticulture Income Fund	3,575,270	3,709,750	
308,200	BFI Canada Income Fund	3,078,803	3,652,170	
316,800	Atlas Cold Storage Income Trust	3,475,972	3,564,000	
304,455	Livingston International Income Fund	3,287,589	3,461,653	
241,360	Chemtrade Logistics Income Fund	3,359,139	3,379,040	
211,300	TimberWest Forest Corp.	2,820,477	2,535,600	
218,000	SFK Pulp Fund	2,298,132	2,223,600	
163,000	Energy Savings Income Fund	2,010,875	2,184,200	
205,000	Advanced Fiber Technologies (AFT) Income Fund	2,085,450	2,121,750	
90,500	North West Company Fund	1,715,445	1,882,400	
196,000	The Keg Royalties Income Fund	1,955,700	1,813,000	
80,000	Superior Propane Income Fund	1,515,200	1,574,400	
110,200	Menu Foods Income Fund	1,153,588	1,509,740	
140,000	Clearwater Seafoods Income Fund	1,402,028	1,448,300	
276,887	Westshore Terminals Income Fund	1,722,935	1,351,209	
130,000	Boston Pizza Royalties Income Fund	1,332,840	1,315,600	
100,000	Gateway Casinos Income Fund	1,000,000	1,030,000	
125,000	Versacold Income Fund	1,085,000	1,006,250	
69,000	IAT Air Cargo Facilities Income Fund	762,450	694,830	
50,000	Contrans Income Fund	475,000	435,000	
		49,320,915	51,879,492	45.7%
<b>No. of Units</b>	<b>Real Estate Investment Trusts</b>			
363,400	RioCan REIT	4,507,435	4,531,598	
268,225	H&R REIT	3,754,518	3,580,804	
147,400	Summit REIT	2,232,334	2,230,162	
168,000	O&Y REIT	1,836,341	1,688,400	
137,500	Northern Property REIT	1,415,423	1,636,250	
94,840	Retirement Residences REIT	1,205,560	1,115,318	
115,000	InnVest REIT	1,150,000	1,092,500	
90,000	Canadian Hotel Income Properties REIT	831,691	810,000	
		16,933,302	16,685,032	14.7%
<b>No. of Units</b>	<b>Oil &amp; Gas Funds</b>			
212,118	ARC Energy Trust	2,725,837	2,524,204	
350,000	Viking Energy Royalty Trust	2,525,425	2,474,500	
223,569	Provident Energy Trust	2,196,686	2,403,367	
180,400	Advantage Energy Income Fund	1,895,315	2,345,200	
69,113	Enerplus Resources Fund	1,771,542	1,938,620	
49,817	Canadian Oil Sands Trust	2,181,640	1,895,537	
		13,296,445	13,581,428	12.0%
<b>No. of Units</b>	<b>Power and Pipeline Funds</b>			
325,000	Pembina Pipeline Income Fund	3,722,532	3,542,500	
236,000	Algonquin Power Income Fund	2,280,880	2,190,080	
43,500	TransCanada Power L.P.	1,405,913	1,344,150	
		7,409,325	7,076,730	6.2%
<b>Total</b>		<b>\$ 112,808,436</b>	<b>\$ 113,572,208</b>	<b>100.0%</b>

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

## Notes to the Financial Statements

December 31, 2002

### 1. Operations

Brompton VIP Income Trust (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 dated January 29, 2002. Computershare Trust Company of Canada is the Trustee and Brompton VIP Management Limited (the "Manager") is responsible for managing the affairs of the Fund. MFC Global Investment Management (formerly called Elliott & Page Limited) provides the portfolio management for the Fund. The Fund was listed on the Toronto Stock Exchange and effectively commenced operations on February 19, 2002 when it issued 9,600,000 units at \$10.00 per unit through an initial public offering. An additional 275,000 units at \$10.00 per unit were issued on March 19, 2002 through the exercise of the over-allotment option.

### 2. Significant Accounting Policies

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

#### a) Valuation of Investments

The Fund's investments are presented at market value. Investments that are publicly traded are valued at their closing price. If a closing price is not available, these investments are valued using an average of the latest bid and ask prices. Short-term investments are valued at cost which, when taken together with accrued interest income thereon, approximates their market value.

#### b) Investment Transactions and Income Recognition

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

#### c) Futures Contracts

Futures contracts are valued on each business day according to the gain or loss that would be realized if the contracts were closed out. This value is recorded as an unrealized gain or loss. When the contracts are closed out, gains and losses are included in realized gains and losses. Any payments made to satisfy initial and variation margin are reflected as a receivable balance.

#### d) 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.

#### e) Foreign Exchange

The market value of investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the closing 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 on the respective dates of such transactions.

#### f) Fair Value of Financial Instruments

The fair value of the Fund's financial instruments, which are composed of cash and short-term investments, distributions and interest receivable, variation margin receivable on futures contracts, other receivables, accounts payable and accrued liabilities, distributions payable to unitholders, redemptions payable to unitholders and loans payable, approximate their carrying values due to their short-term nature.

### 3. Units of the Fund

#### Authorized

The Fund is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Fund. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Fund. Units may be surrendered for redemption at any time during December of any year, but at least five business days prior to December 31. Redemption of surrendered units will be effected at net asset value on December 31 of each year and will be settled on or before the twentieth business day following such effective date.

Issued	Number of Units	Amount
Units – beginning of period	-	\$ -
Initial public offering, net	9,600,000	89,947,652
Exercise of over-allotment option, net	275,000	2,598,750
Units issued through the distribution reinvestment plan (note 4)	40,130	381,379
Units redeemed	(152,205)	(1,426,237)
Units – end of period	9,762,925	\$ 91,501,544

On February 19, 2002, the Fund completed its initial public offering of 9,600,000 units at a price of \$10.00 for proceeds, net of agents' fees and issuance costs, of \$89,947,652.

## Notes to the Financial Statements

December 31, 2002

On March 19, 2002, the Fund completed the issuance of an additional 275,000 units at a price of \$10.00 for proceeds, net of agents' fees, of \$2,598,750. The issuance of these additional units was pursuant to the exercise of the over-allotment option granted to the agents in connection with the initial public offering.

The Fund received approval from the Toronto Stock Exchange to undertake a normal course issuer bid program for the period from November 6, 2002 through to November 5, 2003. Pursuant to the issuer bid, the Fund may purchase up to 926,000 of its units for cancellation when the net asset value per unit exceeds its trading price. During 2002, no such units were purchased.

The weighted average number of units outstanding from the date of commencement of operations on February 19, 2002 to December 31, 2002 was 9,863,623.

#### 4. Distributions 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 no later than the tenth business day of the following month. For the period from February 19, 2002 to December 31, 2002, the Fund declared total distributions of \$0.73125 per unit. Pursuant to the Fund's distribution reinvestment plan, unitholders may elect to reinvest monthly distributions in additional units of the Fund. For the period from February 19, 2002 to December 31, 2002, a total of 40,130 units were issued by the Fund pursuant to the reinvestment plan.

#### 5. Management and Service Fees

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

#### 6. Investment Transactions

Investment transactions for the period from February 19, 2002 to December 31, 2002 are as follows:

Proceeds from sale of investments and futures contracts	\$ 20,548,601
Less cost of investments sold:	
Investments at cost – beginning of period	-
Investments purchased during the period	134,913,844
Investments at cost – end of period	(112,808,436)
Cost of investments sold during the period	22,105,408
Net realized loss on sale of investments and futures contracts	\$ (1,556,807)

Foreign exchange losses arising from the disposition of investments of \$178,179 are included in the net realized loss of \$1,556,807 above.

Brokerage commissions on investments purchased and sold during the period ended December 31, 2002 amounted to \$272,987.

#### 7. Futures Contracts

The Fund uses currency futures contracts to hedge foreign exchange risks associated with its US dollar fixed income investments.

The following currency futures contracts were held by the Fund at December 31, 2002:

Contract Type	No. of Long Contracts	Amounts Purchased in Cdn \$	Expiry Date	Currency	Contract Price	Unrealized Loss
Canadian dollar	230	\$23.0 million	March, 2003	US	0.6408	\$(311,892)

Government of Canada Treasury Bills in the amount of \$270,000 have been deposited to meet initial margin requirements and are included in cash and short-term investments. During the period ended December 31, 2002, the Fund realized gains in the amount of \$580,612 on futures contracts that were closed out.

#### 8. Loan Payable

Pursuant to an agreement with a Canadian chartered bank (the "Bank"), the Fund maintains a 364-day revolving term credit facility for up to a maximum amount of \$25.0 million of which bankers' acceptances in the amount of \$23.0 million were outstanding as at December 31, 2002. The credit facility is secured by a first-ranking and exclusive charge on all of the Fund's assets and is renewable annually at the option of the Fund with the approval of the Bank. The Fund has the option of borrowing at the prime rate of interest or at the bankers' acceptance rate plus a fixed percentage.

Costs incurred to establish the credit facility are deferred and amortized over the 364-day revolving term of the facility. For the period from February 19, 2002 to December 31, 2002, the Fund has recorded amortization of these costs in the amount of \$93,227.

The credit facility is used by the Fund for the purchase of additional investments and for general Fund purposes.

#### 9. Income Taxes

As at December 31, 2002, the Fund has capital loss carryforwards of \$1,557,000, which may be carried forward indefinitely.

#### 10. Statement of Portfolio Transactions

Additional (unaudited) information concerning the portfolio transactions for the Fund for the period ended December 31, 2002 can be obtained without charge by writing to Brompton VIP Management Limited at BCE Place, Bay Wellington Tower, Suite 2930, P.O. Box 793, 181 Bay Street, Toronto, Ontario, M5J 2T3.

# BROMPTON **MVP** INCOME FUND

## Management's Discussion and Analysis

Brompton MVP Income Fund ("MVP" or the "fund") commenced operations on July 17, 2002 when it issued 7,500,000 units at \$10 per unit through an initial public offering. An additional 700,000 units at \$10 per unit were issued through the exercise of the over-allotment option.

The following supplementary information provides an analysis of the operations and financial position of the fund. It should be read in conjunction with the financial statements and accompanying notes. The financial statements reflect operating results for the period from July 17, 2002 to December 31, 2002. Since this period represents the fund's first year of operations, no comparative figures are presented.

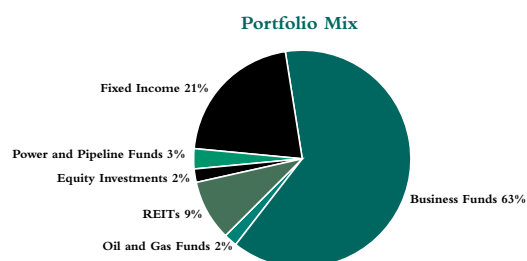
## Investment Objectives and Strategy

Brompton MVP Income Fund is a closed-end investment trust that utilizes an active asset and sector allocation process to invest in a diversified portfolio of income funds and high-yield debt across a broad range of industries and geographic areas. Its focus is on business funds with smaller weightings in high-yield debt and real estate investment trusts. MVP may also invest in oil and gas funds, power and pipeline funds and special situations. The objectives of the fund are to: (i) provide unitholders with a high level of monthly income and (ii) preserve the net asset value per unit.

## Financial Position and Results of Operations

As at December 31, 2002, MVP held a total of 27 income funds, 42 fixed income investments and 3 dividend paying equity investments which provided excellent diversification both by issuer and industry concentration. The breakdown of the portfolio is shown in the accompanying pie chart and a detailed listing of MVP's security holdings is provided in the financial statements.

The following table illustrates the contribution of each asset class to the overall return of the fund for the period ended December 31, 2002.



Asset Class (millions)	Distribution or Interest Income	Realized/Unrealized Gains(Losses)	Total Contribution
Business Funds	\$ 2.0	\$ 0.8	\$ 2.8
Fixed-Income Investments	0.7	(0.1)	0.6
Other Income Funds	0.6	(0.5)	0.1
Equity Investments	-	0.1	0.1
Short-Term Investments	0.2	-	0.2
Foreign Exchange (net of futures contracts)	-	0.2	0.2
<b>Total</b>	<b>\$ 3.5</b>	<b>\$ 0.5</b>	<b>\$ 4.0</b>

The largest holding of the fund was in Business Funds which provided the highest total contribution of all the asset classes. This part of the portfolio contributed \$2.8 million to operations. The Other Income Funds category contributed \$0.1 million to operations. Fixed-income investments had a positive contribution of \$0.6 million during the period.

In October, 2002 the fund implemented a hedging program using currency futures contracts. The amount of the contracts is approximately equal to the amount of US dollar denominated securities held by the fund, which at December 31, 2002 totalled \$18.8 million, all of which were fixed income investments. The fund realized gains on currency futures contracts during the period of \$0.4 million. Open contracts held over year end had an unrealized loss of \$0.3 million. Realized and unrealized gains and losses resulting from currency futures contracts plus exchange gains on the US dollar portion of the fixed income portfolio resulted in a small net gain from foreign exchange in 2002 of \$0.2 million.

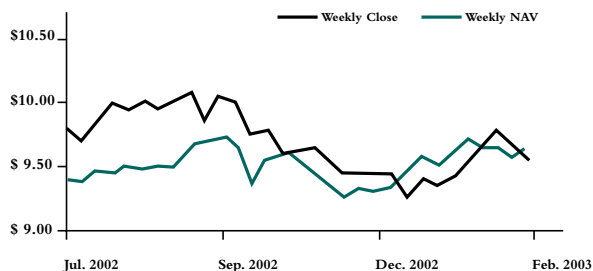
Expenses during 2002 included \$323,581 of management fees, which at .85% of net asset value per annum, is one of the lowest percentages in the industry. Management fees, service fees paid to investment dealers and general and administrative costs totaled \$0.6 million, which when annualized, represents a management expense ratio of 1.60% for the fund.

Overall, the fund's results from operations amounted to \$3.2 million during 2002, or \$0.40 per unit.

## Fund Performance

MVP declared monthly distributions commencing in September, 2002 at its targeted monthly rate of \$0.075 per unit. In 2002, the fund generated net investment income of \$0.34 per unit and realized and unrealized gains from investments and futures contracts of another \$0.06 per unit, resulting in a total increase from operations of \$0.40 per unit. Total distributions paid to unitholders for the period were \$0.30 per unit. In March, 2003 the fund increased its rate of distribution to \$0.07708 per unit per month (\$0.925 per annum).

The net asset value per unit has increased since the initial public offering on July 17, 2002, from \$9.40 to \$9.50 at December 31, 2002. On March 6, 2003, the net asset value was \$9.77 per unit. MVP's share price on December 31, 2002 was \$9.20.



## Liquidity and Capital Resources

At the end of 2002, the fund had borrowed \$20 million under its credit facility in the form of bankers' acceptances, which represents 20.2% of total assets. These borrowings were used by the fund to invest in additional high-income securities to enhance the overall yield of the fund.

MVP has implemented a normal course issuer bid program whereby the fund may purchase up to 781,000 units for cancellation, when units trade below the net asset value per unit. In such situations, purchases under the issuer bid will be accretive to the net asset value per unit. During 2002, the fund repurchased 13,800 of its units for cancellation at an average price of \$8.96 per unit, pursuant to the issuer bid. This compares favourably to the average net asset value for 2002 of \$9.49 per unit.

The fund has a distribution reinvestment plan ("DRIP") which allows participating unitholders to automatically reinvest monthly distributions in additional units of the fund. Depending upon the weighted average trading price of the fund for the 10 day period prior to the distribution payment date and the net asset value per unit on that date, units of the fund will either be issued from treasury or purchased in the market. For the period to December 31, 2002, 4,179 units were issued from treasury at an average net price per unit of \$9.44 and 2,611 units were purchased in the market at an average price of \$9.54.

MVP also allows unitholders to redeem their units effective on June 30 of every year at the then current net asset value. Units may be surrendered for redemption at any time during June of any year, but at least five business days prior to June 30. Redemption of surrendered units will be settled on or before the tenth business day following such effective date.

## Risks and Mitigating Factors

There are a number of risks associated with the fund's investment business and its ability to meet its stated objectives. A complete list of the fund's risk factors is available in the annual information form. Some of the principal risks include:

### Fluctuations in Net Asset Value

Fluctuations in the market value of the securities in which the fund invests may occur for a number of reasons beyond the control of the manager or the portfolio manager and may adversely affect the net asset value of the fund. Overweighting investments in certain sectors or industries creates a risk that the fund will suffer a significant loss should the prices of securities in those sectors or industries decline. At year end, the fund was invested in 27 income funds, 42 fixed income securities and 3 equity investments across a broad range of industries and only 1 represented more than 4% of the fund's assets, being Davis + Henderson Income Fund which was 5.6% of the fund.

### Interest Rate Risk

Interest rate risk refers to the potential adverse impact on the fund's earnings and net asset value due to changes in interest rates. The fund currently borrows to enhance its performance by investing in securities with yields greater than its borrowing costs. An increase in interest rates will increase interest expense on those borrowings and will reduce the positive effect that leverage has on the fund's performance. The greater the leverage, the greater the adverse impact that increased interest rates will have on the fund's ability to generate sufficient returns to meet its targeted distributions. Another interest rate risk is the potential for the net asset value per unit to decline to the extent that the value of the portfolio investments of MVP are sensitive to interest rate changes.

### Foreign Currency Exposure

As a significant portion of MVP's fixed income investments are comprised of securities denominated in US dollars, the net asset value per unit and the value of distributions received by MVP are affected by fluctuations in the value of the US dollar relative to the Canadian dollar. In order to mitigate the impact of currency fluctuations on the net asset value of the fund, the fund has implemented a hedging program using currency futures contracts, as described in the Financial Position and Results of Operations section above.

### Commodity Price Fluctuations

The operations and financial condition of commodity sensitive issuers of investments of MVP, the amount of distributions paid on such investments, and the prices of such entities are dependent on commodity prices applicable to such issuers. Prices for commodities may vary and are determined by supply and demand factors including weather and general economic and political conditions. Commodity sensitive investments are primarily included in the oil and gas funds and power and pipeline funds sectors.

## Outlook

Based on the fund's current portfolio and current rate of distributions from portfolio investments, the manager anticipates that MVP will continue to provide unitholders with a monthly distribution at \$0.07708 per unit or \$0.925 per annum.

## Directors

Peter A. Braaten		Chairman, Brompton Limited
James W. Davie, <sup>1,2</sup>	Unrelated	Corporate Director
Arthur R. A. Scace, <sup>1,2</sup>	Unrelated	Partner, McCarthy Tétrault LLP
Peter L. Wallace		Managing Director, Newport Partners Inc.
Ken S. Woolner, <sup>1,2</sup>	Unrelated	President and CEO, Lightning Energy Ltd.

<sup>1</sup> Member of Corporate Governance Committee

<sup>2</sup> Member of Audit Committee

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## Management's Responsibility Statement

The financial statements of Brompton MVP Income Fund (the "Fund") have been prepared by Brompton MVP 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. These 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 unrelated directors of the Board.

The Manager, with the approval of its Board of Directors, has appointed the external firm of PricewaterhouseCoopers LLP as the auditor 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

signed

**Raymond R. Pether**

Chief Executive Officer

Brompton MVP Management Limited

**Mark A. Caranci**

Chief Financial Officer

Brompton MVP Management Limited

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## Auditors' Report to Unitholders

To the Unitholders of Brompton MVP Income Fund:

We have audited the statement of net assets of Brompton MVP Income Fund and the statement of investments as at December 31, 2002 and the statements of operations and changes in net assets for the period from July 17, 2002, the date of commencement of operations of the Fund, to December 31, 2002. These financial statements are the responsibility of management of the Fund's Manager. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2002 and the results of its operations and the changes in its net assets for the period from July 17, 2002, the date of commencement of operations of the Fund, to December 31, 2002 in accordance with Canadian generally accepted accounting principles.

signed

**PricewaterhouseCoopers LLP**

Chartered Accountants

Toronto, Ontario

January 31, 2003

## Statement of Net Assets

As at December 31, 2002

### Assets

Investments, at market value (cost - \$95,265,939)	\$ 96,154,343
Cash and short-term investments	1,204,289
Distributions and interest receivable	1,208,498
Variation margin receivable on futures contracts	182,562
Deferred financing costs (note 8)	30,159
<b>Total assets</b>	<b>98,779,851</b>

### Liabilities

Accounts payable and accrued liabilities	463,559
Distributions payable to unitholders (note 4)	614,278
Loan payable (note 8)	19,928,557
<b>Total liabilities</b>	<b>21,006,394</b>

<b>Net assets representing unitholders' equity</b>	<b>\$ 77,773,457</b>
<b>Units outstanding (note 3)</b>	<b>8,190,379</b>
<b>Net asset value per unit</b>	<b>\$ 9.50</b>

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

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

signed

signed

**Peter A. Braaten**

Director

**Peter L. Wallace**

Director

## Statement of Operations

For the period from July 17, 2002 to December 31, 2002

### Income

Distributions and dividend income	\$ 2,570,240
Interest income	910,576
	<hr/> 3,480,816

### Expenses

Management fee (note 5)	323,581
Service fee (note 5)	143,457
General and administrative	151,178
Interest and bank charges (note 8)	125,065
	<hr/> 743,281

<b>Net investment income</b>	<b>2,737,535</b>
<b>Net realized loss on sale of investments and futures contracts</b> (notes 6 & 7)	<b>(143,681)</b>
<b>Net change in unrealized gain on investments and futures contracts</b> (note 7)	<b>628,465</b>
<b>Results of operations</b>	<b>\$ 3,222,319</b>

### Results of operations per unit <sup>(1)</sup>

Net investment income	\$ 0.34
Net realized loss on sale of investments and futures contracts	(0.02)
Net change in unrealized gain on investments and futures contracts	0.08
	<hr/> \$ 0.40

<sup>(1)</sup> Based on the weighted average number of units outstanding for the period (note 3).

## Statement of Changes in Net Assets

For the period from July 17, 2002 to December 31, 2002

<b>Net assets – beginning of period</b>	<b>\$ -</b>
Operations:	
Net investment income	2,737,535
Net realized loss on sale of investments and futures contracts (notes 6 & 7)	(143,681)
Net change in unrealized gain on investments and futures contracts (note 7)	628,465
	<hr/> 3,222,319
Unitholder Transactions:	
Proceeds from settlement of trust	10
Proceeds from issuance of units, net (note 3)	77,095,000
Distributions to unitholders (note 4)	(2,459,716)
Proceeds from distribution reinvestment plan (note 4)	39,456
Repurchase of units (note 3)	(123,612)
	<hr/> 74,551,138
Net increase in net assets	<hr/> 77,773,457
<b>Net assets – end of period</b>	<b>\$ 77,773,457</b>
<b>Distributions per unit</b>	<b>\$ 0.30</b>

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

## Statement of Investments

As at December 31, 2002

ParValue (\$)	Fixed Income Investments	Cost	Market Value	% of Portfolio
US 600,000	AK Steel Corporation 7.875% due February 15, 2009	\$ 933,801	\$ 957,361	
US 500,000	Park Place Entertainment Corporation 9.375%, due February 15, 2007	817,340	843,220	
US 475,000	Labranche & Co Inc. 12%, due March 2, 2007	816,715	836,704	
US 500,000	Allied Waste North America, Inc. 8.875%, due April 1, 2008	757,553	801,750	
US 500,000	D.R. Horton, Inc. 8.5%, due April 15, 2012	771,113	789,902	
US 400,000	Echostar Broadband Corporation 10.375%, due October 1, 2007	651,359	683,265	
US 445,000	Western Financial Bank 9.625%, due May 15, 2012	676,011	681,922	
US 400,000	Flextronics International Ltd. 9.875%, due July 1, 2010	652,874	680,895	
US 425,000	Alderwoods Group Inc. 11%, due January 2, 2007	674,328	671,417	
US 400,000	CP Ships Limited 10.375%, due July 15, 2012	668,556	663,518	
US 400,000	United Surgical Partners Holdings, Inc. 10%, due December 15, 2011	656,107	647,720	
US 400,000	Intrawest Corporation 9.75%, due August 15, 2008	636,279	644,560	
US 500,000	United Rentals Inc. 9.25%, due January 15, 2009	736,020	643,770	
US 400,000	Century Aluminum Co. 11.75%, due April 15, 2008	612,539	612,964	
US 400,000	Revlon Consumer Products Corporation 12%, due December 1, 2005	623,268	609,804	
US 375,000	Tembec Industries Inc. 8.5%, due February 1, 2011	596,039	596,870	
US 350,000	Pierce Leahy Command Company 8.125%, due May 15, 2008	556,039	565,372	
US 300,000	Avis Group Holdings, Inc. 11%, due May 1, 2009	474,347	518,966	
US 300,000	Biovail Corporation 7.875%, due April 1, 2010	452,269	490,529	
CDN 500,000	Rogers Communications Inc. 9.65%, due January 15, 2014	460,681	482,082	
US 350,000	Healthsouth Corporation 6.875%, due June 15, 2005	418,556	475,521	
US 300,000	Lyondell Chemical Company 11.125%, due July 15, 2012	453,006	466,832	
CDN 470,000	Telus Corporation 7.5%, due June 1, 2006	413,729	465,043	
US 300,000	Rogers Cantel Inc 8.3%, due October 1, 2007	318,566	419,438	
US 240,000	HCA Inc. 7.875%, due February 1, 2011	396,860	416,712	
US 250,000	Owens Brockway Glass Container Inc. 8.875%, due February 15, 2009	402,908	406,799	
US 250,000	Western Oil Sands Inc. 8.375%, due May 1, 2012	390,593	392,976	
US 250,000	Bally Total Fitness Holding Corp 9.875%, due October 15, 2007	364,956	343,607	
US 250,000	Amkor Technology Inc. 9.25%, due February 15, 2008	339,523	333,734	
CDN 325,000	Russel Metals Inc. 8%, due June 15, 2006	298,188	303,875	
US 200,000	Insight Health Services Corp. 9.875%, due November 1, 2011	304,044	301,742	
US 175,000	Regal Cinemas Corporation 9.375%, due February 1, 2012	290,920	294,436	
US 175,000	World Color Press Inc 8.375%, due November 15, 2008	274,822	288,086	
US 200,000	IPC Acquisition Corp. 11.5%, due December 15, 2009	275,918	271,726	
US 175,000	Carmike Cinemas, Inc. 10.375%, due February 1, 2009	252,496	250,547	
US 150,000	The Hockey Company 11.25%, due April 15, 2009	229,038	241,710	
US 150,000	Town Sports International Inc. 9.75% due October 15, 2004	231,096	236,971	
US 140,000	Radiologix Inc. 10.5%, due December 15, 2008	219,216	172,515	
US 125,000	Triton PCS Holdings Inc 8.75%, due November 15, 2011	158,868	159,955	
US 100,000	Guitar Center Management Co Inc 11%, due July 1, 2006	156,807	159,560	
US 97,000	Teekay Shipping Corporation 8.875%, due July 15, 2011	158,049	157,072	
US 50,000	Healthsouth Corporation 7.375%, due October 1, 2006	67,890	68,326	
		19,639,287	20,049,774	20.9%
<b>No. of Units</b>	<b>Business Funds</b>			
433,140	Davis + Henderson Income Fund	4,954,685	5,570,179	
455,000	Atlas Cold Storage Income Trust	5,212,078	5,118,750	
364,388	SFK Pulp Fund	3,819,737	3,716,758	
335,750	Sun Gro Horticulture Income Fund	3,561,219	3,508,588	
238,000	Chemtrade Logistics Income Fund	3,374,620	3,332,000	
265,000	TimberWest Forest Corp.	3,412,100	3,180,000	
236,000	Energy Savings Income Fund	3,215,597	3,162,400	
264,900	BFI Canada Income Fund	2,925,537	3,139,065	
298,200	Clearwater Seafoods Income Fund	2,990,478	3,084,879	
145,000	North West Company Fund	2,806,411	3,016,000	
265,000	KCP Income Fund	2,686,540	3,007,750	
280,400	Boston Pizza Royalties Income Fund	2,869,831	2,837,648	
235,000	Heating Oil Partners Income Fund	2,900,373	2,780,050	
127,500	Superior Propane Income Fund	2,444,272	2,509,200	
175,000	Connors Bros. Income Fund	2,274,795	2,397,500	
170,000	Menu Foods Income Fund	2,306,700	2,329,000	
225,000	Gateway Casinos Income Fund	2,239,010	2,317,500	
235,100	The Keg Royalties Income Fund	2,295,118	2,174,675	
240,000	Contrans Income Fund	2,305,700	2,088,000	
130,000	Associated Brands Income Fund	1,340,291	1,404,000	
		59,935,092	60,673,942	63.1%
<b>No. of Units</b>	<b>Power and Pipeline Funds</b>			
163,000	Pembina Pipeline Income Fund	1,850,839	1,776,700	
155,000	Algonquin Power Income Fund	1,513,527	1,438,400	
		3,364,366	3,215,100	3.3%
<b>No. of Units</b>	<b>Real Estate Investment Trusts</b>			
260,000	RioCan REIT	3,200,121	3,242,200	
250,000	InnVest REIT	2,462,846	2,375,000	
111,900	Summit REIT	1,746,886	1,693,047	
106,500	Northern Property REIT	1,283,080	1,267,350	
		8,692,933	8,577,597	8.9%
<b>No. of Shares</b>	<b>Equity Investments</b>			
20,000	Power Financial Corporation	715,950	726,000	
25,000	Sun Life Financial Services of Canada Inc.	683,750	667,750	
104,300	Russel Metals Inc.	493,341	531,930	
		1,893,041	1,925,680	2.0%
<b>No. of Units</b>	<b>Oil &amp; Gas Funds</b>			
45,000	Canadian Oil Sands Trust	1,741,220	1,712,250	
		1,741,220	1,712,250	1.8%
<b>Total</b>		<b>\$ 95,265,939</b>	<b>\$ 96,154,343</b>	<b>100.0%</b>

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

## Notes to the Financial Statements

December 31, 2002

### 1. Operations

Brompton MVP Income Fund (the "Fund") is a closed-end investment trust created under the laws of the Province of Ontario on May 22, 2002 pursuant to an amended and restated declaration of trust dated June 25, 2002. Computershare Trust Company of Canada is the Trustee and Brompton MVP Management Limited (the "Manager") is responsible for managing the affairs of the Fund. MFC Global Investment Management (formerly called Elliott & Page Limited) provides the portfolio management for the Fund. The Fund was listed on the Toronto Stock Exchange and effectively commenced operations on July 17, 2002 when it issued 7,500,000 units at \$10.00 per unit through an initial public offering. An additional 500,000 and 200,000 units at \$10.00 per unit were issued on July 29, 2002 and August 12, 2002, respectively, through the exercise of the over-allotment option.

### 2. Significant Accounting Policies

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

#### a) Valuation of Investments

The Fund's investments are presented at market value. Investments that are publicly traded are valued at their closing price. If a closing price is not available, then these investments are valued using an average of the latest bid and ask prices. Short-term investments are valued at cost which, when taken together with accrued interest income thereon, approximates their market value.

#### b) Investment Transactions and Income Recognition

Investment transactions are recorded on trade date and any realized gains or losses are recognized using the average cost of the investments. Interest income is recognized on an accrual basis. Distributions and dividend income includes income from trusts, limited partnerships and equity investments and are recognized on the ex-distribution and ex-dividend dates respectively. Net realized gains (losses) on sale of investments and futures contracts include net realized gains or losses from foreign currency changes.

#### c) Futures Contracts

Futures contracts are valued on each business day according to the gain or loss that would be realized if the contracts were closed out. This value is recorded as an unrealized gain or loss. When the contracts are closed out, gains and losses are included in realized gains and losses. Any payments made to satisfy initial and variation margin are reflected as a receivable balance.

#### d) 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.

#### e) Foreign Exchange

The market value of investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the closing 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 on the respective dates of such transactions.

#### f) Fair Value of Financial Instruments

The fair value of the Fund's financial instruments, which are composed of cash and short-term investments, distributions and interest receivable, variation margin receivable on futures contracts, accounts payable and accrued liabilities, distributions payable to unitholders, and loans payable, approximate their carrying values due to their short-term nature.

### 3. Units of the Fund

#### Authorized

The Fund is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Fund. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Fund. Units may be surrendered for redemption at any time during June of any year, but at least five business days prior to June 30. Redemption of surrendered units will be effected at net asset value on June 30 of each year and will be settled on or before the tenth business day following such effective date.

Issued	Number of Units	Amount
Units – beginning of period	-	\$ -
Settlement of the Fund	-	10
Initial public offering, net	7,500,000	70,462,500
Exercise of over-allotment option, net	700,000	6,632,500
Units issued under the distribution reinvestment plan (note 4)	4,179	39,456
Units repurchased pursuant to normal course issuer bid	(13,800)	(123,612)
Units – end of period	8,190,379	\$ 77,010,854

## Notes to the Financial Statements

December 31, 2002

On May 22, 2002, the Fund was settled with \$10.00 in cash. No unit was issued pursuant to this settlement.

On July 17, 2002, the Fund completed its initial public offering of 7,500,000 units at a price of \$10.00 for proceeds, net of agent's fees and issuance costs, of \$70,462,500.

On July 29, 2002 and August 12, 2002, the Fund completed the issuance of an additional 500,000 and 200,000 units at a price of \$10.00 for proceeds, net of agent's fees, of \$4,737,500 and \$1,895,000 respectively. The issuance of these additional units was pursuant to the exercise of the over-allotment option granted to the agents in connection with the initial public offering.

The Fund received approval from The Toronto Stock Exchange to undertake a normal course issuer bid program for the period from November 5, 2002 to November 4, 2003. Pursuant to the issuer bid, the Fund may purchase up to 781,000 of its units for cancellation when the net asset value per unit exceeds its trading price. During 2002, 13,800 units were purchased for cancellation.

The weighted average number of units outstanding from the date of commencement of operations on July 17, 2002 to December 31, 2002 was 8,133,610.

### 4. Distributions Payable to Unitholders

Distributions, as declared by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month. The distributions are payable no later than the tenth business day of the following month. For the period from July 17, 2002 to December 31, 2002, the Fund declared total distributions of \$0.30 per unit. Under the Fund's distribution reinvestment plan, unitholders may elect to reinvest monthly distributions in additional units of the Fund. For the period from July 17, 2002 to December 31, 2002, a total of 4,179 units were issued by the Fund pursuant to the reinvestment plan.

### 5. Management and Service Fees

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

### 6. Investment Transactions

Investment transactions for the period from July 17, 2002 to December 31, 2002 are as follows:

Proceeds from sale of investments and futures contracts	\$ 11,422,292
Less cost of investments sold:	
Investments at cost – beginning of period	-
Investments purchased during the period	106,831,912
Investments at cost – end of period	(95,265,939)
Cost of investments sold during the period	11,565,973
Net realized loss on sale of investments and futures contracts	\$ (143,681)

Foreign exchange gains arising from the disposition of investments of \$51,242 are included in the net realized loss of \$143,681 above.

Brokerage commissions on investments purchased and sold during the period ended December 31, 2002 amounted to \$250,993.

### 7. Futures Contracts

The Fund uses currency futures contracts to hedge foreign exchange risks associated with its US dollar fixed income investments.

The following currency futures contracts were held by the Fund at December 31, 2002:

Contract Type	No. of Long Contracts	Amounts Purchased in Cdn \$	Expiry Date	Currency	Contract Price	Unrealized Loss
Canadian dollar	187	\$18.7 million	March, 2003	US	0.6410	\$(259,939)

Government of Canada Treasury Bills in the amount of \$200,000 have been deposited to meet initial margin requirements and are included in cash and short-term investments. During the year ended December 31, 2002, the Fund realized gains in the amount of \$442,501 on futures contracts that were closed out.

### 8. Loan Payable

Pursuant to an agreement with a Canadian chartered bank (the "Bank"), the Fund maintains a 364-day revolving term credit facility for up to a maximum amount of \$25.0 million of which bankers' acceptances in the amount of \$20.0 million were outstanding at December 31, 2002. The credit facility is secured by a first-ranking and exclusive charge on all of the Fund's assets and is renewable annually at the option of the Fund with the approval of the Bank. The Fund has the option of borrowing at the prime rate of interest or at the bankers' acceptance rate plus a fixed percentage.

Costs incurred to establish the credit facility are deferred and amortized over the 364-day revolving term of the facility. For the period from July 17, 2002 to December 31, 2002, the Fund has recorded amortization of these costs in the amount of \$15,583.

The credit facility is used by the Fund for the purchase of additional investments and for general Fund purposes.

### 9. Income Taxes

As at December 31, 2002, the Fund has capital loss carryforwards of \$144,000, which may be carried forward indefinitely.

### 10. Statement of Portfolio Transactions

Additional (unaudited) information concerning the portfolio transactions for the Fund for the period ended December 31, 2002 can be obtained without charge by writing to Brompton MVP Management Limited at BCE Place, Bay Wellington Tower, Suite 2930, P.O. Box 793, 181 Bay Street, Toronto, Ontario, M5J 2T3.

# BROMPTON **STABLE** INCOME FUND

## Management's Discussion and Analysis

Brompton Stable Income Fund commenced operations on December 9, 2002 when it issued 5,000,000 units at \$10 per unit through an initial public offering. An additional 420,000 units at \$10 per unit were issued through the exercise of the over-allotment option on December 31, 2002.

The following supplementary information provides additional analysis of the operations and financial position of the fund. It should be read in conjunction with the financial statements and accompanying notes. The financial statements reflect operating results for the period from December 9, 2002 to December 31, 2002 and accordingly no comparative figures are presented.

## Investment Objectives and Strategy

Brompton Stable Income Fund is a closed-end investment income trust that invests in a diversified portfolio of investment grade securities, power and pipeline funds and other income funds. The fund has been designed to have the lowest variability and highest sustainability of distributions as compared to other income funds and has been assigned Standard & Poor's highest stability rating of SR-1. The objectives of the fund are to: (i) provide unitholders with stable monthly cash distributions targeted at \$0.0625 per month (\$0.75 per annum); (ii) maintain a Standard & Poor's SR-1 stability rating; and (iii) preserve the net asset value per unit.

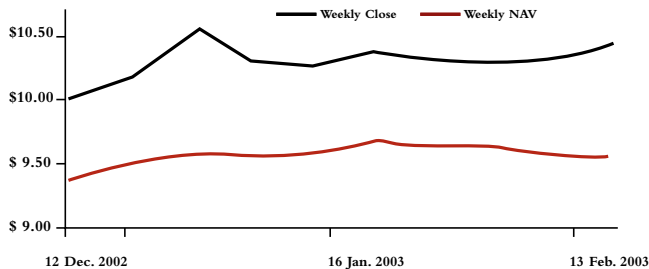
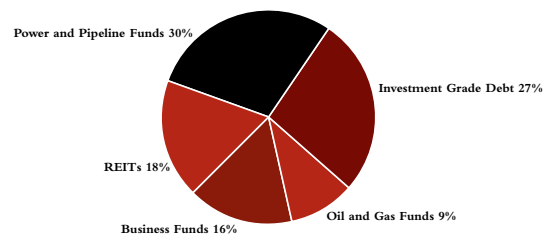
## Financial Position and Results of Operations

As at December 31, 2002, the fund had invested 69% or \$34.9 million of the net proceeds from the initial public offering in a portfolio of income securities. The fund was well diversified having a total of 28 income funds and 30 investment grade securities at year end. The breakdown of the portfolio is shown in the accompanying pie chart and a detailed listing of Brompton Stable Income Fund's security holdings is provided in the financial statements.

Expenses during 2002 included a management fee of \$32,383, which at 0.95% of net asset value per annum, is one of the lowest percentages in the industry.

Management fees, service fees paid to investment dealers and general and administrative costs totalled \$137,606 in 2002, which represents a management expense ratio of 2.15% for the fund.

Portfolio Mix



## Fund Performance

The net asset value per unit of the fund has increased since the initial public offering on December 9, 2002, from \$9.34 to \$9.50 at December 31, 2002. During this period, the fund generated net investment income of \$0.04 per unit and net realized and unrealized gains on investments increased the net asset value of the fund by a further \$0.12 per unit. The fund has consistently traded at a premium to net asset value and issue price since its inception. The net asset value at March 6, 2003 was \$9.57.

The fund had no planned distributions for 2002. The fund made its first planned monthly distribution at its targeted monthly rate of \$0.0625 per unit to unitholders of record on January 31, 2003.

## Liquidity and Capital Resources

At the end of 2002, the fund had borrowings of \$8.0 million, which represented approximately 13.3% of total assets. Stable can borrow up to 15% of total assets to enhance the performance of the fund.

In January 2003, the fund implemented a normal course issuer bid whereby the fund may purchase up to 505,000 units for cancellation when units trade below the net asset value per unit. In such situations, purchases under the issuer bid will be accretive to the net asset value of the fund for the remaining unitholders.

The fund has a distribution reinvestment plan which allows participating unitholders to automatically reinvest monthly distributions in additional units of the fund. Depending upon the weighted average trading price of the fund for the 10 day period prior to the distribution date and the net asset value per unit on that date, units of the fund will either be issued from treasury or purchased in the market.

## Risks and Mitigating Factors

There are a number of risks associated with the fund's investment business and its ability to meet its stated objectives. A complete list of the fund's risk factors is available in the annual information form. Some of the principal risks include:

### Fluctuations in Net Asset Value

Fluctuations in the market value of the securities in which the fund invests may occur for a number of reasons beyond the control of the manager or the portfolio manager and may affect the net asset value of the fund. Overweighting investments in certain sectors or industries creates a risk that the fund will suffer a significant loss should the prices of securities in those sectors or industries decline. At year end, the fund's assets were invested in 28 income funds and 30 fixed income securities across a broad range of industries.

### Interest Rate Risk

Interest rate risk refers to the potential adverse impact on the fund's earnings and net asset value due to changes in interest rates. The fund may borrow up to a maximum of 15% of total assets to enhance its performance by investing in securities with yields greater than its borrowing costs. An increase in interest rates will increase interest expense on those borrowings and will reduce the positive effect that leverage has on the fund's performance. The greater the leverage, the greater the adverse impact that increased interest rates will have on the fund's ability to generate sufficient returns to meet its targeted distributions. Another interest rate risk is the potential for the net asset value per unit to decline to the extent that the value of the portfolio investments of the fund are sensitive to interest rate changes.

### Commodity Price Fluctuations

The operations and financial condition of commodity sensitive issuers of investments of the fund and the amount of distributions paid on such investments, and the prices of such entities are dependent on commodity prices applicable to such issuers. Prices for commodities may vary and are determined by supply and demand factors including weather and general economic and political conditions. Commodity sensitive investments are primarily included in the oil and gas and power and pipeline funds sectors.

## Outlook

Based on the fund's current portfolio and current rate of distributions from portfolio investments, the fund is able to meet its targeted monthly distribution of \$0.0625 per unit.

### Directors

Aubrey W. Baillie		Managing Director, Newport Partners Inc.
Peter A. Braaten		Chairman, Brompton Limited
James W. Davie, <sup>1,2</sup>	Unrelated	Corporate Director
Arthur R. A. Scace, <sup>1,2</sup>	Unrelated	Partner, McCarthy Tétrault LLP
Ken S. Woolner, <sup>1,2</sup>	Unrelated	President and CEO, Lightning Energy Ltd.

<sup>1</sup> Member of Corporate Governance Committee

<sup>2</sup> Member of Audit Committee

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## Management's Responsibility Statement

The financial statements of Brompton Stable Income Fund (the "Fund") have been prepared by Brompton SI Fund 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. These 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 unrelated directors of the Board.

The Manager, with the approval of its Board of Directors, has appointed the external firm of PricewaterhouseCoopers LLP as the auditor 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

signed

**Raymond R. Pether**

Chief Executive Officer

Brompton SI Fund Management Limited

**Mark A. Caranci**

Chief Financial Officer

Brompton SI Fund Management Limited

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## Auditors' Report to Unitholders

To the Unitholders of Brompton Stable Income Fund:

We have audited the statement of net assets of Brompton Stable Income Fund and the statement of investments as at December 31, 2002 and the statements of operations and changes in net assets for the period from December 9, 2002, the date of commencement of operations of the Fund, to December 31, 2002. These financial statements are the responsibility of management of the Fund's Manager. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2002 and the results of its operations and the changes in its net assets for the period from December 9, 2002, the date of commencement of operations of the Fund, to December 31, 2002 in accordance with Canadian generally accepted accounting principles.

signed

**PricewaterhouseCoopers LLP**

Chartered Accountants

Toronto, Ontario

January 31, 2003

## Statement of Net Assets

As at December 31, 2002

### Assets

Investments, at market value (cost - \$34,902,553)	\$ 35,514,561
Cash and short-term investments	24,198,808
Distributions and interest receivable	423,352
<b>Total assets</b>	<b>60,136,721</b>

### Liabilities

Accounts payable and accrued liabilities	655,577
Loan payable (note 7)	8,000,000
<b>Total liabilities</b>	<b>8,655,577</b>

<b>Net assets representing unitholders' equity</b>	<b>\$ 51,481,144</b>
<b>Units outstanding</b> (note 3)	<b>5,420,000</b>
<b>Net asset value per unit</b>	<b>\$ 9.50</b>

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

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

signed

signed

**Peter A. Braaten**

Director

**Ken S. Woolner**

Director

## Statement of Operations

For the period from December 9, 2002 to December 31, 2002

### Income

Distributions from income funds	\$	276,777
Interest income		85,350
		<u>362,127</u>

### Expenses

Management fee (note 5)		32,383
Service fee (note 5)		12,882
General and administrative		92,341
Interest and bank charges (note 7)		19,726
		<u>157,332</u>

<b>Net investment income</b>		<b>204,795</b>
<b>Net realized loss on sale of investments (note 6)</b>		<b>(169)</b>
<b>Net change in unrealized gain on investments</b>		<b>612,008</b>
<b>Results of operations</b>	<b>\$</b>	<b>816,634</b>

### Results of operations per unit <sup>(1)</sup>

Net investment income	\$	0.04
Net realized loss on sale of investments		-
Net change in unrealized gain on investments		0.12
	\$	<u>0.16</u>

<sup>(1)</sup> Based on the weighted average number of units outstanding for the period (note 3).

## Statement of Changes in Net Assets

For the period from December 9, 2002 to December 31, 2002

<b>Net assets – beginning of period</b>	<b>\$</b>	<b>-</b>
Operations:		
Net investment income		204,795
Net realized loss on sale of investments (note 6)		(169)
Net change in unrealized gain on investments		612,008
		<u>816,634</u>
Unitholder Transactions:		
Proceeds from settlement of trust		10
Proceeds from issuance of units, net (note 3)		50,664,500
		<u>50,664,510</u>
Net increase in net assets		51,481,144
<b>Net assets – end of period</b>	<b>\$</b>	<b>51,481,144</b>

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

## Statement of Investments

As at December 31, 2002

ParValue (\$)	Investment Grade Securities	Cost	Market Value	% of Portfolio
500,000	Bell Canada 10% due June 15, 2014	\$ 651,500	\$ 662,631	
425,000	Renaissance Energy Ltd. 6.95%, due July 14, 2009	438,983	447,339	
399,000	RBC Capital Trust 7.183%, due June 30, 2011	435,509	440,095	
325,000	Nova Scotia Power Inc. 9.75%, due August 2, 2019	414,570	422,231	
350,000	BC Telecom Inc. 10.65%, due June 19, 2021	378,000	407,264	
350,000	BC Gas, Inc. 8%, due April 19, 2040	367,745	373,362	
375,000	Rogers Cable Inc 7.6%, due February 6, 2007	362,813	363,437	
275,000	BC Telecom Inc. 11.9% due November 22, 2015	308,082	336,203	
300,000	Precision Drilling Corporation 7.65%, due October 27, 2010	321,480	322,162	
330,000	Cara Operations Limited 5.95%, due June 12, 2008	316,140	319,998	
225,000	Newfoundland Telephone Company Limited 10.75%, due June 12, 2014	298,013	304,178	
325,000	Shaw Communications Inc. 7.4%, due October 17, 2007	297,213	303,476	
300,000	AGT Limited 8.8%, due September 22, 2025	279,300	301,603	
300,000	Sears Canada Inc. 7.05%, due September 20, 2010	295,500	300,363	
200,000	TransCanada Pipelines Limited 11.9%, due August 20, 2015	289,960	293,660	
240,000	Molson Canada 8.4%, due December 7, 2018	289,032	293,570	
270,000	BMO Capital Trust 6.685%, due December 31, 2049	284,661	288,900	
265,000	Alberta Energy Company Ltd 7.3%, due September 2, 2014	284,318	287,970	
274,000	Household Financial Corporation Limited 6.44%, due June 1, 2007	281,288	287,418	
250,000	Union Gas Limited 7.9%, due February 24, 2014	280,200	283,339	
275,000	EPCOR Utilities Inc. 6.2%, due June 2, 2008	277,832	281,629	
275,000	EPCOR Utilities Inc. 6.6%, due November 2, 2011	274,725	276,604	
200,000	Canadian Tire Corporation, Limited 12.1%, due May 10, 2010	270,540	275,305	
200,000	Molson Canada 9.1%, due March 11, 2013	244,060	248,927	
235,000	Scotiabank Capital Trust 6.626%, due June 30, 2049	244,894	248,320	
160,000	Nova Gas Transmission Ltd 12.2%, due February 28, 2016	238,096	240,184	
195,000	Centra Gas Ontario Inc. 8.65%, due October 19, 2018	234,643	235,403	
250,000	Canadian Tire Corporation, Limited 6.25%, due April 13, 2028	213,575	212,470	
200,000	Falconbridge Limited 8.5%, due December 8, 2008	209,300	211,745	
188,950	Alliance Pipeline Limited Partnership 7.181%, due June 30, 2023	198,643	202,116	
		9,280,615	9,471,902	26.7%
<b>No. of Units</b>	<b>Business Funds</b>			
130,000	Davis + Henderson Income Fund	1,623,158	1,671,800	
52,000	Chemtrade Logistics Income Fund	702,000	728,000	
49,700	Energy Savings Income Fund	664,473	665,980	
60,000	Sun Gro Horticulture Income Fund	626,150	627,000	
50,000	Atlas Cold Storage Income Trust	550,500	562,500	
50,000	SFK Pulp Fund	496,500	510,000	
31,000	BFI Canada Income Fund	355,453	367,350	
25,000	Menu Foods Income Fund	313,000	342,500	
28,600	Bell Nordiq Income Fund	307,144	307,450	
		5,638,378	5,782,580	16.3%
<b>No. of Units</b>	<b>Power and Pipeline Funds</b>			
210,000	Pembina Pipeline Income Fund	2,280,450	2,289,000	
220,800	Algonquin Power Income Fund	2,023,996	2,049,024	
125,000	Great Lakes Hydro Income Fund	1,875,000	1,903,750	
200,000	Fort Chicago Energy Partners, L.P.	1,651,000	1,650,000	
102,600	Boralex Power Income Fund	1,039,225	1,051,650	
25,000	Gaz Metropolitan and Company L.P.	475,873	473,750	
50,000	TransAlta Power, L.P.	468,840	468,000	
12,000	TransCanada Power, L.P.	378,820	370,800	
22,700	Northland Power Income Fund	240,883	249,700	
		10,434,087	10,505,674	29.6%
<b>No. of Units</b>	<b>Real Estate Investment Trusts</b>			
115,000	Summit REIT	1,677,850	1,739,950	
125,000	H&R REIT	1,671,400	1,668,750	
100,000	RioCan REIT	1,253,095	1,247,000	
122,000	InnVest REIT	1,098,060	1,159,000	
25,000	Canadian REIT	331,373	328,250	
20,000	Northern Property REIT	239,800	238,000	
		6,271,578	6,380,950	17.9%
<b>No. of Units</b>	<b>Oil &amp; Gas Funds</b>			
75,000	Pengrowth Energy Trust	1,062,000	1,104,750	
36,100	Enerplus Resources Fund	980,411	1,012,605	
53,600	Advantage Energy Income Fund	688,014	696,800	
47,000	ARC Energy Trust	547,470	559,300	
		3,277,895	3,373,455	9.5%
<b>Total</b>		<b>\$ 34,902,553</b>	<b>\$ 35,514,561</b>	<b>100.0%</b>

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

## Notes to the Financial Statements

December 31, 2002

### 1. Operations

Brompton Stable Income Fund (the "Fund") is a closed-end investment trust created under the laws of the Province of Ontario on October 1, 2002 pursuant to an amended and restated declaration of trust dated November 21, 2002. Computershare Trust Company of Canada is the Trustee and Brompton SI Fund Management Limited (the "Manager") is responsible for managing the affairs of the Fund. MFC Global Investment Management (formerly called Elliott & Page Limited) provides the portfolio management for the Fund. The Fund was listed on the Toronto Stock Exchange and effectively commenced operations on December 9, 2002 when it issued 5,000,000 units at \$10.00 per unit through an initial public offering. An additional 420,000 units at \$10.00 per unit were issued on December 31, 2002 through the exercise of the over-allotment option.

### 2. Significant Accounting Policies

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

#### a) Valuation of Investments

The Fund's investments are presented at market value. Investments that are publicly traded are valued at their closing price. If a closing price is not available, then these investments are valued using an average of the latest bid and ask prices. Short-term investments are valued at cost which, when taken together with accrued interest income thereon, approximates their market value.

#### b) Investment Transactions and Income Recognition

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

#### c) Income Taxes

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

#### d) Foreign Exchange

The market value of investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the closing 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 on the respective dates of such transactions.

#### e) Fair Value of Financial Instruments

The fair value of the Fund's financial instruments, which are composed of cash and short-term investments, distributions and interest receivable, accounts payable and accrued liabilities, and loan payable, approximate their carrying values due to their short-term nature.

### 3. Units of the Fund

#### Authorized

The Fund is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Fund. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Fund. Units may be surrendered for redemption at any time during March of any year commencing in 2004, but at least five business days prior to March 31. Redemption of surrendered units will be effected at net asset value on March 31 of each year and will be settled on or before the tenth business day following such effective date.

Issued	Number of Units	Amount
Units – beginning of period	-	\$ -
Settlement of the Fund	-	10
Initial public offering, net	5,000,000	46,685,000
Exercise of over-allotment option, net	420,000	3,979,500
Units – end of period	5,420,000	\$ 50,664,510

On December 9, 2002, the Fund completed its initial public offering of 5,000,000 units at a price of \$10.00 for proceeds, net of agents' fees and issuance costs, of \$46,685,000.

On December 31, 2002, the Fund completed the issuance of an additional 420,000 units at a price of \$10.00 for proceeds, net of agents' fees, of \$3,979,500. The issuance of these additional units was pursuant to the exercise of the over-allotment option granted to the agents in connection with the initial public offering.

The weighted average number of units outstanding from the date of commencement of operations on December 9, 2002 to December 31, 2002 was 5,018,261.

## Notes to the Financial Statements

December 31, 2002

### 4. Distributions Payable to Unitholders

Distributions, as declared by the Manager, will be made on a monthly basis to unitholders of record on the last business day of each month commencing in January, 2003. The distributions will be payable no later than the tenth business day of the following month.

### 5. Management and Service Fees

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.95% per annum of the net asset value of the Fund plus applicable taxes. The Manager is responsible for paying fees to MFC Global Investment Management, the portfolio manager for the Fund. The Fund also pays to the Manager a service fee equal to 0.40% per annum of the net asset value of the Fund. The service fee is in turn paid by the Manager to investment dealers based on the proportionate number of units held by clients of such dealers at the end of each calendar quarter.

### 6. Investment Transactions

Investment transactions for the period from December 9, 2002 to December 31, 2002 are as follows:

Proceeds from sale of investments	\$	3,281
Less cost of investments sold:		
Investments at cost – beginning of period		-
Investments purchased during the period		34,906,003
Investments at cost – end of period		(34,902,553)
Cost of investments sold during the period		3,450
Net realized loss on sale of investments	\$	(169)

Brokerage commissions on securities purchased and sold during the period ended December 31, 2002 amounted to \$62,309.

### 7. Loan Payable

Pursuant to an agreement with a Canadian chartered bank (the "Bank"), the Fund had borrowings of \$8,000,000 outstanding at the prime rate of interest as at December 31, 2002. This borrowing was secured by Government of Canada Treasury Bills in the amount of \$8,165,000. Subsequent to December 31, 2002, this facility was terminated and the Fund entered into a 364-day revolving term credit facility with the Bank for up to a maximum amount of \$8.9 million. The latter facility is secured by a first-ranking and exclusive charge on all of the Fund's assets and provides the option to borrow at the prime rate of interest or at the bankers' acceptance rate plus a fixed percentage. The Fund will use borrowings to purchase additional investments and for general Fund purposes.

### 8. Statement of Portfolio Transactions

Additional (unaudited) information concerning the portfolio transactions for the Fund for the period ended December 31, 2002 can be obtained without charge by writing to Brompton SI Fund Management Limited at BCE Place, Bay Wellington Tower, Suite 2930, P.O. Box 793, 181 Bay Street, Toronto, Ontario, M5J 2T3.

## Corporate Governance Practices

Brompton supports good corporate governance practices for all of the funds it manages being Brompton VIP Income Trust, Brompton MVP Income Fund and Brompton Stable Income Fund (collectively, the “Funds”). Even though the Toronto Stock Exchange (“TSX”) corporate governance guidelines (the “Guidelines”) do not currently by their terms apply to non-corporate issuers such as trusts, the Funds have adopted the highest standard of the current and proposed TSX guidelines to corporate governance.

Each Fund is managed by a separate management company and consequently, the boards of directors and committees referred to are the boards and committees of the individual management companies. Brompton VIP Income Trust, Brompton MVP Income Fund and Brompton Stable Income Fund are managed by Brompton VIP Management Limited, Brompton MVP Management Limited and Brompton SI Fund Management Limited respectively (the “Corporation(s)”). We are pleased to provide our report.

TSX Guidelines for Improved Corporate Governance	Statement of Corporate Governance Practices
<p>1. The Board should explicitly assume responsibility for the stewardship of the corporation and adopt a formal mandate for its stewardship responsibilities.</p>	<p>✓ Pursuant to a management agreement, the Corporation has exclusive authority to manage the business and affairs of the Fund it manages, to make all decisions regarding the business of the Fund and has the authority to bind the Fund. The board of directors (“Board”) of each Corporation supervises the management of its respective Fund to ensure the Corporation meets its obligations under the management agreement. The Board also ensures that the Corporation exercises its powers and performs its duties honestly, in good faith and in the best interests of the Fund and of the unitholders of the Fund and exercises care, diligence and skill that a reasonably prudent and qualified manager would exercise in comparable circumstances. Each Board delegates to management certain authorities and responsibilities for the day-to-day affairs of its respective Fund in accordance with the terms of the applicable management agreement and reviews management’s performance and effectiveness within such context. Each Board has adopted a formal mandate that sets out its stewardship responsibilities. Such mandate is available on the applicable Fund website at <a href="http://www.bromptongroup.com">www.bromptongroup.com</a>.</p>
<p>As part of the overall stewardship responsibility, the Board should assume responsibility for the following matters:</p> <p>a. Adoption of a strategic planning process and approval of a strategic plan which takes into account, among other things, the opportunities and risks of the business.</p>	<p>✓ The declaration of trust for each Fund sets the investment objectives, investment strategy and investment restrictions for its Fund which effectively constitutes the approved strategic plan. Changes to the investment objectives, investment strategy and investment restrictions require approval of the Fund’s unitholders in accordance with the terms of the declaration of trust. Each Board meets quarterly and reviews the performance of the portfolio manager both as to compliance with the portfolio management agreement as well as to ensure the investment objectives of the Fund are being met and the investment strategy and investment restrictions are being adhered to. The Board also monitors the suitability of the investment strategy to meet the investment objectives and is responsible for preparing, for adoption by the unitholders, any amendments to the investment objectives, investment strategy or investment restrictions which the Corporation believes are in the best interests of the unitholders. The Board also reviews, provides input and approves all other major policy decisions.</p>
<p>b. The identification of the principal risks of the corporation’s business and ensuring the implementation of appropriate systems to manage these risks.</p>	<p>✓ The prospectus for the initial public offering of each Fund outlined the Fund’s principal risks, and, on an ongoing basis, the Board and management review changes in the strategic environment and new business risks and opportunities. The Audit Committee of each Board reviews these risks and receives reports on how these risks are being assessed and managed and reports to the Board on these matters. The Board reviews and approves the internal controls and risk management policies and systems.</p>
<p>c. Succession planning, including appointing, training and monitoring senior management.</p>	<p>✓ Each Fund has delegated the management of the Fund to the Corporation. Each Corporation has delegated the portfolio advisory functions to an independent portfolio manager. The Board of each Fund oversees the performance of the Corporation and the portfolio manager.</p> <p>The Board reviews the performance of the portfolio manager and can replace the portfolio manager if the Corporation determines a change would be in the best interest of the unitholders.</p> <p>The Board monitors the performance of the Corporation and approves all appointments to senior positions with the Corporation. Training of senior management of the Corporation is provided as needed.</p>
<p>d. A communication policy for the corporation.</p>	<p>✓ Each Board has approved a Disclosure Policy of the Fund which it manages to ensure that procedures are in place to provide for the timely and fair dissemination of information to unitholders and potential unitholders and to ensure an adequate response to unitholder inquiries. The communications policy of each Fund outlines the procedures for disclosure of material information, announcements and information to be posted on the respective Fund website. In addition, each Board has appointed authorized spokespersons for its Fund. The Board reviews and approves the contents of major disclosure documents including Financial Statements, Management’s Discussion and Analysis, Annual Report and Annual Information Form.</p>
<p>e. The integrity of the corporation’s internal control and management information systems.</p>	<p>✓ The Audit Committee of each Board requires management to implement and maintain appropriate systems of internal control for the Fund which it manages and meets with management to assess the adequacy and effectiveness of these systems of internal control. The Audit Committees also meet independently with the Fund’s auditors at least annually following the audit of the Fund’s financial statements to receive feedback on management’s performance with respect to these issues.</p>

<p>2. The Board should be constituted with a majority of unrelated directors.</p> <p>3. The application of the definition of “unrelated director” to the circumstances of each individual director should be disclosed annually. If the corporation has a significant shareholder, in addition to a majority of unrelated directors, the Board should include a number of directors who do not have interests in or relationships with either the corporation or the significant shareholder and which fairly reflects the investment in the corporation by shareholders other than the significant shareholder.</p>	✓	<p>No Fund has a significant unitholder. Each Corporation is wholly-owned by Brompton Management Limited. The Boards are made up of three unrelated directors and two related directors and in each case, one of the related directors is an outside director. No unrelated directors have any dealing with the Funds or the Corporation other than through their role as directors and ownership of units in the Funds. The Boards are, therefore, made up of a majority of unrelated directors who do not have interests in or relationships with either the Funds or the significant shareholder and who fairly reflect the investment in the Funds by the unitholders.</p>
<p>4. The Board should appoint a committee of directors composed exclusively of outside directors, a majority of whom are unrelated, with the responsibility for proposing to the full Board new nominees to the Board and for assessing directors on an ongoing basis.</p>	✓	<p>The Board has implemented a procedure whereby the Corporate Governance Committee of each Board identifies, evaluates and recommends nominees for the Board and assesses directors on an ongoing basis. Each Corporate Governance Committee is composed exclusively of unrelated directors. When recruiting new directors, the Board will assure itself that the candidates possess personal qualities, traits and competencies such as integrity, experience and a solid track record as well as financial literacy or expertise which add value to the Board.</p>
<p>5. The Board should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors.</p>	✓	<p>The Corporate Governance Committee monitors, reports on and makes recommendations regarding the effectiveness of the Board and its committees including evaluating the frequency, content and attendance at meetings and communication processes between the Board and management. Such evaluations are carried out annually.</p>
<p>6. The Board should provide an orientation and continuing education program for new directors.</p>	✓	<p>Each director is provided with a comprehensive orientation package including up to date information on the Fund, current information on corporate governance and board responsibilities and ongoing education.</p>
<p>7. The Board should examine its size and establish a Board size which facilitates effective decision making.</p>	✓	<p>The size of each Board is authorized by the articles of the Corporation to be between three and nine. Each Board has concluded that five directors is an appropriate board size for effective decision making and communication. This element will be considered as part of the overall board effectiveness evaluation discussed above.</p>
<p>8. The Board should review the adequacy and form of the compensation of directors to ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.</p>	✓	<p>Each Corporate Governance Committee annually reviews director compensation and recommends appropriate adjustments based on the time commitment, risks and responsibilities of the directors.</p>
<p>9. Board committees with the exception of the Audit Committee should generally be composed of outside directors, a majority of whom are unrelated. The Audit Committee should be made up exclusively of unrelated directors.</p>	✓	<p>Each Board has two committees, the Corporate Governance Committee and the Audit Committee, both of which are comprised solely of unrelated directors.</p>
<p>10. The Board should assume responsibility for, or assign to a committee of directors, the general responsibility for developing the corporation’s approach to governance issues and respond to the TSX Corporate Governance Guidelines.</p>	✓	<p>Each Board has appointed a Corporate Governance Committee to develop and monitor the Fund’s approach to corporate governance issues. The Committee advises and assists the Board in applying governance principles and practices and tracks developments in corporate governance. The Board and the Corporate Governance Committees have reviewed and approved this Statement of Corporate Governance Practices.</p>
<p>11. The Board should develop position descriptions for the Board and for the CEO, including the definition of the limits to management’s responsibilities. The Board should develop or approve the corporate objectives which the CEO is responsible for meeting and assess the CEO against these objectives.</p>	✓	<p>The Board has approved position descriptions for the Board and CEO including the definition of the limits to management’s responsibilities. The Board approves the corporate objectives and will assess the CEO against these objectives annually.</p>
<p>12. The Board should have in place appropriate structures and procedures to ensure that the Board can function independently of management.</p>	✓	<p>The chairman of each Board is an unrelated director and each Board is comprised of a majority of unrelated directors. At each Board meeting, the chairman of the Board chairs a meeting of non-management directors at which any concerns may be freely expressed.</p>
<p>13. The Audit Committee of the Board should be composed only of unrelated directors and its roles and responsibilities should be specifically defined. All members of the Audit Committee should be financially literate and at least one member should have financial expertise. The Board must determine and disclose its definition for financial literacy and financial expertise. The Board should adopt a charter for the Audit Committee which sets out the roles and responsibilities of the Audit Committee.</p>	✓	<p>The Audit Committee is comprised solely of unrelated directors and its roles and responsibilities are outlined in its charter. All members of the audit committees are financially literate and have financial expertise. Financial literacy is defined as the ability to read and understand a balance sheet, an income statement and a cash flow statement. Financial expertise is defined as the ability to analyze and interpret a full set of financial statements including the notes attached thereto, in accordance with Canadian generally accepted accounting principles.</p>
<p>14. The Board should implement a system which enables individual directors to engage outside advisors at the expense of the Corporation in appropriate circumstances. Engagement of an outside advisor should be subject to the approval of an appropriate committee of the board.</p>	✓	<p>Individual directors may, with the approval of the Corporate Governance Committee, engage outside independent professional advisors at the expense of the Fund.</p>

## Board of Directors

Brompton has assembled a highly qualified board of directors to represent the interests of the unitholders of each of the funds. In addition, members of the board of directors of Brompton Management Limited, the parent of each of the three management companies provide valuable insight, experience and oversight for Brompton Funds.



**Aubrey W. Baillie, BA, MBA, CA** <sup>1,4</sup>

*Former Deputy Chairman and COO, BMO Nesbitt Burns*

Mr. Baillie has over 29 years of experience in the investment business and is currently Managing Director, Newport Partners Inc. From 1976 to 1999, Mr. Baillie held various senior positions at BMO Nesbitt Burns Inc. and its predecessor companies, including Deputy Chairman and Chief Operating Officer.



**Peter A. Braaten, BA, MBA** <sup>1,2,3,4</sup>

*Chairman, Brompton Limited*

Mr. Braaten has over 30 years of experience in the investment business in Canada and the United Kingdom, including experience as Chief Executive Officer of Morrison Middlefield Resources Limited and 2M Energy Corp. Mr. Braaten was also one of the founders of Brompton Group in 2000 and Middlefield Group in 1979.



**James W. Davie, B.Comm, MBA** <sup>1,2,3</sup>

*Former Managing Director, RBC Dominion Securities*

Mr. Davie has over 30 years of investment banking experience and currently serves as a corporate director. Mr. Davie held a number of senior positions at RBC Dominion Securities Inc. including Managing Director of Investment Banking and head of Equity Capital Markets.



**Donald L. Lenz, BSc** <sup>4</sup>

*Former Managing Director, RBC Dominion Securities; Vice-President, Goldman Sachs*

Mr. Lenz has over 33 years of experience in the investment banking business and is currently a Managing Director, Newport Partners Inc. Mr. Lenz was formerly Vice President and Director of the Corporate and Investment Banking Division of RBC Dominion Securities Inc. Prior thereto, Mr. Lenz was employed with Goldman Sachs & Co. in New York as Vice President Corporate Finance specializing in Canada.



**Donald W.C. Lillie, BA, MBA** <sup>4</sup>

*President, Brompton Capital Advisors Inc.*

Mr. Lillie has over 30 years of business experience. Mr. Lillie was formerly President of International Strategic Capital Corp. and Middlefield Securities Limited where he was actively involved in corporate finance, venture capital and the creation of a number of resource and real estate investments. Mr. Lillie has also held senior positions with Suncor Inc., Gulf Canada Inc., and Shell Canada Ltd.



**P. Michael Nedham, BSc, MBA, CBV** <sup>3,4</sup>

*Former Managing Director, TD Securities; Co-Founder of Lancaster Financial Inc.*

Mr. Nedham has over 30 years of experience in the investment business and is currently Managing Director, Newport Partners Inc. Mr. Nedham co-founded Canada's first mergers and acquisitions group in 1971 at Burns Bros. & Denton Ltd. (a predecessor of Burns Fry Limited and BMO Nesbitt Burns Inc.). Mr. Nedham also co-founded Lancaster Financial, Inc., a mergers and acquisitions boutique and merchant banking firm.



**Raymond R. Pether, BA, MBA** <sup>4</sup>

*Chief Executive Officer, Brompton Limited*

Mr. Pether has over 25 years of experience in the investment business having held numerous high level positions in banking and investment. Mr. Pether co-founded Brompton Group in 2000 and provides direction to all activities of the group. Formerly, Mr. Pether was President and Chief Executive Officer of Western Facilities Fund, a public income fund engaged in the operation of oil and gas midstream assets.



**Peter L. Wallace, BA, MBA** <sup>2,4</sup>

*Former President, Midland Walwyn; Canada Trust Wealth Management*

Mr. Wallace has over 20 years of experience in the investment business and is currently Managing Director, Newport Partners Inc. Mr. Wallace was President of Wealth Management at Canada Trust Financial Services Inc and held various senior positions at Midland Walwyn Capital Inc. and its predecessor companies, including the office of President.



**Ken S. Woolner, BSc, P.Eng.** <sup>1,2,3</sup>

*President and CEO, Lightning Energy Ltd.; Former CEO, Velvet Exploration Ltd.*

Mr. Woolner has over 18 years of experience in the oil and gas industry. Mr. Woolner is currently President and Chief Executive Officer of Lightning Energy Ltd., a privately held oil and gas company operating in Western Canada. Mr. Woolner was the President and Chief Executive Officer and a director of Velvet Exploration Ltd. from April 1997 to July 2001 when it was acquired by El Paso Oil & Gas Canada Inc.



**Arthur R.A. Scace, QC, BA, MA, LLB LLD** <sup>1,2,3</sup>

*Partner, McCarthy Tétrault LLP*

Mr. Scace is a partner at McCarthy Tétrault and has over 35 years of legal and business experience. Mr. Scace began his career at McCarthy Tétrault in 1967 and became a partner in 1972. Mr. Scace served as the Managing Partner of the Toronto office from 1989 to 1996 and as the firm's National Chairman from 1997 to 1999. Mr. Scace attended Oxford University as Rhodes scholar and has received honorary Doctorates of Law from The Law Society of Upper Canada and York University.

<sup>1</sup>Director, Brompton Stable Income Fund

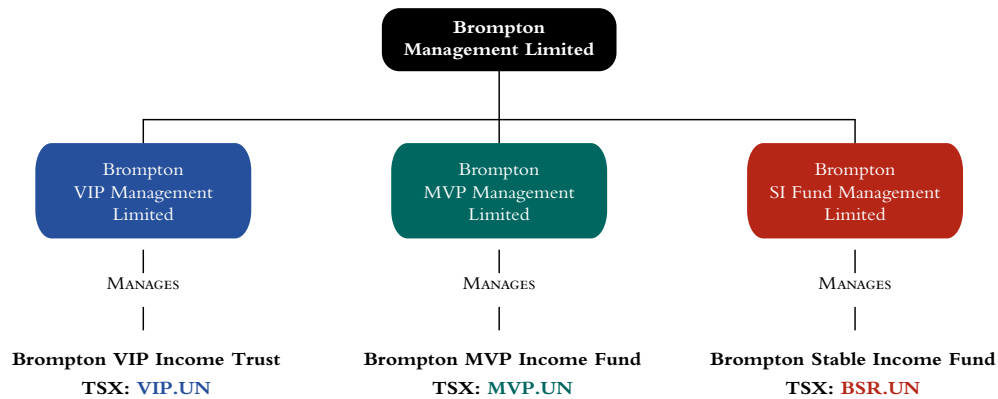
<sup>2</sup>Director, Brompton MVP Income Fund

<sup>3</sup>Director, Brompton VIP Income Trust

<sup>4</sup>Director, Brompton Management Limited

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## Corporate Information



### Continuous Disclosure Manager

Contact: Donald W. C. Lillie  
Phone: 416.642.6003  
Email: [lillie@bromptongroup.com](mailto:lillie@bromptongroup.com)

### Portfolio Manager

MFC Global Investment Management (Canada)

### Trustee

Computershare Trust Company of Canada

### Custodian

The Royal Trust Company

### Auditors

PricewaterhouseCoopers LLP

### Bankers

Bank of Nova Scotia  
Canadian Imperial Bank of Commerce  
Royal Bank of Canada

### Legal Counsel

Goodman and Carr LLP

### Officers

Peter A. Braaten  
Chairman, Brompton Group

Raymond R. Pether  
Chief Executive Officer

Donald W.C. Lillie  
President

Mark A. Caranci  
Chief Financial Officer

Moyra E. MacKay  
Vice President and Secretary

David E. Roode  
Vice President

Craig T. Kikuchi  
Controller

**BROMPTON**  
GROUP

Suite 2930, P.O. Box 793  
Bay Wellington Tower, BCE Place  
181 Bay Street  
Toronto, Ontario  
M5J 2T3

Phone:416.642.6000

Fax:416.642.6001

[www.bromptongroup.com](http://www.bromptongroup.com)