

Management's Responsibility Statement

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

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

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

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

(Signed)

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

(Signed)

Craig T. Kikuchi
Chief Financial Officer
Brompton Funds Management Limited

Auditors' Report to Unitholders

To the Unitholders of Brompton VIP Income Fund:

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

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

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

(Signed)

PricewaterhouseCoopers LLP
Chartered Accountants
 Toronto, Ontario
 March 8, 2007

Statements of Net Assets

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

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

(Signed)

Peter A. Braaten
Director

(Signed)

James W. Davie
Director

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

Statements of Operations and Retained Earnings

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

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

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

Statements of Cash Flows

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

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

Statements of Changes in Net Assets

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

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

Statement of Investments

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

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

Statement of Investments (continued)

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

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

Notes to the Financial Statements

December 31, 2006 and 2005

1. OPERATIONS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Valuation of Investments

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

b) Investment Transactions and Income Recognition

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

c) Income Taxes

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

d) Foreign Exchange

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

e) Fair Value of Financial Instruments

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

3. UNITS OF THE FUND

Authorized

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

Notes to the Financial Statements (continued)

Issued

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

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

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

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

4. DISTRIBUTIONS PAYABLE TO UNITHOLDERS

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

5. MANAGEMENT AND SERVICE FEES

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

6. INVESTMENT TRANSACTIONS

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

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

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

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

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

7. SECURITIES LENDING

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

8. LOANS PAYABLE

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

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

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

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

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

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

9. ADOPTION OF FUTURE ACCOUNTING STANDARDS

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