

VALUE  
INTEGRITY  
PERFORMANCE

*- the foundation for excellence*



VIP.UN,  
VIP.WT.A

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

### Management Report of Fund Performance

March 11, 2010

This annual management report of fund performance for Brompton VIP Income Fund (the "Fund") contains financial highlights but does not contain the audited annual financial statements of the Fund. The audited annual financial statements follow this report. You may obtain a copy of the interim or annual financial statements, at no cost, by calling 866-642-6001 or by sending a request to Investor Relations, Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, P.O. Box 793, Toronto, Ontario, M5J 2T3, or by visiting our website at [www.bromptongroup.com](http://www.bromptongroup.com) or SEDAR at [www.sedar.com](http://www.sedar.com). Unitholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, independent review committee's report, or quarterly portfolio disclosure.

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

## THE FUND

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

## INVESTMENT OBJECTIVES AND STRATEGIES

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

## RECENT DEVELOPMENTS

### Warrants

On November 16, 2009, the Fund issued 13.7 million TSX-listed warrants to unitholders on the basis of one-third of a warrant for each unit held, with each warrant entitling the holder to subscribe to one unit of the Fund at a subscription price of \$8.33, if exercised before the expiry date of April 15, 2010. The offering was designed to provide the Fund with additional capital that can be used to take advantage of attractive investment opportunities, while also increasing the trading liquidity of the units and reducing the ongoing management expense ratio (“MER”) of the Fund.

## RISKS

Risks associated with an investment in the units of the Fund are discussed in the Fund’s 2009 annual information form, which is available on the Fund’s website at [www.bromptongroup.com](http://www.bromptongroup.com) or on SEDAR at [www.sedar.com](http://www.sedar.com). A change to the Fund in 2009 that has materially affected the risks associated with an investment in the units of the Fund is set out below.

### Warrants

The issuance of warrants in November 2009 could result in a risk of dilution to existing unitholders. As disclosed in the prospectus of the warrant offering, if unitholders wish to retain their current percentage ownership in the Fund, and assuming that all warrants are exercised, then the unitholders should purchase all of the units for which they may subscribe pursuant to the warrants delivered under the offering. If a unitholder does not do so and other holders of warrants exercise any of their warrants, that unitholder’s current percentage in the Fund will be diluted by the issue of units under the offering. The exercise of warrants may also have a dilutive impact on the Fund’s distributable income.

## RESULTS OF OPERATIONS

*On July 4, 2008, the Fund was merged with six other Brompton funds; therefore, the results of operations after July 4, 2008 are based on the combined results of the post-merger Fund. Results prior to July 4, 2008 are based on the pre-merger results of the Fund.*

### Distributions

During the year ended December 31, 2009, cash distributions were \$0.95 per unit, down from \$1.14 in 2008, reflecting two reductions in the monthly distribution rate during 2009. In February 2009, the rate was reduced from \$0.10 to \$0.08 per unit due to distribution cuts by a large number of the resource-related income trusts included in the portfolio in response to the steep decline in commodity prices in the first quarter of the year. In October 2009, the Fund reduced the rate from \$0.08 to \$0.07 per unit, due to additional distribution cuts or conversions to corporate structures by a number of income trusts in the portfolio during the period and a greater portfolio weighting to dividend-paying equities. Since inception in February 2002, the Fund has paid total cash distributions of \$8.02 per unit. The Fund has a distribution reinvestment plan which allows participating unitholders to automatically reinvest monthly distributions in additional units of the Fund. For the year ended December 31, 2009, 232,935 units were acquired in the market through this plan at an average price of \$7.26 per unit.

### Revenues and Expenses

The Fund’s distribution and dividend income declined to \$0.78 per unit for the year ended December 31, 2009 from \$1.36 per unit for 2008. This decline was due to distribution rate cuts by underlying income trusts in the portfolio, the conversions of certain income trusts to corporate structures, and a lower level of leverage in the Fund. Interest income declined to \$0.07 in 2009 from \$0.10 in 2008. Total expenses per unit declined from \$0.27 per unit in 2008 to \$0.14 per unit in 2009, reflecting an increased number of units following the merger in July 2008 and the exercise of warrants in May 2009, while the Fund’s fixed costs remained the same. Net investment income of the Fund in 2009 was less than the amount distributed over the year; however, the Fund had net realized and unrealized gains of \$2.09 per unit in 2009.

### Net Asset Value

The Net Asset Value per unit of the Fund increased by \$1.58 per unit, or 21.5%, from \$7.36 at December 31, 2008 to \$8.94 at December 31, 2009. This improvement was due to a rise in the price of securities in the Fund’s portfolio during the year, reflecting the improvement in equity and credit markets during 2009. The aggregate Net Asset Value of the Fund grew by \$18.9 million, from \$347.4 million at December 31, 2008 to \$366.3 million at December 31, 2009, as net proceeds of \$131.4 million from the exercise of warrants and the increase in prices of securities in the portfolio more than offset the annual redemption in August 2009.

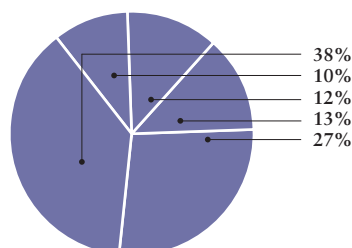
### Investment Portfolio

Since the Fund’s merger with six other Brompton funds in July 2008, the Portfolio Manager has repositioned the portfolio to a broader range of securities in line with the Fund’s investment strategy. At December 31, 2009, 60% of the portfolio (excluding cash and short-term investments) was invested in income trusts, compared to 87% at year-end 2008, with approximately 13% in fixed income (7% at year-end 2008) and 27% in dividend-paying Canadian equities (6% at year-end 2008).

As of December 31, 2009, the Fund’s investments included a total of 44 income funds, 13 Canadian equities and 114 fixed income investments. During 2009, business fund holdings declined most sharply, from 54% of the portfolio at the 2008 year-end to 38% at December 31, 2009. The breakdown of the portfolio (excluding cash and short-term investments) is shown in the following pie chart, and a detailed listing of the Fund’s security holdings is provided in the financial statements.

The Fund's portfolio recorded net gains (realized and unrealized) of \$102.4 million for the year ended December 31, 2009, as prices of securities in the Fund's portfolio recovered during the year. The table below shows the net gains in the portfolio by sector. Business funds were the major contributor to the gain, followed by real estate investment trusts. The fixed income securities are primarily high-yield debt and are mostly denominated in US dollars. In order to hedge the foreign exchange exposure, an amount approximately equal to these US dollar denominated assets has been borrowed under the Fund's credit facilities in US dollars. As a result, gains or losses on the US dollar borrowings are included with the gains or losses on the fixed income securities to show the net gain or loss from this investment activity net of hedged US dollar investments.

### Portfolio Sectors



Net Gains (Losses) by Sector (millions)	Realized	Unrealized	Total
Business funds	\$ (53.3)	\$ 101.0	\$ 47.7
Oil and gas trusts	(41.6)	50.6	9.0
Real estate investment trusts	(17.2)	37.8	20.6
Fixed income investments	2.6	7.6	10.2
Canadian dividend-paying equities	(11.0)	25.9	14.9
<b>Total</b>	<b>\$ (120.5)</b>	<b>\$ 222.9</b>	<b>\$ 102.4</b>

### Liquidity and Capital Resources

The Fund has a 364-day revolving credit facility which provides for maximum borrowings of \$95 million, with borrowings in Canadian currency at either the prime rate of interest or the bankers' acceptance rate, plus a fixed percentage, or in US currency at either the US base rate or the LIBOR rate, plus a fixed percentage. The facility has been used to invest in additional portfolio investments and for working capital purposes. As at December 31, 2009, the Fund had total borrowings of \$79.0 million under this facility, representing 17.3% of total assets, or 21.6% of Net Asset Value. During the year ended December 31, 2009, the Fund realized a foreign exchange gain of \$3.4 million on the repayment of US dollar borrowings under the credit facility and had an unrealized foreign exchange gain of \$0.4 million. During the year, the minimum and maximum amounts of borrowings were \$20.1 million and \$101.3 million, respectively.

To provide liquidity, units and warrants of the Fund are listed on the TSX under the symbols VIP.UN and VIP.WT.A, respectively. The Fund's normal course issuer bid program allows it to purchase its units on the TSX for cancellation if they trade below Net Asset Value per unit. As a result, purchases under the issuer bid are accretive to the Net Asset Value per unit. A total of 379,100 units were purchased during the year ended December 31, 2009, under this program at an average price of \$7.01 per unit. During the year, units of the Fund traded at an average discount to their diluted Net Asset Value per unit of 4.6%. Investors may also redeem their units annually in accordance with the Fund's redemption provisions. In 2009, approximately 25.4 million units were tendered to the annual redemption, for a cost to the Fund of \$201.0 million. The Fund issued warrants to unitholders under the offering of November 6, 2009, and 6,937 of these warrants had been exercised as at December 31, 2009.

## RELATED PARTY TRANSACTIONS

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

## MANAGEMENT FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.85% per annum of the Net Asset Value of the Fund, plus applicable taxes. The Manager is responsible for paying the fees of the Portfolio Manager. The management fee is used by the Manager to cover its costs to obtain the Fund's assets, the cost to administer the Fund, the cost of the Portfolio Manager and for profit. The Fund also pays to the Manager a service fee equal to 0.40% per annum of the Net Asset Value of the Fund. The service fee is in turn paid by the Manager to the investment dealers based on the proportionate number of units held by clients of each dealer at the end of each calendar quarter. During the year ended December 31, 2009, management and service fees amounted to \$3.4 million and \$1.3 million, respectively.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the fiscal periods indicated. This information is derived from the Fund's audited annual financial statements. *The information in the following tables is presented in accordance with NI 81-106 and, as a result, does not act as a continuity of opening and closing Net Assets per unit.* The increase (decrease) in Net Assets from operations is based on average units outstanding during the period, and all other numbers are based on actual units outstanding at the relevant point in time.

**Net Assets per Unit<sup>(1)</sup>**

For the years ended December 31	2009	2008	2007	2006	2005
Net Assets, beginning of year <sup>(2)(3)(4)</sup>	\$ 7.30	\$ 14.51	\$ 13.48	\$ 14.77	\$ 13.70
<b>Increase (decrease) from operations:<sup>(5)</sup></b>					
Total revenue	0.87	1.49	1.53	1.48	1.32
Total expenses	(0.16)	(0.27)	(0.39)	(0.39)	(0.31)
Preferred securities distributions	(0.01)	(0.02)	—	—	—
Realized gain (loss) for the year	(2.39)	(1.19)	0.75	0.80	0.71
Unrealized gain (loss) for the year	4.48	(9.45)	0.20	(2.12)	0.30
<b>Total increase (decrease) in Net Assets from operations</b>	<b>\$ 2.79</b>	<b>\$ (9.44)</b>	<b>\$ 2.09</b>	<b>\$ (0.23)</b>	<b>\$ 2.02</b>
<b>Distributions to unitholders:<sup>(3)</sup></b>					
From net investment income (excluding dividends)	\$ 0.49	\$ 1.00	\$ 0.96	\$ 0.71	\$ 0.61
From dividends	0.10	0.06	0.05	0.05	0.06
From net realized gain on investments	—	—	—	—	—
Return of capital	0.36	0.08	0.07	0.26	0.33
<b>Total distributions to unitholders</b>	<b>\$ 0.95</b>	<b>\$ 1.14</b>	<b>\$ 1.08</b>	<b>\$ 1.02</b>	<b>\$ 1.00</b>
<b>Net Assets, end of year<sup>(2)(3)(4)</sup></b>	<b>\$ 8.91</b>	<b>\$ 7.30</b>	<b>\$ 14.51</b>	<b>\$ 13.55</b>	<b>\$ 14.77</b>

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

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

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

<sup>(4)</sup> Represents basic Net Asset Value per unit.

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

**Ratios and Supplemental Data (Based on Net Asset Value)**

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

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

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

<sup>(3)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Manager manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period.

<sup>(4)</sup> The closing prices for warrants are for the class of warrants then outstanding.

**Expense Ratio**

The MER of the Fund was 2.03% during the year ended December 31, 2009, down from 2.70% the previous year. This decline in the MER was due to a reduction in interest expense resulting from lower interest rates as well as to a lower average loan balance (including the repayment of \$15.1 million of Preferred securities) in 2009. The MER is exaggerated by the inclusion of interest expense on borrowings used to purchase additional portfolio investments.

The MER, excluding interest expense, which is more representative of the ongoing efficiency of the administration of the Fund, was 1.35% as at December 31, 2009 (1.50% in 2008). The decrease is the result of a higher average Net Asset Value resulting from the merger in 2008 and the increase in the number of units due to the warrants exercised in 2009, while fixed costs remained the same.

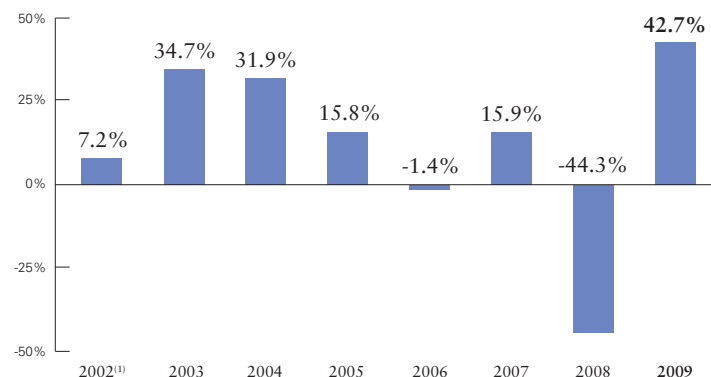
The portfolio turnover rate declined from 48.7% in 2008 to 32.6% for the year ended December 31, 2009. The higher ratio in 2008 reflects the impact of rebalancing the portfolio following the merger and reorganization of the Fund which occurred in July 2008. The trading expense ratio increased to 0.23% for the year ended December 31, 2009 from 0.14% the previous year as a result of trading activity related to the investment of proceeds and to fund the annual redemption.

## PAST PERFORMANCE

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per unit and assumes that distributions (including deemed distributions based on the intrinsic value of the warrants at the exercise dates of the warrants) made by the Fund on its units in the periods shown were reinvested at Net Asset Value per unit in additional units of the Fund.

The bar chart shows the Fund's return in each year/period since inception to December 31, 2009. The chart shows, in percentage terms, how an investment held on the first day of each fiscal period would have changed by the last day of the fiscal period.

### Year-by-Year Returns



<sup>(1)</sup> Period from February 19, 2002 (commencement of operations) to December 31, 2002.

The following table shows the Fund's compound return for each period indicated compared with the S&P/TSX Capped Income Trust Index ("Income Trust Index") and the S&P/TSX Composite Index ("Composite Index"). The Income Trust Index is a broad-based composite index which may encompass any or all Global Industry Classification Standard sectors of the income trust market. Income trusts that qualify for inclusion must derive their distribution income from actual operating entities. The Composite Index tracks the performance, on a market weight basis, of approximately 300 large stocks on the TSX. The Income Trust Index and the Composite Index are calculated without the deduction of management fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

### Annual Compound Returns

	1 Year	3 Year	5 Year	Since Inception <sup>(1)</sup>
Brompton VIP Income Fund	42.7%	(2.7%)	1.0%	9.2%
S&P/TSX Composite Index	35.1%	(0.2%)	7.7%	8.4%
S&P/TSX Capped Income Trust Index	42.2%	3.9%	7.4%	14.0%

<sup>(1)</sup> Period from February 19, 2002 (commencement of operations) to December 31, 2009.

The Fund provided a high return on Net Asset Value of approximately 42.7% over the year, outperforming the Income Trust Index and the Composite Index, primarily due to the benefits of leverage in a rising equity and income trust market. Since inception the Fund has provided a high total return of 9.2%, outperforming the Composite Index, but underperforming the Income Trust Index.

## SUMMARY OF INVESTMENT PORTFOLIO

As at December 31, 2009

Total Net Asset Value		\$ 366,288,886
<b>Portfolio Composition</b>	<b>% of Portfolio</b>	<b>% of Net Asset Value</b>
Business trusts	33.3%	41.1%
Canadian dividend-paying equities	24.3%	30.0%
Fixed income investments	11.7%	14.4%
Real estate investment trusts	11.0%	13.6%
Cash and short-term investments	11.0%	13.6%
Oil and gas trusts	8.7%	10.7%
Total investment portfolio	100.0%	123.4%
Other net liabilities		(23.4%)
Total Net Asset Value		100.0%

<b>Top 25 Holdings</b>	<b>% of Portfolio</b>	<b>% of Net Asset Value</b>
Cash and short-term investments	11.0%	13.6%
TransCanada Corporation	4.4%	5.5%
TELUS Corporation	4.3%	5.3%
BCE Inc.	3.7%	4.5%
Freehold Royalty Trust	2.6%	3.2%
Davis + Henderson Income Fund	2.6%	3.2%
Westshore Terminals Income Fund	2.4%	2.9%
Dundee REIT	2.1%	2.5%
Power Corporation of Canada	2.0%	2.5%
H&R REIT	2.0%	2.5%
Northern Property REIT	2.0%	2.4%
Just Energy Income Fund	1.9%	2.4%
Keyera Facilities Income Fund	1.9%	2.3%
Boston Pizza Royalties Income Fund	1.9%	2.3%
IGM Financial Inc.	1.9%	2.3%
Peyto Energy Trust	1.8%	2.3%
Cominar REIT	1.6%	2.0%
Cineplex Galaxy Income Fund	1.6%	2.0%
Innergex Power Income Fund	1.5%	1.9%
Enerplus Resources Fund	1.5%	1.9%
Canadian REIT	1.5%	1.9%
Inter Pipeline Fund	1.5%	1.9%
Fort Chicago Energy Partners L.P.	1.5%	1.8%
Imperial Oil Ltd.	1.4%	1.7%
Consumers' Waterheater Income Fund	1.4%	1.7%

*The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end.*

## 2009 TAX INFORMATION

The following information is applicable to holders who, for the purpose of the Income Tax Act (Canada), are resident in Canada and hold shares as capital property outside of an RRSP, DPSP, RRI, RESP or TFSA. Unitholders should receive a T3 slip from their investment dealer providing this information.

T3 supplementary slips for holdings of the Fund will indicate Investment Income in Box 26, Foreign Non-Business Income in Box 25, Capital Gains in Box 21 and Dividend Income in Box 23 and Box 49. Dividend income is subject to the standard gross-up and federal dividend tax credit rules.

The return of capital component is a non-taxable amount that serves to reduce the adjusted cost base of Fund units and is reported on the T3 supplementary slips in Box 42.

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

The following table outlines the breakdown in the Fund's distributions declared in 2009 on a per unit basis.

### Units

Record Date	Payment Date	Return of Capital	Foreign Non-Business Income	Investment Income	Dividend Income	Total Distribution
Jan. 30, 2009	Feb. 13, 2009	\$ 0.03827	\$ 0.00536	\$ 0.04613	\$ 0.01024	\$ 0.10
Feb. 27, 2009	Mar. 13, 2009	0.03061	0.00429	0.03691	0.00819	0.08
Mar. 31, 2009	Apr. 15, 2009	0.03061	0.00429	0.03691	0.00819	0.08
Apr. 30, 2009	May 14, 2009	0.03061	0.00429	0.03691	0.00819	0.08
May 29, 2009	Jun. 12, 2009	0.03061	0.00429	0.03691	0.00819	0.08
Jun. 30, 2009	Jul. 15, 2009	0.03061	0.00429	0.03691	0.00819	0.08
Jul. 31, 2009	Aug. 17, 2009	0.03061	0.00429	0.03691	0.00819	0.08
Aug. 31, 2009	Sep. 15, 2009	0.03061	0.00429	0.03691	0.00819	0.08
Sep. 30, 2009	Oct. 15, 2009	0.03061	0.00429	0.03691	0.00819	0.08
Oct. 30, 2009	Nov. 13, 2009	0.02679	0.00375	0.03229	0.00717	0.07
Nov. 30, 2009	Dec. 14, 2009	0.02679	0.00375	0.03229	0.00717	0.07
Dec. 31, 2009	Jan. 15, 2010	0.02679	0.00375	0.03229	0.00717	0.07
<b>Total</b>		<b>\$ 0.36352</b>	<b>\$ 0.05093</b>	<b>\$ 0.43828</b>	<b>\$ 0.09727</b>	<b>\$ 0.95</b>

### Preferred Securities

Record Date	Payment Date	Dividend Income	Total Distribution
Feb. 5, 2009	Feb. 17, 2009	\$ 0.15	\$ 0.15
May 6, 2009	May 15, 2009	0.15	0.15
<b>Total</b>		<b>\$ 0.30</b>	<b>\$ 0.30</b>

## PORTFOLIO MANAGER

### MFC Global Investment Management (Canada)

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



## PORTFOLIO MANAGER'S REPORT

The S&P/TSX Capped Income Trust Index provided a very strong total return of 42.2% in 2009. The index rallied strongly from the lows in March on a more optimistic outlook for the global economy.

Both investment grade and high-yield bonds had exceptional returns in 2009, rebounding significantly off the lows hit in 2008. Both the Canadian corporate bond market and the high-yield market had significant returns for the year.

The global economy is recovering from the worst recession since the Great Depression of the 1930s. China's growth rate, 8.9% for the third quarter, is expected to move back into double-digit territory for the fourth quarter, leading global expansion. India, with 7.9% third quarter growth, is following China's lead. Major economies in Europe, North America and Japan are beginning to show positive signs. However, the recovery could be fragile and constrained by tight credit conditions and a long period of heightened unemployment while financial institutions may have to write down a further \$1.5 trillion worth of toxic assets according to the IMF. Most policy makers are cognizant of the need to develop exit strategies after providing massive liquidity to save the financial system, yet, given the delicate nature of the recovery, they must tread carefully.

Within our income trust portfolio, which comprised approximately half of the Fund's assets at year-end, we continue to be underweight energy and resources in favour of business, power, utilities and infrastructure, consumer and REITs.

During the period, we were selectively adding to dividend-paying equities, bringing the weight to 24% at December 31, 2009. Throughout the year, cash was deployed to extremely attractive opportunities, such as TransCanada Corporation, Westshore Terminals, TELUS and BCE. The cash position currently sits at higher than normal levels and the Portfolio Manager will look to deploy this selectively as attractive opportunities present themselves.

With the worst of the past year's downturn now passed, we maintain a cautiously optimistic outlook. Bond issuance is up, and firms will continue to boost borrowing and realign balance sheets with interest rates at such low levels.

Inflation on both sides of the border is well contained, a trend that should continue for a good part of 2010. The US Federal Reserve and the Bank of Canada are not expected to raise rates until the second half of 2010. Bank of Canada may push rates marginally higher in the third quarter of 2010, while the Federal Reserve may not increase rates until the fourth quarter or possibly early 2011. Central banks and governments around the world continue to bolster their beleaguered economies with hefty rounds of stimulus spending, with most of this spending expected to have the largest impact in 2010.

The promise of firmer economic conditions bodes well for further, albeit more modest, narrowing of credit spreads this year. High-yield bonds should do well in this environment. With bond yields compressing closer to historical averages, credit selection will once again be an important factor in outperformance. At year-end, 12% of the portfolio was in fixed income investments, primarily higher-yielding BB bonds.

The overall Fund strategy continues to focus on positioning the portfolio so that its target monthly payouts are met and the underlying capital of the trust is preserved.

## FORWARD-LOOKING STATEMENTS

*Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based on what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.*

## MANAGEMENT RESPONSIBILITY STATEMENT

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

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

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

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

Signed

Mark A. Caranci  
*President and Chief Executive Officer*  
*Brompton Funds Management Limited*

March 11, 2010

Signed

Craig T. Kikuchi  
*Chief Financial Officer*  
*Brompton Funds Management Limited*

## AUDITORS' REPORT

### 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, 2009, the statements of Net Assets as at December 31, 2009 and 2008 and the statements of operations and retained earnings (deficit), changes in Net Assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund’s Manager. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations, changes in its Net Assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed

PricewaterhouseCoopers LLP  
*Chartered Accountants, Licensed Public Accountants*  
 Toronto, Ontario

March 11, 2010

## STATEMENTS OF NET ASSETS

As at December 31	2009	2008
<b>Assets</b>		
Investments, at fair value	\$ 400,788,196	\$ 459,763,920
Cash and short-term investments	49,651,943	971,945
Income receivable	4,099,984	6,197,306
<b>Total assets</b>	<b>454,540,123</b>	<b>466,933,171</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	775,676	936,926
Distributions payable to unitholders (note 8)	2,866,665	4,836,510
Amounts payable for investments purchased	6,881,689	—
Loans payable (note 12)	78,971,274	101,279,528
Preferred securities (note 5)	—	15,106,060
<b>Total liabilities</b>	<b>89,495,304</b>	<b>122,159,024</b>
<b>Unitholders' equity</b>		
Unitholders' capital (note 4)	465,683,929	628,154,770
Warrants (note 6)	2,311,486	—
Contributed surplus (note 4)	91,293,797	1,004,163
Deficit	(194,244,393)	(284,384,786)
<b>Net Assets representing unitholders' equity</b>	<b>\$ 365,044,819</b>	<b>\$ 344,774,147</b>
<b>Units outstanding (note 4)</b>	<b>40,952,360</b>	<b>47,201,693</b>
<b>Net Assets per unit – basic (note 6)</b>	<b>\$ 8.91</b>	<b>\$ 7.30</b>
<b>Net Assets per unit – diluted (note 6)</b>	<b>\$ 8.74</b>	<b>\$ 7.30</b>

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

Signed

Peter A. Braaten  
Director

Signed

Mark A. Caranci  
Director

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

## STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

For the years ended December 31	2009	2008
<b>Income</b>		
Distribution and dividend income	\$ 39,138,423	\$ 39,152,101
Securities lending income (note 11)	763,869	655,301
Interest income	3,575,348	2,960,773
	<b>43,477,640</b>	<b>42,768,175</b>
<b>Expenses</b>		
Management fees (note 9)	3,374,001	2,763,071
Service fees (note 9)	1,263,819	1,053,474
Audit fees	52,395	28,865
Independent review committee fees	30,833	16,999
Trustee fees	12,564	10,818
Custodial fees	30,450	28,674
Legal fees	39,849	14,366
Unitholder reporting costs	45,535	124,009
Other administrative expenses	244,780	168,114
Interest and bank charges (note 12)	2,126,274	3,404,378
	<b>7,220,500</b>	<b>7,612,768</b>
Net investment income before distributions	36,257,140	35,155,407
Distributions on Preferred securities (note 8)	(376,252)	(455,741)
Net investment income	35,880,888	34,699,666
Net realized loss on sale of investments (note 10)	(123,144,900)	(35,139,903)
Transaction costs (note 2)	(875,793)	(464,231)
Net realized gain on loans payable (note 12)	3,439,558	909,949
Net change in unrealized gain/loss on investments, short-term investments and foreign currency transactions	223,984,260	(265,141,858)
Net change in unrealized gain/loss on loans payable (note 12)	403,529	(6,088,133)
Increase (decrease) in Net Assets from operations	139,687,542	(271,224,510)
Retained earnings (deficit), beginning of year	(284,384,786)	22,304,602
Excess of stated value paid on repurchase and redemption of units	—	(1,827,187)
Issuance costs on warrants (note 6)	144,430	(380,000)
Issuance of Class A warrant, net (note 6)	(2,527,666)	—
Distributions to unitholders (note 8)	(47,163,913)	(33,257,691)
Deficit, end of year	<b>\$(194,244,393)</b>	<b>\$(284,384,786)</b>
Increase (decrease) in Net Assets from operations per unit – basic and diluted (note 6) <sup>(1)</sup>	<b>\$ 2.79</b>	<b>\$ (9.44)</b>

<sup>(1)</sup> Based on the weighted average number of units outstanding for the year (note 6).

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

## STATEMENTS OF CASH FLOWS

For the years ended December 31	2009	2008
<b>Cash flows from operating activities:</b>		
Increase (decrease) in Net Assets from operations	\$ 139,687,542	\$(271,224,510)
Adjustments to reconcile net cash provided by operations (2008 – net of effects of Merger):		
Net realized loss on sale of investments (note 10)	123,144,900	35,139,903
Net realized gain on loans payable	(3,439,558)	(909,949)
Net change in unrealized gain/loss on investments	(223,976,930)	265,119,112
Net change in unrealized gain/loss on loans payable	(403,529)	6,088,133
Decrease (increase) in income receivable	2,097,322	2,396,964
Increase (decrease) in accounts payable and accrued liabilities	(161,250)	(860,669)
Increase (decrease) in distributions payable on Preferred securities	(116,341)	(9,890)
Purchase of investments (note 10)	(136,268,586)	(34,868,056)
Proceeds from sale of investments (note 10)	302,958,029	192,654,252
<b>Cash provided by operating activities</b>	<b>203,521,599</b>	<b>193,525,290</b>
<b>Cash flows from financing activities:</b>		
Issuance costs on warrants (note 6)	(70,570)	(380,000)
Issuance costs on units issued upon Merger (note 4)	—	(258,961)
Proceeds from issuance of units upon exercise of warrants (note 6)	131,467,444	—
Proceeds from distribution reinvestment plan (note 8)	—	580,972
Increase (decrease) in loans payable	(18,465,167)	(12,353,654)
Distributions paid to unitholders (note 8)	(49,017,417)	(34,094,912)
Repurchase of units (note 4)	(2,658,515)	(4,031,087)
Amounts paid for redemption of units (note 4)	(200,991,316)	(160,993,861)
Amounts paid for redemption of Preferred securities (note 5)	(15,106,060)	(829,920)
<b>Cash used in financing activities</b>	<b>(154,841,601)</b>	<b>(212,361,423)</b>
<b>Cash flows from investing activities:</b>		
Cash and short-term investments acquired from Merger (note 1)	—	8,361,959
<b>Cash provided by investing activities</b>	<b>—</b>	<b>8,361,959</b>
Increase (decrease) in cash and short-term investments	48,679,998	(10,474,174)
Cash and short-term investments, beginning of year	971,945	11,446,119
<b>Cash and short-term investments, end of year</b>	<b>\$ 49,651,943</b>	<b>\$ 971,945</b>
<b>Supplemental information:</b>		
Interest paid	\$ 1,606,541	\$ 3,585,539

## STATEMENTS OF CHANGES IN NET ASSETS

For the years ended December 31	2009	2008
<b>Net Assets, beginning of year</b>	<b>\$ 344,774,147</b>	<b>\$ 102,159,143</b>
<b>Operations:</b>		
Increase (decrease) in Net Assets from operations	139,687,542	(271,224,510)
<b>Unitholder transactions:</b>		
Distributions to unitholders (note 8)		
Net investment income	(29,112,015)	(30,906,897)
Return of capital	(18,051,898)	(2,350,794)
<b>Total</b>	<b>(47,163,913)</b>	<b>(33,257,691)</b>
Issuance costs on warrants (note 6)	(70,570)	(380,000)
Proceeds from distribution reinvestment plan (note 8)	—	580,972
Proceeds from issuance of units upon Fund Merger, net (note 4)	—	697,626,336
Proceeds from issuance of units upon exercise of warrants, net (note 6)	131,467,444	—
Repurchase of units (note 4)	(2,658,515)	(4,031,087)
Redemption of units (note 4)	(200,991,316)	(146,699,016)
<b>Total unitholder transactions</b>	<b>(119,416,870)</b>	<b>513,839,514</b>
<b>Net increase in Net Assets</b>	<b>20,270,672</b>	<b>242,615,004</b>
<b>Net Assets, end of year</b>	<b>\$ 365,044,819</b>	<b>\$ 344,774,147</b>
<b>Distributions per unit (note 8)</b>	<b>\$ 0.95</b>	<b>\$ 1.14</b>

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

## STATEMENT OF INVESTMENTS

As at December 31, 2009		Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
<b>No. of Units</b>	<b>Business Trusts</b>					
298,980	AltaGas Income Trust	\$ —	\$ 7,363,878	\$ —	\$ 5,611,855	
133,014	Armtec Infrastructure Income Fund	—	2,909,815	—	3,359,934	
182,660	Bell Aliant Regional Communications Income Fund	—	5,332,341	—	5,105,347	
544,931	Boralex Power Income Fund	—	2,948,077	—	2,223,318	
703,709	Boston Pizza Royalties Income Fund	—	9,395,617	—	8,514,879	
104,300	Brookfield Renewable Power Income Fund	—	1,527,995	—	1,992,130	
198,707	Canexus Income Fund	—	884,246	—	1,094,876	
344,076	Capital Power Income L.P.	—	7,483,653	—	5,326,296	
524,325	Chemtrade Logistics Income Fund	—	7,537,891	—	5,757,089	
391,197	Cineplex Galaxy Income Fund	—	5,445,017	—	7,127,609	
301,940	CML Healthcare Income Fund	—	4,269,432	—	4,169,791	
1,477,277	Consumers' Waterheater Income Fund	—	10,092,529	—	6,175,018	
695,857	Davis + Henderson Income Fund	—	10,394,369	—	11,746,066	
126,400	Enbridge Income Fund	—	1,453,600	—	1,671,008	
137,926	Enerflex Systems Income Fund	—	1,866,139	—	1,997,168	
672,170	Fort Chicago Energy Partners L.P.	—	7,380,427	—	6,701,535	
115,990	Gaz Metro LP	—	1,744,490	—	1,897,596	
676,188	Innergex Power Income Fund	—	8,208,477	—	6,951,213	
628,447	Inter Pipeline Fund	—	6,215,341	—	6,793,512	
600,832	Just Energy Income Fund	—	7,675,956	—	8,651,981	
350,892	Keyera Facilities Income Fund	—	7,388,034	—	8,540,713	
28,671	Labrador Iron Ore Royalty Income Fund	—	1,509,815	—	1,248,335	
284,582	North West Company Fund	—	4,536,237	—	5,404,212	
274,165	Pembina Pipeline Income Fund	—	4,737,571	—	4,789,663	
528,066	Pizza Pizza Royalty Income Fund	—	4,880,744	—	3,738,707	
127,600	Richards Packaging Income Fund	—	1,002,683	—	912,340	
385,373	SIR Royalty Income Fund	—	3,756,819	—	2,917,274	
81,682	The Data Group Income Fund	—	796,899	—	477,840	
253,100	The Keg Royalties Income Fund	—	2,783,766	—	2,695,515	
746,938	Westshore Terminals Income Fund	—	12,388,783	—	10,636,397	
1,085,846	Yellow Pages Income Fund	—	10,849,944	—	5,820,135	
	<b>Total Business Trusts</b>	—	<b>164,760,585</b>	—	<b>150,049,352</b>	<b>37.4%</b>
<b>No. of Units</b>	<b>Oil and Gas Trusts</b>					
292,169	ARC Energy Trust	—	8,223,355	—	5,825,850	
37,651	Baytex Energy Trust	—	1,246,248	—	1,111,834	
244,011	Bonavista Energy Trust	—	8,728,969	—	5,434,125	
282,199	Enerplus Resources Fund	—	12,492,358	—	6,800,996	
781,164	Freehold Royalty Trust	—	14,298,426	—	11,756,518	
590,281	Peyto Energy Trust	—	9,900,506	—	8,246,226	
	<b>Total Oil and Gas Trusts</b>	—	<b>54,889,862</b>	—	<b>39,175,549</b>	<b>9.8%</b>
<b>No. of Units</b>	<b>Real Estate Investment Trusts</b>					
79,957	Boardwalk REIT	—	3,036,767	—	2,940,818	
250,508	Canadian REIT	—	7,227,155	—	6,791,272	
374,379	Cominar REIT	—	8,075,355	—	7,218,027	
447,377	Dundee REIT	—	10,483,448	—	9,224,914	
583,916	H&R REIT	—	9,999,686	—	8,992,306	
409,387	Northern Property REIT	—	7,314,169	—	8,965,575	
274,289	RioCan REIT	—	4,997,726	—	5,441,894	
	<b>Total Real Estate Investment Trusts</b>	—	<b>51,134,306</b>	—	<b>49,574,806</b>	<b>12.4%</b>

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

## STATEMENT OF INVESTMENTS (continued)

As at December 31, 2009		Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
<b>Par Value (\$)</b>	<b>Fixed Income Investments</b>					
600,000	Ace Cash Express Inc. 10.25%, due October 1, 2014	\$ 642,504	\$ 673,569	\$ 439,500	\$ 460,750	
300,000	Actuant Corporation 6.875%, due June 15, 2017	303,995	318,693	285,375	299,173	
250,000	AES Corp. 7.75%, due October 15, 2015	234,464	245,800	253,750	266,019	
150,000	AES Corporation 9.750%, due April 15, 2016	168,361	176,501	164,250	172,191	
300,000	AGT Limited 8.8%, due September 22, 2025	—	361,833	—	371,406	
50,000	Ahern Rentals Inc. 9.25%, due August 12, 2013	57,261	60,030	28,500	29,878	
250,000	Alimentation Couche-Tard Inc. 7.5%, due December 15, 2013	267,434	280,364	254,375	266,674	
500,000	Alliance HealthCare Services 8.00%, due December 1, 2016	498,746	522,860	487,500	511,071	
2,750,000	Alliance One International 10.00%, due July 15, 2016	2,892,624	3,032,482	2,887,499	3,027,110	
1,000,000	Alliance One International 5.500%, due July 15, 2014	1,108,504	1,162,100	1,182,500	1,239,674	
147,272	Alliance Pipeline Limited Partnership 7.181%, due June 30, 2023	—	163,142	—	162,390	
654,882	Alliance Pipeline Limited Partnership 7.23%, due June 30, 2015	—	707,997	—	713,880	
250,000	AMC Entertainment Inc. 8%, due March 1, 2014	253,042	265,277	255,000	267,329	
160,000	Anixter Inc. 5.95%, due March 1, 2015	160,489	168,249	150,000	157,252	
250,000	Apria Healthcare Group Inc. 11.25%, due November 1, 2014	260,249	272,832	274,375	287,641	
750,000	ASG Consolidated LLC 11.5%, due November 1, 2011	737,572	773,234	751,875	788,228	
24,000	AT&T Corp 7.3%, due November 15, 2011	30,759	32,246	26,425	27,703	
300,000	Atlas Pipeline Partners LP 8.75% June 15, 2018	290,170	304,200	265,500	278,337	
1,000,000	Atlas Pipeline Partners LP 8.1255% December 15, 2015	672,932	705,468	885,000	927,790	
140,000	Axcan Intermediate Holdings Inc. 9.25% due March 1, 2015	131,804	138,177	151,025	158,327	
59,000	Bank of America Corp. 5.15%, due May 30, 2017	—	55,451	—	55,517	
450,000	BC Telecom Inc. 10.65%, due June 19, 2021	—	621,338	—	608,417	
240,000	BC Telecom Inc. 11.9%, due November 22, 2015	—	333,461	—	327,954	
500,000	Belden Inc. 9.25%, due June 15, 2019	533,925	559,740	551,250	577,903	
500,000	Berry Plastics Escrow Corp. 8.25% November 15, 2015	501,583	525,834	502,500	526,796	
250,000	Berry Plastics Escrow Corp. 8.875% September 15, 2014	234,068	245,385	243,125	254,880	
12,199	Canadian Capital Auto Rec Trust 4.515%, due October 17, 2014	—	12,140	—	12,156	
250,000	Canadian Oil Sands Ltd. 7.750%, due May 15, 2019	277,763	291,193	282,045	295,682	
1,000,000	Cascades Inc. 7.75%, due December 15, 2016	941,193	986,700	949,905	995,833	
250,000	CB Richard Ellis Services Inc. 11.625%, due June 15, 2017	262,315	274,998	277,500	290,917	
949,724	CCH II LLC 13.5%, due November 30, 2016	942,639	988,216	1,118,300	1,172,370	
25,000	Cendant Car Rental Group LLC 7.625%, due May 15, 2014	27,462	28,790	23,750	24,898	
225,000	Cendant Car Rental Group LLC 7.75%, due May 15, 2016	236,973	248,431	210,375	220,547	
200,000	Century Aluminum Co. 7.5%, due August 15, 2014	241,122	252,780	186,500	195,517	
60,000	Citigroup Financial Corp., 5.5%, due May 21, 2013	—	59,217	—	61,674	
68,000	Citigroup Inc. 5.16%, due May 24, 2027	—	55,867	—	53,220	
306,000	Columbia/HCA Healthcare Corporation 8.36%, due April 15, 2024	324,043	339,710	290,700	304,755	
1,000,000	Columbus International Inc. 11.25%, due November 20, 2014	1,003,100	1,051,600	1,050,000	1,100,767	
80,000	Columbus McKinnon Corp. 8.875%, due November 1, 2013	91,068	95,471	81,700	85,650	
250,000	Commercial Barge Line Co. 12.5%, due July 15, 2017	263,976	276,739	260,000	272,571	
45,000	Commerzbank AG, 4.5%, due December 15, 2016	—	43,007	—	39,147	
500,000	Conacher Oil & Gas, 10.25% due December 15, 2015	463,336	485,738	457,500	479,620	
500,000	Crown Castle International Corp. 7.125%, due November 1, 2019	497,856	521,927	495,000	518,933	
300,000	CSC Holdings Inc., 8.5% due June 15, 2015	283,846	297,570	319,500	334,948	
1,000,000	Edison Mission Energy 7.50%, due June 15, 2013	973,290	1,020,348	940,000	985,449	
300,000	El Paso Natural 7.25% due June 1, 2018	283,760	297,480	296,400	310,731	
250,000	Essar Steel Algoma Inc. 9.375%, due March 15, 2015	248,176	260,175	246,563	258,484	
47,000	Finning International, 6.02% due June 1, 2018	—	47,220	—	49,493	
141,000	Flextronics Intl 6.5%, due May 15, 2013	126,376	132,486	141,353	148,187	
250,000	Fontainebleau Las Vegas Holdings LLC 10.25%, June 15, 2015	253,041	265,275	2,500	2,621	
500,000	Foot Locker Inc. 8.5%, due January 15, 2022	637,738	668,573	472,500	495,345	
1,000,000	Ford Motor Credit Co. LLC 7.5%, due August 1, 2012	945,288	990,993	1,008,460	1,057,219	
250,000	Gibson Energy ULC. 11.75%, due May 27, 2014	260,400	272,990	271,250	284,365	
1,000,000	Great Canadian Gaming Corp. 7.25%, due February 15, 2015	1,004,968	1,053,558	961,250	1,007,726	
60,000	Government of Canada 4.0%, due June 1, 2016	—	64,287	—	63,107	
800,000	Harrhahs Operating Co. 5.625%, due June 1, 2015	727,292	762,456	476,000	499,015	
126,000	HBOS PLC FLTG 5.109% due June 21, 2017	—	123,669	—	100,799	
45,000	HCA Inc. 6.25%, due February 15, 2013	38,000	39,837	43,762	45,878	
250,000	HCA Inc. 8.5%, due April 15, 2019	287,843	301,760	269,375	282,399	
250,000	Helix Energy 9.50%, due January 15, 2016	239,853	251,450	256,250	268,640	
250,000	Hercules Offshore Inc. 10.5%, due October 15, 2017	239,800	251,394	263,750	276,502	
90,000	ING Bank of Canada 4.3%, due December 5, 2016	—	87,128	—	90,273	
800,000	Iron Mountain Inc. 7.75%, due January 15, 2015	996,831	1,045,028	804,000	842,873	
250,000	Limited Brands Inc. 8.50%, due June 15, 2019	261,318	273,953	271,875	285,020	
1,500,000	Mandalay Resort Group 7.625%, due July 15, 2013	1,227,958	1,287,330	1,170,000	1,226,569	
500,000	MetroPCS Wireless Inc. 9.25%, due November 1, 2014	534,697	560,550	506,250	530,727	
250,000	MGM Mirage 7.5%, due June 1, 2016	259,789	272,350	195,000	204,428	
125,000	MGM Mirage 7.625%, due January 15, 2017	138,456	145,150	97,188	101,887	
250,000	Mohegan Tribal Gaming Authority 11.5%, due November 1, 2017	239,128	250,690	255,000	267,329	
800,000	MTR Gaming Group Inc., 9% due June 1, 2012	608,202	637,608	632,000	662,557	
1,000,000	NCL Corporation Ltd. 11.75%, due November 15, 2016	1,004,791	1,053,373	987,500	1,035,246	
225,000	Neff Corp. Term Loan 4.82%, due May 31, 2013	94,386	98,950	183,938	192,831	
800,000	Nextel Communications Inc. 6.875%, due October 31, 2013	960,231	1,006,658	776,000	813,520	
660,000	Nova Gas Transmission Ltd. 12.2%, due February 28, 2016	—	941,906	—	932,609	
50,000	Novelis Inc. 7.25%, due July 15, 2015	52,558	55,099	47,625	49,928	
55,000	NXP Funding LLC 7.87%, due October 15, 2014	59,363	62,233	49,913	52,326	
100,000	Omega Healthcare Investors, Inc. 7%, due January 15, 2016	111,310	116,692	98,500	103,262	
500,000	OPTI Canada Inc. 8.25%, December 15, 2014	563,561	590,809	411,875	431,789	
1,000,000	Pacific Rubiales Energy Corp. 8.75%, due November 10, 2016	1,000,400	1,048,769	1,050,000	1,100,767	
1,500,000	Paetec Holding Corp. 8.875%, due June 30, 2017	1,588,935	1,665,760	1,518,749	1,592,181	
1,000,000	Petropol Finance Ltd. 7.00%, due May 1, 2017	854,593	895,913	900,000	943,515	
1,000,000	Potlatch Corp. 7.5%, due November 1, 2019	1,007,543	1,056,258	1,010,690	1,059,557	
250,000	Regency Energy Partners LP 9.375%, due June 1, 2016	262,054	274,724	266,250	279,123	
750,000	Reliance Intermediate Holdings LP 9.5%, due December 15, 2019	738,495	774,201	780,938	818,696	
500,000	Ryerson Inc. 12%, due November 1, 2015	488,956	512,597	522,500	547,763	

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

## STATEMENT OF INVESTMENTS (continued)

As at December 31, 2009		Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
<b>Par Value (\$)</b>	<b>Fixed Income Investments (continued)</b>					
500,000	Seagate Technology 6.375%, due October 11, 2011	\$ 532,574	\$ 558,324	\$ 508,750	\$ 533,348	
300,000	Sears Canada Inc. 7.05%, due September 20, 2010	—	310,200	—	304,193	
1,212,000	Sears Canada Inc. 7.45%, due May 10, 2010	—	1,255,426	—	1,227,658	
250,000	Sherritt International Corporation 7.875%, due November 26, 2012	—	250,000	—	258,438	
250,000	Sherritt International Corporation 7.75%, due October 15, 2015	—	250,000	—	255,192	
250,000	Sherritt International Corporation 8.25%, due October 24, 2014	—	250,000	—	257,969	
1,000,000	SLM Corporation 4.625%, due June 15, 2011	844,184	885,000	888,544	931,505	
265,000	Smithfield Foods Inc. 7.00%, due May 15, 2013	233,319	244,600	257,050	269,478	
250,000	Smithfield Foods Inc. 10.00%, due July 15, 2014	264,418	277,203	271,250	284,365	
100,000	Snoqualmie Entertainment Authority 9.125%, due February 1, 2015	112,644	118,090	53,000	55,563	
65,000	St. George Bank Limited 4.65%, due April 23, 2017	—	61,855	—	65,503	
500,000	Stater Bros. Holdings Inc. 8.125%, due June 15, 2012	582,545	610,711	505,000	529,417	
500,000	Steel Dynamics 7.375%, due November 1, 2012	469,023	491,700	515,000	539,900	
170,000	Stratos Global Corporation 9.875%, due February 15, 2013	173,674	182,071	179,350	188,022	
1,000,000	Sun Healthcare Group, Inc. 9.125%, due April 15, 2015	1,038,748	1,088,971	1,027,500	1,077,180	
134,000	Suncor Energy Inc. 5.39%, due March 26, 2037	—	119,131	—	117,852	
1,000,000	Superior Plus Corp. 8.25%, due October 27, 2016	—	1,000,000	—	1,022,801	
95,000	Syniverse Technologies Inc. 7.75%, due August 15, 2013	110,404	115,742	94,406	98,971	
300,000	Targa Resources Partners LP 8.25%, due July 1, 2016	295,436	309,720	297,375	311,753	
400,000	Teekay Shipping Corporation 8.875%, due July 15, 2011	539,868	565,971	414,500	434,541	
500,000	Tesoro Corporation 6.25%, due November 1, 2012	446,874	468,480	500,000	524,175	
300,000	Texas Competitive Electric Holdings 10.25%, due November 15, 2015	287,286	301,176	243,000	254,749	
500,000	Toys R Us Property Company I, LLC 10.75%, due July 15, 2017	540,254	566,375	547,500	573,972	
250,000	U.S. Concrete Inc. 8.375%, due April 1, 2014	224,463	235,316	150,312	157,580	
1,250,000	Viterra Inc. Sr Note 8.50% due July 7, 2014	—	1,250,000	—	1,339,511	
250,000	Viterra Inc. 8.50% due August 1, 2017	—	250,000	—	261,581	
350,000	Western Oil Sands Inc. 8.375%, due May 1, 2012	485,119	508,574	391,773	410,715	
125,000	Westlake Chemical Corp. 6.625%, due January 15, 2016	137,624	144,278	119,532	125,311	
520,000	Wind Acquisition Fin SA. 10.75%, due December 1, 2015	604,589	633,821	556,400	583,302	
	<b>Total Fixed Income Investments</b>	<b>43,079,604</b>	<b>53,836,772</b>	<b>41,747,545</b>	<b>52,518,776</b>	<b>13.1%</b>
<b>No. of Shares</b>	<b>Canadian Dividend-Paying Equities</b>					
77,225	AG Growth International Inc.	—	2,278,138	—	2,687,430	
569,947	BCE Inc.	—	14,443,550	—	16,499,966	
146,832	Crescent Point Energy Corp.	—	5,579,616	—	5,792,522	
121,418	Husky Energy Inc.	—	3,514,127	—	3,644,968	
197,650	IGM Financial Inc.	—	8,084,536	—	8,346,760	
155,699	Imperial Oil Ltd.	—	6,121,612	—	6,322,936	
260,182	Mullen Group Ltd.	—	5,945,159	—	4,230,559	
313,383	Power Corporation of Canada	—	8,228,557	—	9,125,713	
195,800	Power Financial Corp.	—	5,832,109	—	6,067,842	
96,160	Sun Life Financial Inc.	—	2,620,451	—	2,901,147	
570,373	TELUS Corporation	—	18,352,127	—	19,415,497	
553,091	TransCanada Corporation	—	17,661,109	—	19,994,240	
532,390	TransForce Inc.	—	3,582,981	—	4,440,133	
	<b>Total Canadian Dividend-Paying Equities</b>	<b>—</b>	<b>102,244,072</b>	<b>—</b>	<b>109,469,713</b>	<b>27.3%</b>
	<b>Embedded Broker Commission (note 2)</b>	<b>—</b>	<b>(165,317)</b>	<b>—</b>	<b>—</b>	
	<b>Total</b>	<b>\$ 43,079,604</b>	<b>\$426,700,280</b>	<b>\$ 41,747,545</b>	<b>\$400,788,196</b>	<b>100.0%</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 2009 and 2008

### 1. OPERATIONS

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

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

- i) Amend the investment strategies and restrictions of the Fund to provide exposure to a portfolio including income trusts, dividend-paying common equities, convertible debt, preferred shares, and investment grade and high-yield debt;
- ii) Amend the redemption provisions of the Fund, including the annual redemption date; and
- iii) Approve the merger of Brompton Stable Income Fund, Brompton Equal Weight Income Fund, Business Trust Equal Weight Income Fund, BG Top 100 Equal Weighted Income Fund, Brompton Tracker Fund and BG Income + Growth Split Trust into the Fund (the “Merger”).

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

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

#### a) Adoption of New Accounting Standards

##### *Basis of Fair Value Measurement*

Effective January 1, 2009, the Fund adopted the amendments to Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3862, “Financial Instruments – Disclosures,” which require additional disclosure about the estimated fair value of financial instruments.

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

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

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

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

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

***EIC-173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities***

On January 20, 2009, the Canadian Accounting Standards Board (“AcSB”) issued Emerging Issues Committee Abstract 173: Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (“EIC-173”). EIC-173 supplements CICA Handbook Section 3855 wherein it states that fair value takes into account the credit quality of a financial instrument. The EIC affirms that an entity’s own credit risk (in the case of financial liabilities) and a counterparty’s credit risk (in the case of financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.

The Manager has reviewed its policies over valuation of assets and liabilities and believes that the fair values ascribed to financial assets and financial liabilities in these financial statements incorporate appropriate levels of credit risk.

**b) Valuation of Investments**

Investments are deemed held for trading in accordance with Section 3855. The Fund’s investments are valued at estimated fair value. Investments held long that are publicly traded are valued at their bid price on the valuation date. Investments with no available bid price are valued at their closing price. Short-term investments and bonds are valued at the average bid quotations from recognized investment dealers. Securities for which quotations are not readily available are valued at their fair value primarily based on the results of valuation techniques using observable market inputs. The cost of investments is based on their average cost.

**c) Cash and Short-term Investments**

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

**d) Investment Transactions and Income Recognition**

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

**e) Transaction Costs**

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

**f) Income Taxes**

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

**g) Foreign Exchange**

The fair 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. Investments and loan transactions, and income and expenses denominated in foreign currencies are translated at the rate of exchange prevailing at the time of such transactions.

**h) Securities Lending**

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

**i) Other Assets and Liabilities**

For the purposes of categorization in accordance with Section 3855, income receivable is designated as loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities, distributions payable to unitholders, redemptions payable to unitholders, amounts payable for investments purchased and loans payable are designated as financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short-term nature.

**j) Future Accounting Changes**

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

The Fund has developed a plan to meet the timetable published by the CICA for changeover to IFRS. Key elements of the plan include the determination of the qualitative impact and the quantitative impact, if any, on the Fund’s financial statements in accordance with IFRS. The Fund has presently determined that there will be no impact to Net Assets per unit from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the area of additional note disclosures and, potentially, different presentation of unitholders’ equity in the financial statements of the Fund.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 3. RECONCILIATION OF NET ASSETS TO NET ASSET VALUE

In accordance with National Instrument (“NI”) 81-106, a reconciliation was required between the Net Assets for financial reporting purposes (the “Net Assets”) and the Net Asset Value for reporting other than in the financial statements (the “Net Asset Value”). The reconciliation is as follows:

As at December 31	2009			2008	
	Total	Per Unit – Basic	Per Unit – Diluted	Total	Per Unit – Basic and Diluted
Net Asset Value	\$ 366,288,886	\$ 8.94	\$ 8.76	\$ 347,357,640	\$ 7.36
Section 3855 adjustment	(1,244,067)	(0.03)	(0.02)	(2,583,493)	(0.06)
Net Assets	\$ 365,044,819	\$ 8.91	\$ 8.74	\$ 344,774,147	\$ 7.30

### 4. UNITS OF THE FUND

#### Authorized

The Fund is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal, undivided interest in the Net Asset Value of the Fund. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Fund. At a special meeting on June 9, 2008, unitholders approved a change in the annual redemption date from the second last business day of December to the second last business day of August, commencing in August 2008. Units may be redeemed at the option of unitholders by tendering units of the Fund by the last business day of July for redemptions on the second last business day of August (“Redemption Valuation Date”). Redemption of tendered units will be settled based on the Net Asset Value per unit on the Redemption Valuation Date, less associated costs of the redemption, including brokerage costs. Units tendered for redemption will be redeemed effective the Redemption Valuation Date of each year and will be settled on or before the tenth business day in September.

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

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid program for the period from November 10, 2008 to November 9, 2009. Pursuant to the issuer bid, the Fund was permitted to purchase up to 4,722,900 units for cancellation. The Fund renewed its issuer bid for the period from November 10, 2009 to November 9, 2010. Pursuant to this issuer bid, the Fund is permitted to purchase up to 4,090,900 units for cancellation. The Fund may only repurchase units when the Net Asset Value per unit exceeds its trading price.

#### Issued

	2009		2008	
	Number of Units	Amount	Number of Units	Amount
Units, beginning of year	47,201,693	\$ 628,154,770	7,039,538	\$ 79,854,541
Issuance of units upon Fund Merger, net	—	—	51,373,482	697,626,336
Issuance of units upon exercise of warrants, net (note 6)	19,562,072	131,468,624	—	—
Repurchase of units	(379,100)	(4,725,664)	(381,622)	(4,976,887)
Redemption of units	(25,432,305)	(289,213,801)	(10,887,347)	(144,930,192)
Units issued under the distribution reinvestment plan	—	—	57,642	580,972
Units, end of year	40,952,360	\$ 465,683,929	47,201,693	\$ 628,154,770

On July 4, 2008, the Fund completed the Merger by exchanging the units of the merging funds for units of the Fund. As a result of the Merger, the Fund issued 51,373,482 units based on the exchange ratios calculated of each merging fund for a total of \$697,626,336. The value ascribed to the units issued in conjunction with the Merger (note 1) is net of related unit issuance costs of \$258,961.

On August 31, 2009, 25,432,216 units (2008 – 10,886,918) were redeemed at \$7.90 (2008 – \$13.47) per unit.

Pursuant to the monthly redemption option, 89 (2008 – 429) units were redeemed at an average price of \$5.76 during the year.

During the year ended December 31, 2009, 379,100 (2008 – 381,622) units were purchased for cancellation.

As at December 31, 2009, the Fund had accumulated contributed surplus of \$91,293,797 (2008 – \$1,004,163). Contributed surplus is recorded when units of the Fund are redeemed or repurchased at prices per unit which are below the average cost per unit of unitholders’ capital.

The weighted average number of units outstanding for the year ended December 31, 2009, was 50,113,920 (2008 – 28,723,566).

## 5. PREFERRED SECURITIES

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

## 6. WARRANTS

Unitholders received warrants on the basis of one-half of one warrant for each unit held on December 8, 2008. A whole warrant entitled the holder to subscribe for one unit of the Fund at a subscription price of \$6.84. Warrants not exercised prior to May 27, 2009 were void and of no value. Upon the exercise of a warrant, the Fund paid a fee equal to \$0.12 per warrant to the dealer whose client was exercising the warrant. The Fund issued 23,619,047 warrants to unitholders of record on December 8, 2008. During the year ended December 31, 2009, 19,555,099 warrants were exercised for net proceeds of \$131,410,265 and 4,063,948 warrants were expired. The fair value of each warrant on the date of issuance was nil. Costs associated with the issuance of these warrants amounted to \$235,570.

Unitholders received Class A warrants on the basis of one-third of one warrant for each unit held on November 16, 2009. A whole Class A warrant entitles the holder to subscribe for one unit of the Fund at a subscription price of \$8.33. Class A warrants not exercised prior to April 15, 2010 will be void and of no value. Upon the exercise of a Class A warrant, the Fund will pay a fee equal to \$0.13 per warrant to the dealer whose client is exercising the warrant.

The Fund issued 13,663,062 Class A warrants to unitholders of record on November 16, 2009. During the year ended December 31, 2009, 6,973 Class A warrants were exercised for net proceeds of \$57,179. The fair value of each warrant on the date of issuance was \$0.185 per warrant. Costs associated with the issuance of these warrants amounted to \$215,000.

Diluted Net Assets per unit is calculated when the closing price on the Toronto Stock Exchange of the Fund's units on a valuation date is greater than the subscription price. To calculate Diluted Net Assets per unit, Net Assets are increased by the net proceeds received from the exercise of all warrants and units are increased by the number of units issued from the exercise of all warrants. The closing price of the Fund on December 31, 2009 was \$8.47 per unit.

Diluted increase (decrease) in Net Assets from operations per unit is calculated using the treasury stock method. The average price of the Fund for the period from November 16, 2009 to December 31, 2009 was \$8.11 per unit.

## 7. CAPITAL MANAGEMENT

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

## 8. DISTRIBUTIONS PAYABLE TO UNITHOLDERS

Distributions, as declared by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month. The distributions are payable by the tenth business day of the following month. For the year ended December 31, 2009, the Fund declared total distributions of \$0.95 (2008 – \$1.14) per unit, which amounted to \$47,163,913 (2008 – \$33,257,691) and recorded distributions of \$0.30 (2008 – \$0.30) per Preferred security which amounted to \$376,252 (2008 – \$455,741). 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, 2009, no (2008 – 57,642) units in respect of distributions were issued by the Fund.

## 9. MANAGEMENT AND SERVICE FEES

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

**NOTES TO THE FINANCIAL STATEMENTS** (continued)**10. INVESTMENT TRANSACTIONS**

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

	2009	2008
Proceeds from sale of investments	\$ 302,958,029	\$ 192,654,252
Less cost of investments sold:		
Investments at cost, beginning of year	709,652,934	118,152,666
Investments purchased during the year	143,150,275	34,868,056
Investments transferred in upon the Merger	—	784,426,367
Investments at cost, end of year	(426,700,280)	(709,652,934)
Cost of investments sold during the year	426,102,929	227,794,155
Net realized loss on sale of investments	\$(123,144,900)	\$ (35,139,903)

Foreign exchange losses arising from the disposition of investments of \$725,478 (2008 – gains of \$1,045,212) are included in the net realized loss of \$123,144,900 (2008 – loss of \$35,139,903) above.

The brokerage commissions paid to dealers included \$16,024 (2008 – \$8,070) that was available for paying to third party vendors, of which \$16,024 (2008 – \$5,190) was used for research and nil (2008 – \$2,880) was used for market data services by the Portfolio Manager.

**11. SECURITIES LENDING**

The Fund has entered into a securities lending program with its custodian, RBC Dexia Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or the United States Government or its agencies, or a permitted supranational agency as defined in NI 81-102. The market values of the securities on loan and the related collateral at December 31, 2009, were \$96.3 million (2008 – \$113.0 million) and \$98.9 million (2008 – \$120.7 million), respectively.

**12. LOANS PAYABLE**

Pursuant to an agreement with a Canadian chartered bank, the Fund maintains a 364-day revolving credit facility. The revolving credit facility provides for maximum borrowings of \$95.0 million (2008 – \$190.0 million) with borrowings in Canadian currency at either the prime rate of interest or the bankers' acceptance rate, plus a fixed percentage, or in US currency at either the US base rate, or the LIBOR rate plus a fixed percentage. There was \$79.0 million outstanding under this facility as at December 31, 2009.

During the year ended December 31, 2009, the Fund realized a foreign exchange gain in the amount of \$3,439,558 (2008 – gain of \$909,949) on the repayment of borrowings in US dollars under the credit facility. At December 31, 2009, borrowings in US dollars had an unrealized foreign exchange gain of \$405,724 (2008 – gain of \$2,195). The credit facility is secured by a first-ranking and exclusive charge on all of the Fund's assets. During the year ended December 31, 2009, the minimum and maximum amounts of borrowings were \$20.5 million (2008 – \$13.6 million) and \$101.3 million (2008 – \$163.1 million), respectively.

**13. FINANCIAL RISK MANAGEMENT**

The Fund's investment activities expose it to a variety of financial risks. The Statement of Investments presents the securities held by the Fund as at December 31, 2009, and groups the securities by asset type and market segment. Significant risks that are relevant to the Fund are discussed below.

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

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

**a) Interest Rate Risk**

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

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

The table below summarizes the Fund's exposure to interest rate risk as at December 31, 2009 by remaining term to maturity.

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

As at December 31, 2008:

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

As at December 31, 2009, had prevailing interest rates increased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have decreased by approximately \$2.2 million or 0.6% (2008 – \$2.4 million or 0.7%). Similarly, had prevailing interest rates decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have increased by approximately \$2.2 million or 0.6% (2008 – \$2.8 million or 0.8%). The Fund's sensitivity to interest rate changes was estimated using the weighted average duration of the portfolio and the impact on annual interest expense for the loans payable. In practice, the actual trading results may differ, and the difference could be material.

**b) Currency Risk**

Currency risk is the risk that financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. The investment portfolio is comprised of income trusts, dividend-paying equities and US denominated debt securities. As at December 31, 2009, the Fund's exposure to US dollar foreign exchange of US\$41.7 million was substantially hedged through its US dollar denominated loans of US\$39.2 million; see note 12.

**c) Other Price Risk**

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

The Fund is exposed to other price risk from its investment in income trusts and equity securities. As at December 31, 2009, had the prices on the respective stock exchanges for these securities increased or decreased by 10%, with all other variables held constant, Net Assets would have increased or decreased by approximately \$34.8 million, or 9.5%, of total Net Assets (2008 – approximately \$42.9 million, or 12.5%, of total Net Assets). In practice, the actual trading results may differ, and the difference could be material.

**NOTES TO THE FINANCIAL STATEMENTS** (continued)**d) Credit Risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund's greatest concentration of credit risk is in debt securities. The fair value of debt securities includes consideration of the creditworthiness of the issuer. The carrying amount of investments, as presented on the Statement of Investments, represents the maximum credit risk exposure as at December 31, 2009. The carrying amount of the Fund's other assets also represents the maximum credit risk exposure, as they will be settled in the short term.

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

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

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

As at December 31, 2009, the Fund invested 22.7% (2008 – 6.6%) of its portfolio in debt securities with the following credit ratings. Credit ratings are obtained from Standard & Poor's, Moody's and/or Dominion Bond Rating Service.

**Debt Securities by Rating Category**

AAA	48%
AA	1%
A	2%
BBB	3%
Below BBB	46%
<b>Total</b>	<b>100%</b>

As at December 31, 2008:

AAA	1%
AA	3%
A	17%
BBB	26%
Below BBB	53%
<b>Total</b>	<b>100%</b>

As of December 31, 2009 and 2008, securities rated AAA were comprised of short-term investments.

**e) Liquidity Risk**

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

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

All of the Fund's financial liabilities had maturities of less than three months.

**14. FAIR VALUE DISCLOSURES**

The Fund's assets and liabilities recorded at fair value have been categorized in accordance with the amendments to Section 3862 (see note 2) as follows:

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

There were no transfers among the levels during the year.

**15. INCOME TAXES**

The Fund had accumulated capital losses as at December 31, 2009 of \$116,868,734 (2008 – \$39,452,483). The capital losses can be carried forward for an indefinite period.

## CORPORATE INFORMATION

### Independent Review Committee

James W. Davie, BComm, MBA

Arthur R.A. Scace, QC, CM

Ken S. Woolner, BSc, PEng

### Directors and Officers

Peter A. Braaten, BA, MBA  
Director

Raymond R. Pether, BA, MBA  
Director

Mark A. Caranci, BComm, CA  
Director, President and  
Chief Executive Officer

Craig T. Kikuchi, BA, CA, CFA  
Chief Financial Officer

David E. Roode, BA, CA, MBA  
Senior Vice President

Moyra E. MacKay, BA  
Vice President and Corporate Secretary

Lorne J. Zeiler, BA, MBA, CFA  
Vice President

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

Christopher Cullen, BAsc, MBA, CFA  
Vice President

### Continuous Disclosure Manager

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Phone: 416-642-6008

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### Trustee

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### Custodian

RBC Dexia Investor Services Trust

### Banker

Bank of Nova Scotia

### Auditors

PricewaterhouseCoopers LLP

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