



**BROMPTON**  
FUNDS



VALUE  
INTEGRITY  
PERFORMANCE

*– the foundation for excellence*



BROMPTON **VIP** INCOME FUND

**VIP.UN**

Portfolio of income funds and high-yield debt actively managed by MFC Global Investment Management.

### Management Report of Fund Performance

March 12, 2008

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. The audited annual financial statements follow this report.

Unitholders may obtain a copy of the Fund’s proxy voting policies and procedures, proxy voting disclosure record, independent review committee’s report, or quarterly portfolio disclosure, at no cost, by calling 866-642-6001 or by sending a request to Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, P.O. Box 793, Toronto, Ontario, M5J 2T3.

## The Fund

Brompton VIP Income Fund is a closed-end investment trust that is managed by Brompton Funds Management Limited (the “Manager”). The units of the Fund trade on the Toronto Stock Exchange (“TSX”) under the symbol VIP.UN.

## Investment Objectives and Strategies

The Fund’s objectives 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 utilizes an active asset and sector allocation strategy to invest in a diversified portfolio of income trusts and high-yield debt across a broad range of industries and geographic areas. Its investment focus is on business funds, with smaller weightings in real estate investment trusts, oil and gas trusts, power and pipeline trusts and high-yield debt, and the Fund may invest a portion (less than 10%) in common equities. The Fund is actively managed by MFC Global Investment Management (“MFC”), a subsidiary of Manulife Financial Corp., a top-ranked portfolio manager of income fund investments with extensive experience in income trusts and high-yield fixed income investments. The Fund is RRSP, DPSP, RRIF and RESP eligible.

## Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund’s 2007 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). There were no changes to the Fund over the period that materially affected the risks associated with an investment in the units of the Fund.

## Recent Developments

### Adoption of Accounting Standard in the Financial Statements

The Fund has adopted the new accounting standard, Canadian Institute of Chartered Accountants (“CICA”) Section 3855, Financial Instruments – Recognition and Measurement, in the December 31, 2007 financial statements, and it has been applied retroactively without restatement of prior periods. This standard, which applies to fiscal years beginning after September 30, 2006, has caused the Fund to change the way it determines the value of securities it holds in its portfolio for financial statement purposes. In particular, securities traded in an active market are valued using the last available bid price, rather than the closing price, for exchange-traded securities and at the average of the latest bid and ask prices for securities traded over-the-counter.

Investment funds, including the Fund, are currently exempt from applying CICA Section 3855 in the calculation of its weekly net asset values (“Published NAV”) and the amount of the net asset value for redemption purposes. As a result, the Published NAVs of the Fund are not the same as the net assets values calculated in accordance with GAAP (“GAAP NAV”). As at December 31, 2007, the Published NAV per unit was \$14.61 and the GAAP NAV per unit was \$14.51. A reconciliation is also provided in the notes to the financial statements.

*In accordance with investment fund industry practice, all figures presented in this management report of fund performance are based on the Fund’s Published NAV, except for the figures presented in the Net Asset Value 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 (GAAP NAV).*

## Results of Operations

### Distributions

During the year ended December 31, 2007, the Fund made monthly cash distributions which totaled \$1.08 (2006 – \$1.02) per unit. Since inception in February 2002, the Fund has paid total cash distributions of \$5.93 per unit.

Due to the decrease in the size of the portfolio as a result of redemptions at the end of 2006, the Fund’s income fund portfolio generated less distribution income in 2007 (\$10.3 million) compared to 2006 (\$12.5 million). The Fund’s fixed income portfolio also generated less income in 2007 (\$2.0 million) compared to 2006 (\$2.9 million). Total expenses declined in 2007 to \$3.1 million versus \$4.1 million in 2006. This decline was largely the result of a lower average net asset value, which affects management and service fees.

A breakdown of the tax characteristics of the 2007 distributions paid by the Fund is provided later in this report under 2007 Tax Information.

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, 2007, 37,414 units were acquired in the market pursuant to this plan, at an average price of \$13.88 per unit.

### Net Asset Value

As a result of a rise in the value of the securities held in the Fund’s investment portfolio, the net asset value per unit increased by \$1.06 per unit, or 7.8%, from \$13.55 per unit to \$14.61 per unit, over the year. The increase in the value of the securities was offset by the amounts of redemptions and repurchases under the issuer bid program, resulting in the aggregate net assets of the Fund decreasing from \$113 million to \$103 million over the year.

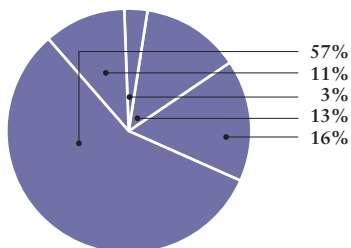
### Investment Portfolio

As of December 31, 2007, the Fund’s investments included a total of 35 income funds and 63 fixed income investments, which provide diversification by issuer, industry, and asset class. The breakdown of the portfolio is shown in the pie chart below, and a detailed listing of the Fund’s security holdings is provided in the financial statements.

The table below shows the net gains (losses) in the portfolio by sector. The Fund’s portfolio experienced net gains of \$3.9 million. Business funds were the best performing sector.

The fixed income securities are 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 foreign exchange hedging are included with the gains or losses on the fixed income securities to show the net gain from this investment activity.

### Portfolio Sectors



Net Gains (Losses) by Sector (millions)	Realized	Unrealized	Total
Business funds	\$ 5.0	\$ 7.3	\$ 12.3
Oil and gas funds	0.1	0.1	0.2
Power and pipeline funds	0.5	(0.8)	(0.3)
Real estate investment trusts	0.9	(4.4)	(3.5)
Fixed income investments	(0.6)	(4.2)	(4.8)
<b>Total</b>	<b>\$ 5.9</b>	<b>\$ (2.0)</b>	<b>\$ 3.9</b>

## Liquidity and Capital Resources

As of December 31, 2007, the Fund had total borrowings of \$28.7 million under its three credit facilities, which represented 19.6% of total assets, or 27.9% 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, 2007, the Fund had borrowings based on the bankers' acceptance rate of \$8.0 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 with a five-year term to July 14, 2010 and a fixed rate of interest of 4.86%. These loans represent \$20.7 million of the total borrowings at December 31, 2007. At December 31, 2007, borrowings in US dollars had an unrealized foreign exchange gain of \$3.6 million, which hedges foreign exchange losses on the Fund's US dollar investments. The term loans have been used to invest in additional portfolio investments to increase the overall distributions paid by the Fund. The revolving credit facility has also been used to invest in additional portfolio investments as well as for working capital purposes. During the year ended December 31, 2007, the minimum and maximum amounts of borrowings were \$27.5 million and \$41.3 million, respectively.

To provide liquidity, units of the Fund are listed on the TSX under the symbol VIP.UN. The Fund's normal course issuer bid program allows it to purchase its units on the TSX 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 336,200 units were purchased during the year ended December 31, 2007 under this program at an average price of \$13.54 per unit. During the year ended December 31, 2007, units of the Fund traded at an average discount to their net asset value per unit of 4.8%. Investors may also redeem their units annually in accordance with their redemption provisions.

## Related Party Transactions

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 Published NAV of the Fund plus applicable taxes. The Manager is responsible for paying the fees of MFC 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 Published NAV 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. During the year ended December 31, 2007, management and service fees amounted to \$1.1 million and \$0.5 million, respectively.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the fiscal periods indicated. This information is derived from the Fund's audited annual and unaudited interim financial statements. *The information in the following tables is presented in accordance with NI 81-106 and, as a result, does not act as a continuity of opening and closing net asset value 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 Asset Value per Unit

For the Years Ended December 31	2007	2006	2005	2004	2003
Net asset value, beginning of year <sup>(1)(2)</sup>	\$ 13.48	\$ 14.77	\$ 13.70	\$ 11.36	\$ 9.29
Increase (decrease) from operations: <sup>(3)</sup>					
Total revenue	1.53	1.48	1.32	1.25	1.26
Total expenses	(0.39)	(0.39)	(0.31)	(0.28)	(0.25)
Realized gain (loss) for the year	0.75	0.80	0.71	0.25	0.01
Unrealized gain (loss) for the year	0.20	(2.12)	0.30	2.20	2.04
<b>Total increase (decrease) in net assets from operations</b>	<b>\$ 2.09</b>	<b>\$ (0.23)</b>	<b>\$ 2.02</b>	<b>\$ 3.42</b>	<b>\$ 3.06</b>
Distributions to unitholders: <sup>(2)</sup>					
From net investment income (excluding dividends)	\$ 0.96	\$ 0.71	\$ 0.61	\$ 0.48	\$ 0.52
From dividends	0.05	0.05	0.06	0.05	0.07
From net realized gain on investments	—	—	—	0.14	—
Return of capital	0.07	0.26	0.33	0.43	0.41
<b>Total distributions to unitholders</b>	<b>\$ 1.08</b>	<b>\$ 1.02</b>	<b>\$ 1.00</b>	<b>\$ 1.10</b>	<b>\$ 1.00</b>
<b>Net asset value, end of year<sup>(1)(2)</sup></b>	<b>\$ 14.51</b>	<b>\$ 13.55</b>	<b>\$ 14.77</b>	<b>\$ 13.70</b>	<b>\$ 11.36</b>

<sup>(1)</sup> The net asset value per unit for prior periods is based on the prior period financial statements and has not been adjusted for the new accounting standards adopted in 2007. The net asset values at the beginning and at the end of the period for 2007 are the GAAP NAV.

<sup>(2)</sup> Net asset value per unit and distributions per unit are based on the actual number of units outstanding at the relevant time.

<sup>(3)</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 Published NAV)**

December 31	2007	2006	2005	2004	2003
Net assets (in 000s)	\$ 102,820	\$ 113,349	\$ 157,761	\$ 111,913	\$ 103,102
Number of units outstanding (in 000s)	7,040	8,365	10,683	8,170	9,077
Management expense ratio ("MER") <sup>(1)</sup>	2.66%	2.69%	2.24%	2.45%	2.47%
MER excluding interest expense and issuance costs <sup>(1)(2)</sup>	1.44%	1.46%	1.52%	1.51%	1.56%
Portfolio turnover rate <sup>(3)</sup>	8.95%	14.68%	17.75%	14.34%	28.04%
Trading expense ratio <sup>(4)</sup>	0.05%	0.05%	0.05%	N/A	N/A
Closing market price	\$ 13.86	\$ 12.61	\$ 13.80	\$ 13.30	\$ 11.20

<sup>(1)</sup> MER is based on the requirements of NI 81-106 and includes the total expenses of the Fund for the stated period, including interest expense and issuance costs, but excluding brokerage commissions on securities transactions, and is expressed as an annualized percentage of the average net assets of the period.

<sup>(2)</sup> MER, excluding interest expense and issuance costs, has been presented separately as it expresses only the ongoing management and administrative expenses of the Fund as a percentage of average net assets.

<sup>(3)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor 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 a 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. The portfolio turnover rate is not provided when a fund is less than one year old. 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 trading expense ratio represents total commissions expressed as an annualized percentage of daily average net assets of the Fund during the period. This disclosure was a new requirement in 2005 under NI 81-106 and was not applied retroactively.

**Expense Ratio**

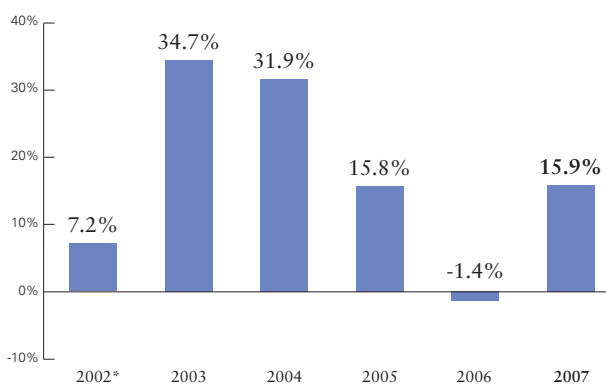
The MER of the Fund decreased slightly from 2.69% in 2006 to 2.66% in 2007. This ratio is exaggerated by the inclusion of interest expense on borrowings used to purchase additional portfolio investments to increase the distributions of the Fund.

The MER, excluding interest expense, decreased marginally from 1.46% in 2006 to 1.44% in 2007. This latter rate is more representative of the ongoing efficiency of the administration of the Fund.

**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 Published NAV per unit and assumes that distributions made by the Fund on its units in the periods shown were reinvested (at Published NAV per unit) in additional units of the Fund.

The bar chart shows the Fund's annual return in each year/period since inception to December 31, 2007. The chart shows, in percentage terms, how an investment held on the first day of each fiscal year/period would have changed by the last day of the fiscal year/period.

**Year-by-Year Returns**

\* For the period from February 19, 2001 (commencement of operations) to December 31, 2002.

The following table shows the Fund's annual compound return for each period indicated, compared with the S&P/TSX Capped Income Trust Index ("Income Trust 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 marketplace. Income trusts that qualify for inclusion must derive their distribution income from actual operating entities. The Income Trust Index is 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 <sup>(2)</sup>	15.9%	9.8%	18.6%	17.1%
S&P/TSX Capped Income Trust Index	6.6%	10.7%	18.9%	18.2%

<sup>(1)</sup> Period from February 19, 2002 (commencement of operations) to December 31, 2007.

<sup>(2)</sup> Based on Published NAV per unit and assuming that distributions made by the Fund on its units in the periods shown were reinvested (at Published NAV per unit) in additional units of the Fund.

The Fund generated a high return of 15.9% in 2007, significantly outperforming the Income Trust Index. This outperformance was mainly attributed to the Portfolio Manager's overweight position in business trusts, which represent over 50% of the portfolio, with a focus on consumer products and industrials, while being underweight both in oil and gas trusts and real estate investment trusts. The Fund also benefited from takeovers of portfolio holdings like Gateway Casinos Income Fund, Summit REIT and Canadian Cartage Diversified Income Fund, which were completed at significant premiums. The Fund also had a 16% allocation to US high-yield bonds, which provided additional diversification benefits, but produced low single returns and detracted from overall Fund performance.

Brompton VIP Income Fund is designed to provide investors with superior risk-adjusted returns and a high level of monthly income. The Fund has a lower risk profile to other income oriented equity funds due to the portfolio manager's disciplined investment style and the Fund's diversified holdings by asset class, sector and sources of income and return. Since inception, the Fund has provided investors with an outstanding compound annual return of 17.1%. The Fund has achieved these strong returns with lower levels of volatility by being overweight in business trusts, by allocating a significant portion of the portfolio to fixed income investments for diversification benefits and by holding an underweight position in the more volatile oil and gas trusts.

## Summary of Investment Portfolio

As at December 31, 2007

Total Published NAV	\$ 102,819,843
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Portfolio Composition	% of Portfolio	% of Published NAV
Business funds	52.2%	73.8%
Fixed income investments	15.0%	21.3%
Real estate investment trusts	12.4%	17.5%
Oil and gas funds	10.0%	14.2%
Cash and short-term investments	7.9%	11.1%
Power and pipeline funds	2.5%	3.6%
Total investment portfolio	100.0%	141.5%
Other net liabilities		(41.5%)
<b>Total net asset value</b>		<b>100.0%</b>

Top 25 Holdings	% of Portfolio	% of Published NAV
Cash and short-term investments	7.9%	11.1%
Davis + Henderson Income Fund	6.7%	9.5%
Energy Savings Income Fund	5.2%	7.4%
Boston Pizza Royalties Income Fund	5.1%	7.2%
Canadian Oil Sands Trust	4.6%	6.5%
Northern Property REIT	4.1%	5.8%
Altus Group Income Fund	3.8%	5.4%
BFI Canada Income Fund	3.5%	4.9%
RioCan REIT	2.7%	3.8%
Northland Power Income Fund	2.5%	3.6%
SIR Royalty Income Fund	2.4%	3.3%
Livingston International Income Fund	2.3%	3.3%
Pizza Pizza Royalty Income Fund	2.3%	3.2%
The Keg Royalties Income Fund	2.2%	3.2%
TimberWest Forest Corp.	2.2%	3.1%
Cineplex Galaxy Income Fund	2.0%	2.8%
Focus Energy Trust	2.0%	2.8%
Yellow Pages Income Fund	1.9%	2.7%
ARC Energy Trust	1.8%	2.6%
Chemtrade Logistics Income Fund	1.8%	2.6%
Cargojet Income Fund	1.8%	2.5%
Armtec Infrastructure Income Fund	1.8%	2.5%
Primaris Retail REIT	1.6%	2.2%
The Data Group Income Fund	1.5%	2.2%
CI Financial Income Fund	1.5%	2.2%

*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.*

## 2007 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 Fund units as capital property outside of an RRSP, RRRIF or DPSP. Unitholders should receive a T3 slip from their investment dealer providing this information.

T3 supplementary slips for holdings of the Fund will indicate Foreign Non-Business Income in Box 25, Investment Income in Box 26, 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.

The following table outlines the breakdown of the Fund's distributions declared in 2007 on a per unit basis.

Record Date	Payment Date	Return of Capital	Investment Income	Foreign Non-Business Income	Non Eligible Dividend	Eligible Dividend	Total Distribution
Jan. 31, 2007	Feb. 14, 2007	\$ 0.00600	\$ 0.06254	\$ 0.01727	\$ 0.00075	\$ 0.00344	\$ 0.09000
Feb. 28, 2007	Mar. 14, 2007	0.00600	0.06254	0.01727	0.00075	0.00344	0.09000
Mar. 30, 2007	Apr. 16, 2007	0.00600	0.06254	0.01727	0.00075	0.00344	0.09000
Apr. 30, 2007	May 14, 2007	0.00600	0.06254	0.01727	0.00075	0.00344	0.09000
May 31, 2007	Jun. 14, 2007	0.00600	0.06254	0.01727	0.00075	0.00344	0.09000
Jun. 29, 2007	Jul. 16, 2007	0.00600	0.06254	0.01727	0.00075	0.00344	0.09000
Jul. 31, 2007	Aug. 15, 2007	0.00600	0.06254	0.01727	0.00075	0.00344	0.09000
Aug. 31, 2007	Sep. 17, 2007	0.00600	0.06254	0.01727	0.00075	0.00344	0.09000
Sep. 28, 2007	Oct. 15, 2007	0.00600	0.06254	0.01727	0.00075	0.00344	0.09000
Oct. 31, 2007	Nov. 14, 2007	0.00600	0.06254	0.01727	0.00075	0.00344	0.09000
Nov. 30, 2007	Dec. 14, 2007	0.00600	0.06254	0.01727	0.00075	0.00344	0.09000
Dec. 31, 2007	Jan. 15, 2008	0.00600	0.06254	0.01727	0.00075	0.00344	0.09000
<b>Total</b>		<b>\$ 0.07200</b>	<b>\$ 0.75048</b>	<b>\$ 0.20724</b>	<b>\$ 0.00900</b>	<b>\$ 0.04128</b>	<b>\$ 1.08000</b>

This information is of a general nature only and does not constitute legal or tax advice to any particular investor. Accordingly, investors are advised to consult their own tax advisors with respect to their individual circumstances.

## Portfolio Manager

### MFC Global Investment Management

MFC Global Investment Management is the diversified investment management group of Manulife Financial and is the Portfolio Manager for Brompton's two oldest funds – Brompton VIP Income Fund and Brompton Stable Income Fund. MFC Global is a top-ranked portfolio manager of income-oriented investments, with extensive experience in income trusts, dividend paying equities and both high-yield and investment-grade fixed income investments. MFC Global has more than 100 years of experience managing portfolios for the Manufacturers Life Insurance Company, John Hancock Life Insurance Company, and other major clients. With more than \$240 billion in assets under management, MFC Global Investment Management is a leading global investment management group.



## Portfolio Manager's Report

### Investment Performance

Brompton VIP Income Fund returned 15.9% over the 12-month period ended December 31, 2007, significantly outperforming its relative benchmarks. During the year, the S&P/TSX Canadian Income Trust Index, a broad measure of income trust performance, returned 6.6%. Meanwhile, the high-yield market, as measured by the Constrained Merrill Lynch Master II Index, returned 2.5% (in US dollar terms).

The year was marked by significant volatility, stemming from a combination of credit issues associated with the sub-prime mortgage market in the US and the asset-backed commercial paper market in Canada, and concerns over the health of the US economy. Markets reached highs in July and again in October, before correcting by almost 10% in each of the following months.

The Fund's portfolio has been well positioned in light of the announcement by the federal government late in 2006 regarding changes to the taxation of trusts beginning in 2011. The Fund's emphasis continues to be towards business trusts, with underweight positions in energy, real estate investment trusts ("REITs") and resource trusts.

These underweight positions generally benefited the Fund's performance. Energy trusts underperformed in 2007 as natural gas prices remained low and supply remained high. REITs performed poorly as that sector was particularly hard hit by credit issues. As a result of the pullback, we note that REIT valuations are beginning to look attractive. The Fund's underweight position in resources detracted from performance. The decision to underweight resources was based on valuations, as a significant amount of speculation over potential acquisitions had been pushing valuations higher. It should be noted that much of the returns in the sector came from two trusts: Labrador Iron Ore Royalty Income Fund and Fording Canadian Coal Trust.

During the year, there were a number of take-outs and conversions as trusts re-evaluated their legal structure in light of the federal government's decision to impose taxes on income trusts beginning in 2011. Among the holdings in the Fund, Gateway Casinos Income Fund, Summit REIT and Canada Cartage Diversified Income Fund each received takeover bids. The Portfolio Manager sold the Fund's positions in Northwest Funds and Second Cup Royalty Income Fund, while trimming Canadian Oil Sands Trust and Altus Group Income Fund, initiated a new position in Pizza Pizza Royalty Income Fund, and added to the Fund's position in Boston Pizza Royalties Income Fund.

In the fixed income market, the Canadian yield curve steepened as it moved lower. The yield on two-year bonds moved down 28 basis points, to 3.74%, while 30-year bond yield fell by only three basis points to 4.11%. The US market experienced a similar move in interest rates with the yield curve steepening as well. The two-year treasury note, at 3.06%, was yielding 176 basis points lower at year-end, while the 30-year treasury bond yield, at 4.45%, was only 36 basis points lower at year-end.

The Fund's fixed income portfolio holdings remained essentially the same in 2007 with the addition of some new issues to improve yield while maintaining diversity across industry sectors. Also during the year, we adjusted the corporate weightings opportunistically to benefit from the volatility in corporate spreads. These adjustments helped the Fund continue to achieve its income targets for the year.

### Recent Developments

The Fund remains overweighted in the business, consumer and industrial sectors and underweighted in energy and resources, with a focus on higher-quality, sustainable businesses.

We remain cautious over the near term given ongoing concerns about weakening economic growth in the US and the broader impact on Canada, as well as continued subprime-related credit issues and increased market volatility. Consequently, we remain committed to our disciplined value investment process. The objective over the long term is to provide superior risk-adjusted returns with downside protection, an important factor in the current volatile markets. As a result, we remain watchful with respect to interest rate movements and the bond markets as a whole and we will adjust the portfolio should events warrant it.

The Fund remains well positioned to meet its objectives of generating income and preserving capital due to our disciplined investment style and the Fund's holdings, which are diversified by asset class, sources of income and return.

## 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'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 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 12, 2008

(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, 2007, the statements of net assets as at December 31, 2007 and 2006 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, 2007, the net assets as at December 31, 2007 and 2006 and the results of its operations and retained earnings, the 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 12, 2008

## Statements of Net Assets

As at December 31, 2007	2007	2006
<b>Assets</b>		
Investments, at market value	\$ 133,382,764	\$ 160,930,106
Cash and short-term investments	11,446,119	18,809,051
Income receivable	1,239,007	1,497,469
Other assets	—	21,252
<b>Total assets</b>	<b>146,067,890</b>	<b>181,257,878</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	269,616	339,630
Distributions payable to unitholders (note 5)	633,558	752,845
Redemptions payable to unitholders	14,294,845	25,914,385
Loans payable (note 9)	28,710,728	40,902,087
<b>Total liabilities</b>	<b>43,908,747</b>	<b>67,908,947</b>
<b>Unitholders' equity</b>		
Unitholders' capital (note 4)	79,854,541	94,889,492
Retained earnings	22,304,602	18,459,439
<b>Net assets representing unitholders' equity</b>	<b>\$ 102,159,143</b>	<b>\$ 113,348,931</b>
<b>Units outstanding (note 4)</b>	<b>7,039,538</b>	<b>8,364,939</b>
<b>Net asset value per unit</b>	<b>\$ 14.51</b>	<b>\$ 13.55</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)

**Raymond R. Pether**  
Director

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

## Statements of Operations and Retained Earnings

For the years ended December 31	2007	2006
<b>Income</b>		
Distributions from income funds	\$ 10,325,203	\$ 12,535,597
Securities lending income (note 8)	73,878	28,258
Interest income	2,042,913	2,862,124
	<u>12,441,994</u>	<u>15,425,979</u>
<b>Expenses</b>		
Management fees (note 6)	1,068,503	1,370,399
Service fees (note 6)	454,524	569,272
Audit fees	29,949	17,255
Trustee fees	28,152	23,354
Custodial fees	26,799	24,286
Legal fees	15,366	91,090
Unitholder reporting costs	18,003	16,556
Other administrative expenses	48,528	95,054
Interest and bank charges (note 9)	1,430,675	1,863,283
	<u>3,120,499</u>	<u>4,070,549</u>
Net investment income	9,321,495	11,355,430
Net realized gain on sale of investments (note 7)	5,989,704	8,203,273
Transaction costs (note 2)	(64,409)	—
Net realized gain on loans payable (note 9)	69,803	134,107
Net change in unrealized gain/loss on investments, short-term investments and foreign currency transactions	(1,954,462)	(21,982,338)
Net change in unrealized gain/loss on loans payable (note 9)	3,595,348	(159,396)
<b>Increase (decrease) in net assets from operations</b>	<u>16,957,479</u>	<u>(2,448,924)</u>
Retained earnings, beginning of year	17,834,032	36,576,657
Excess of stated value paid on repurchase and redemption of units	(3,810,705)	(5,168,382)
Distributions to unitholders (note 5)	(8,676,204)	(10,499,912)
<b>Retained earnings, end of year</b>	<u>\$ 22,304,602</u>	<u>\$ 18,459,439</u>
<b>Increase (decrease) in net assets from operations per unit<sup>(1)</sup></b>	<u>\$ 2.09</u>	<u>\$ (0.23)</u>

<sup>(1)</sup> Based on the weighted average number of units outstanding for the year (note 4).

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

## Statements of Cash Flows

For the years ended December 31	2007	2006
<b>Cash flows from operating activities:</b>		
Increase (decrease) in net assets from operations	\$ 16,957,479	\$ (2,448,924)
Adjustments to reconcile net cash provided by operations:		
Net realized (gain) loss on sale of investments (note 7)	(5,989,704)	(8,203,273)
Net realized (gain) loss on loans payable	(69,803)	(134,107)
Net change in unrealized gain/loss on investments	1,977,208	22,084,866
Net change in unrealized gain/loss on loans payable	(3,595,348)	159,396
Decrease (increase) in other assets	21,252	25,035
Decrease (increase) in income receivable	258,462	410,448
Increase (decrease) in accounts payable and accrued liabilities	(70,014)	(155,497)
Purchase of investments (note 7)	(13,079,972)	(27,811,590)
Proceeds from sale of investments (note 7)	44,014,403	59,844,122
<b>Cash provided by operating activities</b>	<b>40,423,963</b>	<b>43,770,476</b>
<b>Cash flows from financing activities:</b>		
Increase (decrease) in loans payable	(8,526,208)	8,415,606
Distributions paid to unitholders (note 5)	(8,795,491)	(10,615,303)
Repurchase of units (note 4)	(4,550,811)	(5,548,432)
Amounts paid for redemption of units (note 4)	(25,914,385)	(21,118,189)
<b>Cash used in financing activities</b>	<b>(47,786,895)</b>	<b>(28,866,318)</b>
Increase (decrease) in cash and short-term investments	(7,362,932)	14,904,158
Cash and short-term investments, beginning of year	18,809,051	3,904,893
<b>Cash and short-term investments, end of year</b>	<b>\$ 11,446,119</b>	<b>\$ 18,809,051</b>
<b>Supplemental information:</b>		
Interest paid	\$ 1,444,214	\$ 1,822,312

## Statements of Changes in Net Assets

For the years ended December 31	2007	2006
Net assets, beginning of year (note 3)	\$ 112,723,524	\$ 157,760,584
<b>Operations:</b>		
Increase (decrease) in net assets from operations	16,957,479	(2,448,924)
<b>Unitholder transactions:</b>		
Distributions to unitholders (note 5)		
Net investment income	(8,095,487)	(7,776,588)
Return of capital	(580,717)	(2,723,324)
Total	(8,676,204)	(10,499,912)
Repurchase of units (note 4)	(4,550,811)	(5,548,432)
Redemption of units (note 4)	(14,294,845)	(25,914,385)
Total unitholder transactions	(27,521,860)	(41,962,729)
Net decrease in net assets	(10,564,381)	(44,411,653)
<b>Net assets, end of year</b>	<b>\$ 102,159,143</b>	<b>\$ 113,348,931</b>
<b>Distributions per unit</b>	<b>\$ 1.08</b>	<b>\$ 1.02</b>

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

## Statement of Investments

As at December 31, 2007		Cost (CAD)	Market Value (CAD)	% of Portfolio
<b>No. of Units</b>	<b>Business Funds</b>			
301,500	Altus Group Income Fund	\$ 3,586,206	\$ 5,532,525	
106,612	Armtec Infrastructure Income Fund	1,385,780	2,561,886	
66,500	Bell Aliant Regional Communications Income Fund	2,239,205	1,957,095	
189,200	BFI Canada Income Fund	2,965,538	5,032,720	
523,200	Boston Pizza Royalties Income Fund	7,422,450	7,284,948	
182,000	Cargojet Income Fund	1,790,400	2,608,060	
303,560	Chemtrade Logistics Income Fund	3,908,511	2,562,046	
80,000	CI Financial Income Fund	2,252,805	2,235,200	
174,800	Cineplex Galaxy Income Fund	2,226,661	2,906,924	
466,266	Davis + Henderson Income Fund	6,979,879	9,749,622	
457,000	Energy Savings Income Fund	5,008,720	7,609,050	
50,900	K-Bro Linen Income Fund	719,650	677,988	
203,855	Livingston International Income Fund	3,061,359	3,383,993	
324,400	Pizza Pizza Royalty Income Fund	3,066,080	3,260,220	
127,600	Richards Packaging Income Fund	1,002,683	1,175,196	
382,600	SIR Royalty Income Fund	3,736,770	3,405,140	
24,700	Sleep Country Canada Income Fund	524,875	569,088	
157,000	Student Transportation of America IPS	1,845,404	1,535,460	
226,200	The Data Group Income Fund	2,264,070	2,191,878	
253,100	The Keg Royalties Income Fund	2,783,766	3,239,680	
217,500	TimberWest Forest Corp.	3,011,948	3,192,900	
197,542	Yellow Pages Income Fund	2,968,935	2,743,858	
		<b>64,751,695</b>	<b>75,415,477</b>	<b>56.6%</b>
<b>No. of Units</b>	<b>Oil and Gas Funds</b>			
131,398	ARC Energy Trust	2,343,462	2,676,577	
38,000	Bonavista Energy Trust	874,193	1,078,440	
173,085	Canadian Oil Sands Trust	2,436,645	6,700,120	
30,930	Enerplus Resources Fund	846,129	1,229,777	
173,340	Focus Energy Trust	3,066,972	2,898,245	
		<b>9,567,401</b>	<b>14,583,159</b>	<b>10.9%</b>
<b>No. of Units</b>	<b>Real Estate Investment Trusts</b>			
40,000	Canadian Apartment Properties REIT	646,000	639,200	
100,000	Chartwell Seniors Housing REIT	1,370,255	1,131,000	
97,225	H&R REIT	1,360,921	1,924,083	
204,000	InnVest REIT	2,234,460	2,160,360	
264,700	Northern Property REIT	3,678,028	5,902,810	
125,000	Primaris Retail REIT	1,270,893	2,273,750	
179,400	RioCan REIT	2,694,451	3,914,508	
		<b>13,255,008</b>	<b>17,945,711</b>	<b>13.5%</b>
<b>No. of Units</b>	<b>Power and Pipeline Funds</b>			
299,300	Northland Power Income Fund	3,929,017	3,654,453	
		<b>3,929,017</b>	<b>3,654,453</b>	<b>2.7%</b>

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

## Statement of Investments (continued)

As at December 31, 2007		Cost (USD)	Cost (CAD)	Market Value (USD)	Market Value (CAD)	% of Portfolio
	<b>Par Value (\$)</b>					
	<b>Fixed Income Investments</b>					
US	600,000	Ace Cash Express Inc. 10.25%, due October 1, 2014	\$ 603,000	\$ 673,569	\$ 578,999	\$ 571,445
US	300,000	Actuant Corporation 144A Call 6.625%, due June 15, 2017	298,821	318,693	297,000	293,125
US	250,000	AES Corp. SR Note 144A 7.75%, due October 15, 2015	250,000	245,800	253,750	250,439
US	50,000	Ahern Rentals Inc. 9.25%, due August 12, 2013	50,000	60,030	42,125	41,575
US	250,000	Alimentation Couche-Tard Inc. 7.5%, due December 15, 2013	252,808	280,364	249,375	246,121
US	300,000	AMC Entertainment Inc. 8%, due March 1, 2014	290,966	333,186	282,000	278,321
US	160,000	Anixter Inc. 5.95%, due March 1, 2015	146,202	168,249	144,200	142,319
US	24,000	AT&T Corp 7.3%, due November 15, 2011	27,029	32,246	26,004	25,665
US	500,000	Baytex Energy Trust 9.625%, due July 15, 2010	524,700	569,771	510,000	503,346
CDN	1,100,000	Bowater Pulp and Paper Canada Inc. 10.85%, due November 30, 2014	—	1,255,273	—	880,187
US	350,000	Cascades Inc. 7.25%, due February 15, 2013	322,248	375,243	328,125	323,844
US	25,000	Cendant Car Rental Group LLC 7.625%, due May 15, 2014	25,000	28,790	23,874	23,563
US	225,000	Cendant Car Rental Group LLC 7.75%, due May 15, 2016	219,545	248,431	211,499	208,740
US	200,000	Century Aluminum Co. 7.5%, due August 15, 2014	204,547	252,780	197,000	194,430
US	1,295,000	Charter Communications Holdings, LLC 10.25%, due September 15, 2010	1,313,181	1,589,169	1,269,099	1,252,541
US	306,000	Columbia/HCA Healthcare Corporation 8.36%, due April 15, 2024	287,811	339,710	269,041	265,531
US	80,000	Columbus McKinnon Corp. 8.875% due November 1, 2013	80,032	95,471	82,800	81,720
US	500,000	Conacher Oil & Gas, 10.25% December 15, 2015	493,285	485,738	499,374	492,859
US	800,000	Dollarama Group LP 8.875%, due August 15, 2012	794,750	943,670	807,656	797,118
US	200,000	Flextronics Intl. 6.5%, due May 15, 2013	193,000	187,924	194,000	191,469
US	250,000	Fontainebleau Las Vegas Holdings LLC 10.25%, June 15, 2015	250,000	265,275	216,875	214,045
US	500,000	Foot Locker Inc. 8.5%, due January 15, 2022	524,584	668,573	460,000	453,998
US	271,000	FTD Inc. 7.75%, due February 15, 2014	273,316	334,153	254,740	251,416
US	170,000	Gaylord Entertainment Co. 8%, due November 15, 2013	174,609	193,642	169,150	166,943
US	800,000	Harrahs Operating Co. 5.625%, due June 1, 2015	669,644	762,456	584,000	576,380
US	45,000	HCA Inc. 6.25%, due February 15, 2013	40,163	39,837	39,375	38,861
US	245,000	Helix Energy 9.50%, due January 15, 2016	250,000	251,450	254,375	251,056
US	542,000	Herbst Gaming Inc. 8.125%, due June 1, 2012	565,865	640,750	348,235	343,691
US	815,000	Intelsat Ltd. 7.625%, due April 15, 2012	736,211	907,373	668,300	659,580
US	800,000	Iron Mountain Inc. 7.75%, due January 15, 2015	815,816	1,045,028	814,000	803,379
US	500,000	Masonite International Corp. 11%, due April 6, 2015	484,672	571,311	389,999	384,911
US	150,000	Metals USA Inc. 11.125%, due December 1, 2015	150,000	177,465	156,000	153,965
US	500,000	MetroPCS Wireless Inc. 9.25%, due November 1, 2014	500,000	560,550	470,000	463,868
US	250,000	MGM Mirage 7.5%, due June 1, 2016	250,000	272,350	247,500	244,271
US	125,000	MGM Mirage 7.625%, due January 15, 2017	125,000	145,150	123,438	121,827
US	500,000	Neff Corp. 10%, due June 1, 2015	510,050	553,863	275,000	271,412
US	200,000	Network Communications Inc. 10.75%, due December 1, 2013	197,382	231,726	196,000	193,443
US	800,000	Nextel Communications Inc. 6.875%, due October 31, 2013	839,283	1,006,658	788,096	777,813
US	50,000	Novelis Inc. 7.25%, due July 15, 2015	46,470	55,099	47,000	46,387
US	100,000	NXP Funding LLC 7.87%, due October 15, 2014	100,000	113,150	94,999	93,760
US	100,000	Omega Healthcare Investors, Inc. 7%, due January 15, 2016	99,422	116,692	98,500	97,215
US	500,000	OPTI Canada Inc. 8.25%, December 15, 2014	533,125	590,809	495,000	488,542
US	250,000	Outback Steakhouse Inc. SR NT 144A Call 9.625%, due May 15, 2015	250,595	268,363	182,500	180,119
US	340,000	R.H. Donnelley Corp. 8.875%, due January 15, 2016	344,038	403,797	317,900	313,752
US	920,000	Rite Aid Corporation 8.125%, due May 1, 2010	963,654	1,152,802	901,599	889,836
US	500,000	Ryerson Tull Inc. 12%, due January 11, 2015	521,250	512,597	493,750	487,308
CDN	250,000	Saskatchewan Wheat Pool SR NT 8.5%, due August 1, 2017	—	250,000	—	255,798
US	500,000	Seagate Technology 6.375%, due October 11, 2011	498,415	558,324	493,125	486,691
CDN	500,000	Shaw Communications Inc. 6.15%, due May 9, 2016	—	490,260	—	493,110
CDN	500,000	Shaw Communications Inc. 7.5%, due November 20, 2013	—	517,882	—	535,710
CDN	250,000	Sherritt International Corporation 7.875%, due November 26, 2012	—	250,000	—	261,933
CDN	250,000	Sherritt International Corporation 8.25%, due October 24, 2014	—	250,000	—	252,860
US	100,000	Snoqualmie Entertainment Authority 9.125%, due February 1, 2015	100,000	118,090	96,500	95,241
US	500,000	Stater Bros. Holdings Inc. 8.125%, due June 15, 2012	507,653	610,711	493,750	487,308
US	500,000	Steel Dynamics 7.375%, due November 1, 2012	500,000	491,700	502,500	495,944
US	170,000	Stratos Global Corporation 9.875%, due February 15, 2013	160,556	182,071	179,350	177,010
US	431,000	Sun Healthcare Group 9.125%, April 15, 2015	443,930	419,603	434,233	428,567
US	95,000	Syniverse Technologies Inc. 7.75%, due August 15, 2013	96,461	115,742	91,675	90,479
US	400,000	Teekay Shipping Corporation 8.875%, due July 15, 2011	448,241	565,971	419,500	414,027
US	250,000	U.S. Concrete Inc. 8.375%, due April 1, 2014	234,332	235,316	218,750	215,896
US	350,000	Western Oil Sands Inc. 8.375%, due May 1, 2012	370,961	508,926	390,358	385,265
US	125,000	Westlake Chemical Corp. 6.625%, due January 15, 2016	125,154	144,278	118,125	116,584
US	520,000	Wind Acquisition Fin. SA. 10.75%, due December 1, 2015	556,015	633,822	566,800	559,405
			20,633,790	26,667,722	19,356,918	21,783,964
			—	(18,177)	—	—
			\$ 20,633,790	\$ 118,152,666	\$ 19,356,918	\$ 133,382,764
						16.3%
						100.0%

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

## Notes to the Financial Statements

December 31, 2007 and 2006

### 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.

### 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

##### *Section 3855 – Financial Instruments – Recognition and Measurement*

On January 1, 2007, the Fund adopted Section 3855, “Financial Instruments – Recognition and Measurement,” of the Canadian Institute of Chartered Accountants Handbook – Accounting. Section 3855 establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) and ask prices (for investments sold short) to be used in determining the fair value of investments. Prior to the adoption of this new standard, fair value was commonly based on the closing price of an investment for the day. Section 3855 also requires transaction costs, such as brokerage commissions, incurred in the purchase and sale of investments by the Fund be expensed in the period incurred. Prior to the adoption of Section 3855, transaction costs were capitalized and included in the cost of purchases or proceeds from sale of investments.

Section 14.2 of National Instrument (“NI”) 81-106, issued by the Canadian Securities Administrators (“CSA”) in 2005, requires the net asset value of an investment fund to be calculated in accordance with Canadian GAAP. The CSA has granted relief to investment funds from complying on an interim basis with Section 3855 for the purposes of calculating and reporting of net asset value other than for financial reporting purposes (the “Published NAV”). Relief has been granted to the earlier of (i) September 30, 2008, or (ii) the date on which changes to NI 81-106 become effective for calculating the Published NAV.

In accordance with the relief granted by the CSA, a reconciliation between the Published NAV and the net asset value calculated in accordance with Section 3855 (the “GAAP NAV”) has been provided in note 3.

On June 1, 2007, the CSA proposed amendments to NI 81-106 that would remove the requirement to calculate the Published NAV in accordance with Canadian GAAP. The proposed amendments, if adopted, would not require the Fund to change the way that it calculates its Published NAV and continue to use GAAP NAV for financial statements reporting purposes.

The provisions of Section 3855 have been applied retroactively without restatement of prior periods. Accordingly, the opening net asset value in the Statement of Changes in Net Assets for the year ended December 31, 2007 has been adjusted. Refer to note 3 for the adjustment to the opening net asset value.

##### *Section 1506 – Accounting Changes*

On January 1, 2007, the Fund adopted Section 1506 of the CICA Handbook, Accounting Changes, which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Section 1506 also requires the disclosure of new primary sources of GAAP that have been issued but are not yet effective. This standard did not affect the Fund’s financial position or results of operations.

#### (b) Valuation of Investments

The Fund’s investments are valued at estimated market value. Investments held that are publicly traded are valued at their bid prices on the valuation date. Investments with no available bid prices are valued at their closing price. Short-term investments and bonds are valued at the average bid quotations from recognized investment dealers. These valuation methodologies were adopted in 2007 and applied retroactively without restatement of prior periods. 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 instruments with maturities of less than three months on acquisition.

#### (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. 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.

**(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. This accounting policy was adopted in 2007 and applied retroactively without restatement of prior periods.

**(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 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.

**(h) Fair Value of Financial Instruments**

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

**(i) Recent Accounting Pronouncements*****Section 1535 – Capital Disclosures***

The new CICA Handbook Section 1535, Capital Disclosures, requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Fund.

This standard will impact the Fund's disclosures provided but will not affect the Fund's results or financial position.

***Section 3862 – Financial Instruments – Disclosures***

CICA Handbook Section 3862, Financial Instruments – Disclosures, replaces Section 3861 and increases the disclosures currently required that enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments including specified minimum disclosures about liquidity risks and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income would have been affected by reasonably possible changes in the relevant risk variable. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Fund.

This standard will impact the Fund's disclosures provided but will not affect the Fund's results or financial position.

***Section 3863 – Financial Instruments – Presentation***

CICA Handbook Section 3863, Financial Instruments – Presentation, also replaces Section 3861. This section carries forward the presentation requirements of Section 3861. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Fund.

This standard will impact the Fund's disclosures provided but will not affect the Fund's results or financial position.

**3. RECONCILIATION OF NET ASSET VALUE**

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the Published NAV and the GAAP NAV of an investment fund is required to be disclosed in the financial statements.

The impact of the adoption of Section 3855 on the net asset value of the Fund is as follows:

As at December 31, 2007	Section 3855 Published NAV	Adjustment	GAAP NAV
Net asset value	\$ 102,819,843	(660,700)	\$ 102,159,143
Net asset value per unit	\$ 14.61	(0.10)	\$ 14.51

The adjustment to the Net Asset Value and Retained Earnings as at December 31, 2006 as a result of applying Section 3855 was a decrease of \$625,407.

## Notes to the Financial Statements (continued)

### 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 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 Published NAV 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 twentieth business day in January.

#### Issued

	2007		2006	
	Number of Units	Amount	Number of Units	Amount
Units, beginning of year	8,364,939	\$ 94,889,492	10,682,916	\$ 121,183,927
Repurchase of units	(336,200)	(3,813,751)	(415,543)	(4,713,794)
Redemption of units	(989,201)	(11,221,200)	(1,902,434)	(21,580,641)
Units, end of year	7,039,538	\$ 79,854,541	8,364,939	\$ 94,889,492

On December 28, 2007, 989,201 units were redeemed at \$14.45 per unit.

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid for the period from November 8, 2006 to November 7, 2007. Pursuant to the issuer bid, the Fund was permitted to purchase up to 1,029,100 units for cancellation. The Fund renewed its issuer bid for the period from November 8, 2007 to November 7, 2008. Pursuant to the issuer bid, the Fund is permitted to purchase up to 801,500 units for cancellation. The Fund may only repurchase units when the Published NAV per unit exceeds its trading price. During the year ended December 31, 2007, 336,200 (2006 – 415,543) units were purchased for cancellation.

The weighted average number of units outstanding for the year ended December 31, 2007, was 8,125,156 (2006 – 10,457,991).

### 5. 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, 2007, the Fund declared total distributions of \$1.08 (2006 – \$1.02) per unit, which amounted to \$8,676,204 (2006 – \$10,499,912). 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 years ended December 31, 2007 and 2006, no units in respect of distributions were issued by the Fund.

### 6. 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 Published NAV 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 Published NAV 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.

### 7. INVESTMENT TRANSACTIONS

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

	2007 <sup>(1)</sup>	2006
Proceeds from sale of investments	\$ 44,014,403	\$ 59,844,122
Less cost of investments sold:		
Investments at cost, beginning of year	143,097,393	166,936,225
Investments purchased during the year	13,079,972	27,811,590
Investments at cost, end of year	(118,152,666)	(143,106,966)
Cost of investments sold during the year	38,024,699	51,640,849
Net realized gain on sale of investments	\$ 5,989,704	\$ 8,203,273

<sup>(1)</sup> In accordance with Section 3855, investment transactions for the year ended December 31, 2007, exclude brokerage commissions.

Foreign exchange gains arising from the disposition of investments of \$414,489 (2006 – losses of \$869,345) are included in the net realized gain of \$5,989,704 (2006 – \$ 8,203,273) above.

Brokerage commissions on investments purchased and sold during the year ended December 31, 2007 amounted to \$64,409 (2006 – \$79,151). For the years ended December 31, 2007 and 2006, there were no soft dollar amounts paid.

#### 8. 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 the United States Government or its agencies, or a permitted supranational agency as defined in NI 81-102. The market value of the securities on loan and the related collateral at December 31, 2007, were \$24.0 million (2006 – \$29.5 million) and \$25.7 million (2006 – \$31.5 million), respectively.

#### 9. 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. There was \$8.0 million outstanding under this facility as at December 31, 2007. 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 \$20.7 million of the total borrowings at December 31, 2007.

During the year ended December 31, 2007, the Fund realized a foreign exchange gain in the amount of \$69,803 (2006 – \$134,107) on the repayment of borrowings in US dollars under the credit facilities. At December 31, 2007, borrowings in US dollars had an unrealized foreign exchange gain of \$6,090,328 (2006 – \$2,494,980). 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, 2007, the minimum and maximum amounts of borrowings were \$27.5 million (2006 – \$28.8 million) and \$41.3 million (2006 – \$44.7 million), respectively.

#### 10. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform with current year presentation.

## 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,  
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

Janet R. Toffolo  
Assistant Vice President

### Continuous Disclosure Manager

Contact: David E. Roode  
Phone: 416-642-6008  
Email: roode@bromptongroup.com

### Trustee

Computershare Trust Company  
of Canada

### Custodian

RBC Dexia Investor Services Trust

### Auditors

PricewaterhouseCoopers LLP

### Banker

Bank of Nova Scotia

### Website

www.bromptongroup.com