

## Management's Discussion and Analysis

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

### The Fund

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

### Objectives

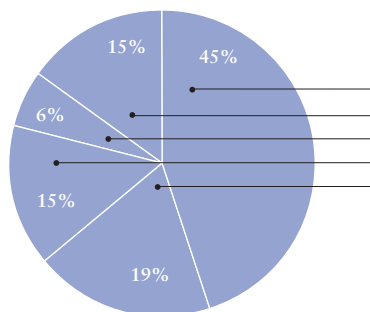
In 2003, VIP met its investment objectives of paying a high level of monthly distributions and maintaining its net asset value. In fact, distributions were increased in March of 2003 to a rate equivalent to \$1.00 per unit per annum and net asset value of the Fund increased in 2003 by 22.3%. As a result, the Fund achieved a total return in 2003 of 33.0%.

### Investment Portfolio

To take advantage of the strong income fund market, the Fund was fully invested as of December 31, 2003 with \$129.0 million of portfolio investments. Investments included a total of 41 income trusts and 55 fixed income investments, which provides diversification both by issuer and industry concentration. The break-down of the portfolio is shown in the accompanying pie chart and a detailed listing of VIP's security holdings is provided in the financial statements.

VIP's investment portfolio provided substantial realized and unrealized gains during the year as detailed in the table provided below. Led by business funds, all sectors of the portfolio contributed to this excellent performance.

### Portfolio Mix



Net Gains in 2003 by Sector (millions)	Realized	Unrealized	Total
Business funds	\$ (1.9)	\$ 11.2	\$ 9.3
Oil and gas funds	0.2	3.3	3.5
Power and pipeline funds	0.1	1.1	1.2
Real estate investments trusts	—	3.4	3.4
Fixed income securities and foreign exchange	1.7	0.8	2.5
<b>Total</b>	<b>\$ 0.1</b>	<b>\$ 19.8</b>	<b>\$ 19.9</b>

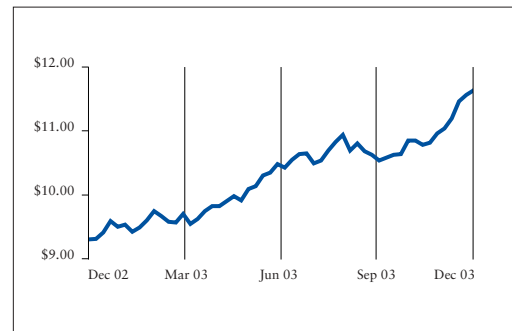
Net gains on fixed income securities and foreign exchange have been included on one line because of the currency hedging program implemented by the Fund in October 2002. The amount of the currency hedging program throughout the year was approximately equal to the US dollar-denominated assets of the Fund which were all in the fixed income securities portion of the portfolio. Initially, the hedging program included the purchase of currency futures contracts. This approach was changed in the second quarter of 2003 when the hedging program was accomplished by borrowing in US dollars in an amount approximately equal to the market value of investments denominated in US dollars. As a result of VIP's foreign exchange hedging strategy, the Fund was protected from the approximately 18.2% depreciation in the US dollar during the year and, additionally, benefited by the amount of the interest rate differential between Canada and the US.

## Net Asset Value

During 2003, VIP achieved an increase of \$2.07 per unit (22.3%) in net asset value to \$11.36 as shown in the table below.

	Per Unit
Net investment income	\$ 1.01
Net realized loss on investments and futures contracts	(0.01)
Net realized gain on loans payable	0.01
Net change in unrealized gain on investments and futures contracts	1.93
Net change in unrealized gain on loans payable	0.12
Results of operations	3.06
Capital transactions	0.01
Less: distributions	(1.00)
Increase in net asset value	\$ 2.07

## Growth in Net Asset Value in 2003



## Liquidity and Capital Resources

At the end of 2003, the Fund had borrowed a total of \$21.5 million under its credit facility which represented 16.4% of total assets. All of this amount was borrowed in US dollars (US\$16.6 million). As noted above, the amount of US dollar borrowings is approximately equal to the market value of the US dollar-denominated assets of the Fund to provide a foreign exchange hedge. A total of \$16.8 million (US\$13.0 million) of the credit facilities had an interest rate of 3.89% which has been fixed until May 2008. The Fund's borrowings were used to invest in additional high-income securities to enhance the overall yield of the Fund.

For the twelve-month period to November 2003 VIP had a normal course issuer bid approved for the purchase of up to 926,000 units for cancellation provided units trade below the net asset value per unit. In such situations, purchases under the issuer bid are accretive to the net asset value of the Fund. A total of 235,400 units were purchased under the issuer bid in 2003 at an average price of \$10.17. In November 2003, VIP renewed its normal course issuer bid which allows for the purchase of up to 918,400 units over the next twelve-month period.

The Fund has a distribution reinvestment plan which allows participating unitholders to automatically reinvest monthly distributions in additional units of the Fund. In 2003, a total of 24,010 units were issued from treasury pursuant to this plan at an average price per unit of \$9.54. A further 55,238 units were acquired in the market in 2003 pursuant to this plan at an average price of \$10.48 per unit.

Unitholders of VIP may redeem units of the Fund on December 31 of each year at the then current net asset value. On December 31, 2003, a total of 475,033 units were redeemed for total proceeds of \$5.4 million (\$11.44 per unit).

## Distributions

VIP commenced distributions in April 2002 at the monthly rate of \$0.08125 per unit. In March 2003, the Fund increased its rate of distributions to \$0.08333 per unit per month which is equivalent to \$1.00 per unit per annum. Total distributions in 2003 were \$0.9958 per unit of which approximately \$0.40774 is classified as a return of capital for tax purposes. See the section titled 2003 Tax Information in this Annual Report for more information on the income tax characteristics of the distributions for 2003.

## Management Expense Ratio

The Fund has one of the lowest management fees for this type of actively managed fund at 0.85% of net asset value per annum. When this is combined with a 0.40% service fee and the Fund's general and administrative expenses, the management expense ratio ("MER") for 2003 is 1.56% based on net assets. Based on total assets, the Fund's MER for 2003 is 1.26%.

## Risk Analysis

The Fund is subject to a number of risks and uncertainties which are briefly analyzed on page 50 of this report. Unitholders are encouraged to review these risks.

## Outlook

There is no question that the asset classes in which VIP has invested demonstrated excellent appreciation in 2003. In many cases, share prices of individual investments have moved ahead of underlying enterprise valuations which could lead to some pull-back in the net asset value. Over the long term, however, we continue to believe in the fundamentals of these sectors and expect that they will compete favourably with other asset classes on a risk-adjusted total return basis. Based on the current level of distributions and interest received from VIP's investment portfolio and the current level of expenses, including interest costs, the Fund expects to be able to maintain an annual distribution rate of \$1.00 per unit in the months ahead.