



INTERIM FINANCIAL STATEMENTS OF
INVESTMENT GRADE TRUST

(UNAUDITED)

DECEMBER 31, 2009

TABLE OF CONTENTS

- 1 STATEMENTS OF NET ASSETS**
- 2 STATEMENTS OF OPERATIONS**
- 3 STATEMENTS OF CHANGES IN NET ASSETS**
- 4 STATEMENTS OF INVESTMENTS**
- 5 NOTES TO THE FINANCIAL STATEMENTS**

STATEMENTS OF NET ASSETS

(Unaudited)

As at	December 31, 2009	June 30, 2009 (Audited)
Assets		
Investments at fair value (Cost December 31, 2009 - \$40,034,037; June 30, 2009 - \$41,796,156)	\$ 28,444,793	\$ 26,013,796
Forward Agreement (Note 6)	25,376,499	28,731,137
Receivable under Forward Agreement (Note 6)	1,440,000	1,550,000
Cash and short-term investments	81,006	4,662
	55,342,298	56,299,595
Liabilities And Unitholders' Equity		
Payable for unitholder redemptions	4,545,385	-
Due to manager (Note 4)	113,536	102,268
Distributions payable (Note 5)	1,356,869	1,482,155
	6,015,790	1,584,423
Net Assets And Unitholders' Equity (Notes 2g and 7)	\$ 49,326,508	\$ 54,715,172
Number Of Units Outstanding (Note 7)	5,427,475	5,928,620
Net Asset Value per Unit (Note 2g)	\$ 9.09	\$ 9.23

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

Approved by the Trustee,



Wayne L. Pushka
Chief Executive Officer



Davindra Persaud
Chief Financial Officer

STATEMENTS OF OPERATIONS

(Unaudited)

For the six months ended December 31	2009	2008
Income		
Interest	\$ (3)	\$ 298
Accretion on strip bonds	5,858	17,625
	5,855	17,923
Expenses		
Forward Agreement fees (Note 6)	165,672	168,592
Management fees (Note 4)	123,545	125,491
Board and IRC fees	48,326	59,428
Administrative expenses (Note 4)	47,985	52,942
Audit fees	20,700	18,304
Custody, valuation and transfer fees	19,153	29,526
Regulatory and listing expenses	14,075	10,821
Accounting fees	8,280	15,252
Insurance expense	7,955	29,442
Legal fees	6,523	44,598
Unitholder servicing expense	751	1,330
	462,966	555,726
Net Investment Loss	(457,111)	(537,803)
Net Realized Gain on Sale of Investments	242,224	526,635
Changes in Unrealized Appreciation (depreciation) of Investments and Forward Agreement	728,477	(6,605,720)
Increase (decrease) in Net Assets from Operations	\$ 513,590	(6,616,888)
Increase (decrease) in Net Assets from Operations per Unit ⁽¹⁾	\$ 0.09	\$ (0.98)
Net Realized Gain (Loss) on Sale of Investments		
Proceeds from Sale of Investments	2,010,201	2,287,330
Cost of Investments, Beginning of Period	41,796,156	51,240,488
Cost of Investments, Purchased During the Period	-	-
	41,796,156	51,240,488
Less: Cost of Investments, End of Period	(40,034,037)	(49,497,418)
Add Back: Increase in Bond Cost Due to Accretion for the Period	5,858	17,625
Cost of Investments Sold During the Period	1,767,977	1,760,695
Net Realized Gain on Sale of Investments	\$ 242,224	\$ 526,635

(1) Based on the weighted average number of units outstanding during the year.

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

STATEMENTS OF CHANGES IN NET ASSETS

(Unaudited)

For the six months ended December 31	2009		2008	
Net Assets, Beginning of Period	\$	54,715,172	\$	60,455,533
Increase in Net Assets from Operations		513,590		(6,616,888)
Distributions to Unitholders (Note 5)		(1,356,869)		(1,482,155)
Unit transactions				
Paid for units redeemed (Note 7)		(4,545,385)		(6,264,260)
Net Assets, End of Period	\$	49,326,508	\$	46,092,230

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

STATEMENTS OF INVESTMENTS

(Unaudited)

			December 31, 2009			June 30, 2009		
Canadian Equities								
Number of Shares (December 31, 2009)	Number of Shares (June 30, 2009)	Description	Average Cost	Fair Value	% Of Net Assets	Average Cost	Fair Value	% Of Net Assets
60,944	60,944	Barrick Gold Corp.	\$ 1,816,135	\$ 2,521,863	5.1	\$ 1,816,135	\$ 2,375,634	4.3
371,900	371,900	Bombardier Inc., Class 'B'	2,249,995	1,781,401	3.6	2,249,995	1,275,617	2.3
89,917	89,917	Brookfield Asset Management Inc., Class 'A'	3,496,858	2,098,663	4.3	3,496,858	1,783,315	3.3
400,000	400,000	COM DEV International Ltd.	2,080,000	1,368,000	2.8	2,080,000	1,148,000	2.1
41,667	41,667	Domtar (Canada) Paper Inc.	3,825,000	2,416,667	4.9	3,825,000	799,583	1.5
158,000	158,000	Forzani Group Ltd.	2,836,100	2,205,680	4.5	2,836,100	2,268,880	4.1
200,000	200,000	Ivanhoe Mines Ltd.	2,250,000	3,074,000	6.2	2,250,000	1,298,194	2.4
198,525	198,525	Kingsway Financial Services Inc.	3,088,800	361,316	0.7	3,088,800	661,088	1.2
102,540	102,540	MDS Inc.	2,069,257	813,142	1.6	2,069,257	632,245	1.2
37,661	37,661	Magna International Inc., Class 'A'	3,496,858	1,999,799	4.1	3,496,858	1,847,634	3.4
138,070	138,070	Nortel Networks Corp.	3,175,620	-	0.0	3,175,620	25,543	0.1
62,000	62,000	Onex Corp.	2,249,360	1,458,240	3.0	2,249,360	1,240,000	2.3
57,760	109,360	Open Text Corp.	1,405,251	2,366,454	4.8	2,756,067	4,626,103	8.5
48,710	48,710	Quebecor Inc., Class 'B'	886,521	1,325,886	2.7	886,521	964,458	1.8
31,278	31,278	Shoppers Drug Mart Corp.	1,526,364	1,417,206	2.9	1,526,364	1,562,650	2.9
84,707	66,178	Suncor Energy Inc. (formerly Petro-Canada)	3,496,858	3,143,477	6.4	3,496,858	2,959,268	5.4
Total Canadian Equities			39,948,977	28,351,794	57.5	41,299,793	25,468,212	46.6
Canadian Bonds								
Par Value								
100,000	600,000	Province of Ontario Strip Bond 12/02/2012	85,060	92,999	0.2	496,363	545,584	1.0 %
Total Investments			40,034,037	28,444,793	57.7	41,796,156	26,013,796	47.5 %
Forward Agreement				25,376,499	51.4		28,731,137	52.5 %
Receivable Under Forward Agreement				1,440,000	2.9		1,550,000	2.8 %
Liabilities, Net of Other Assets				(5,934,784)	(12.0)		(1,579,761)	(2.9) %
Total Net Assets				\$ 49,326,508	100.0		\$ 54,719,834	100.0%

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

NOTES TO THE FINANCIAL STATEMENTS

(Unaudited)

December 31, 2009

1. THE FUND

The Investment Grade Trust (the "Fund") is an investment trust established under the laws of the Province of Ontario on January 28, 2003 (date of inception). At that time, the Fund completed an initial public offering (the "Offering") of 7,200,000 Units (the "Units") at \$10 per unit. Subsequently an option granted to the agents was exercised for 300,000 Units at \$10 per Unit. The Fund's Units are listed on The Toronto Stock Exchange. The Fund will terminate operations on December 31, 2012 (the "Termination Date") and the net assets will be distributed pro rata to holders of Units (the "Unitholders"). Crown Hill Investment Corporation was both the Manager (the "Manager") and Trustee of the Fund until June 6, 2008, at which time it was replaced by Crown Hill Capital Corporation.

The stated investment objectives are: i) to pay to the Unitholders on or about the Termination Date an amount per Unit equal to the original subscription price of \$10; and ii) to provide the Unitholders with a stable stream of tax-efficient semi-annual distributions.

In order to meet its investment objectives, the Fund will manage its assets to provide exposure to Bond Trust which is an investment trust that holds a portfolio of debt securities. The portfolio of debt securities will be comprised of the Capital Repayment Portfolio, structured to repay \$10 per Unit on the Termination Date, and the Distribution Portfolio, structured to pay the yield. The Fund itself invested the net proceeds of its initial public offering in a portfolio of common shares (the "Common Share Portfolio"). The Fund gains exposure to the performance of Bond Trust portfolio through a share basket forward purchase and sale agreement (the "Forward Agreement") with UBS AG (the "Counterparty"). The common shares in the Common Share Portfolio have been delivered to the Counterparty as collateral against the Forward Agreement. The amount received under the exercise of the option granted to the agents was invested in a Province of Ontario Strip Bond with the balance held in a short-term investment. Under the terms of the Forward Agreement, the Counterparty has agreed to pay to the Fund on or about the Termination Date, in exchange for the Common Share Portfolio, an amount equal to 100% of the redemption proceeds equal to the underlying value of Bond Trust.

For additional information about the holdings that the Fund is exposed to through the Forward Agreement (see Notes 6 and 8).

The Fund will partially settle the Forward Agreement prior to the Termination Date in order to fund semi-annual distributions, redemptions of Units by Unitholders and expenses of the Fund. The obligations of the Counterparty under the Forward Agreement are guaranteed by the Counterparty.

Reference is made to the Fund's prospectus dated January 29, 2003 for complete details of the Fund's objectives and structure.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual amounts could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

(a) Adoption of new accounting standards

On July 1, 2008, the Fund adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation" and Section 1535, "Capital Disclosures". Sections 3862 and 3863 establish standards for the comprehensive disclosure and presentation requirements for financial instruments. The standards include new requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks. There is no impact on the net assets or the results of operations as a result of these new standards. The detailed risks of investing in the Fund are disclosed in Note 8. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed; see Note 9.

NOTES TO THE FINANCIAL STATEMENTS

(Unaudited)

(Continued)

December 31, 2009

(b) Investment valuation

Portfolio securities

Securities listed on a recognized stock exchange are valued at their bid price on the valuation date and, where necessary, translated into Canadian dollars at the period end exchange rate. Securities not traded on that date are valued at the closing record bid price used on the previous valuation day. Securities not listed on any exchange are valued based upon the available public quotations in common use or at a price estimated to be fair value thereof as determined by the Manager of the Fund. The difference between the fair value of portfolio securities and their average cost and the change in value of the Forward Agreement is the unrealized gain (loss) on investments on the Statements of Operations.

Short-term investments

Short-term investments are recorded at cost and valued at cost plus accrued interest which approximates fair value.

Strip bonds

Strip bonds are valued at their bid price on the valuation date. The discount on the strip bond is recorded as interest income over the life of the bond using the effective interest rate method and is added to the cost of the strip bond. The difference between the fair value and the accreted cost of the strip bond is recorded as part of the unrealized gain (loss) on investments on the Statements of Operations.

(c) Foreign currency translation

The fair value of investments and other assets and liabilities denominated in foreign currencies is translated into Canadian dollars at the rates prevailing on each valuation date. Purchases and sales of investments, income and expenses are translated into Canadian dollars at the foreign exchange rates prevailing on the respective dates of such transactions.

(d) Investment transactions and income recognition

- i. Investment transactions are accounted for on the trade date.
- ii. Interest income is recorded on the accrual basis, using the effective interest method.
- iii. Dividend income is recorded on the ex-dividend date.
- iv. Realized gains and losses on investments and unrealized appreciation or depreciation of investments are calculated using the average cost of the related investments.

(e) Forward Agreement

The Forward Agreement is valued at an amount equal to the gain or loss that would be realized if the position was to be closed out on the valuation date. On cash settlement, the fair value of the Forward Agreement would equal the difference between the value of the securities held in the Common Share Portfolio and the value of the portfolio of debt securities held by Bond Trust, as provided by the Counterparty, including interest receivable, net of accrued expenses. On settlement, any amount receivable from the counterparty on the valuation date, is included in Receivable under Forward Agreement on the Statements of Net Assets.

(f) Distributions

Distributions to Unitholders are recorded by the Fund when declared.

NOTES TO THE FINANCIAL STATEMENTS

(Unaudited)

(Continued)

December 31, 2009

(g) Application of CICA Handbook Section 3855

For purposes of preparing its financial statements, the Fund values its investments pursuant to Section 3855 of the CICA Handbook as outlined above in Note 2(b); the resulting net assets balance is referred to as "Net Assets". For all other purposes, including the processing of Unitholder transactions, the value of its investments that trade in an active market continues to be determined using the last traded price; the resulting net asset balance is referred to as "Net Asset Value". On each valuation date, the Net Asset Value per Unit is computed by dividing the Net Asset Value of the Fund by the total number of its Units outstanding.

At December 31, 2009 and June 30, 2009 there was no difference between Net Asset Value per Unit calculated at the last traded price for the day and Net Assets per Unit calculated at the bid price for the day. Any difference in the fair value of the securities in the investment portfolio between the valuation for Unitholder transaction purposes and the valuation for financial statement purposes was offset by a change in the fair value of the Forward Agreement of the same amount.

(h) Future accounting changes

In February 2008, the CICA Accounting Standards Board confirmed that Canadian GAAP will be replaced by International Financial Reporting Standards ("IFRS") for Canadian enterprises with public accountability. These new standards are effective for the Fund beginning July 1, 2011. The Fund is currently assessing the impact of IFRS on its financial reporting.

3. TAXATION

The Fund is a mutual fund trust within the meaning of the Income Tax Act (Canada) and is subject to applicable federal and provincial taxes on the amount of net income for tax purposes for the year, including net realized taxable capital gains, to the extent such net income for tax purposes has not been paid or made payable to the Unitholders in the year. No provision for income taxes has been recorded in the accompanying financial statements as all income and net realized capital gains are distributed to the Unitholders.

As of the December 31, 2009 taxation year, the Fund had non-capital losses available to carry forward to future taxation years of \$3,529,944 (2008 - \$2,765,000). Such non-capital losses will expire in the taxation years from 2010 to 2016.

As of the December 31, 2009 taxation year, the Fund had capital losses available to carry forward to future taxation years of \$1,116,755 (2008 - \$1,358,987).

4. RELATED PARTY TRANSACTIONS

The Manager is entitled to an annual fee of \$562,500 payable monthly in arrears. From this fee, the Manager is responsible to pay certain fees due under the Forward Agreement which totaled \$165,672 for the six-month period ended December 31, 2009 (2008 - \$168,592) (Note 6). The Manager, for its services, retains the net amount which totaled \$123,545 for the period (2008 - \$125,491). All other expenses of the Fund are initially paid by the Manager, and the Manager is reimbursed by the Fund. The amount owing to the Manager at December 31, 2009 is \$113,536 (2008 - \$105,078).

Administration expenses for the period totaled \$47,985 (2008 - \$52,942). As part of these expenses the Fund is paying a general overhead cost to First Paladin Inc. (a company related to the Manager) which varies depending on the costs incurred. The general overhead cost for the period was \$49,770 (2008 - \$49,770).

5. DISTRIBUTIONS

The Fund endeavors to make semi-annual cash distributions to the Unitholders of net realized capital gains starting on the last business day of June 2003.

During the six-month period, the Fund declared one distribution of \$0.25 per Unit. The distribution was declared on December 31, 2009 and was paid out in the following month.

NOTES TO THE FINANCIAL STATEMENTS

(Unaudited)

December 31, 2009

(Continued)

6. FORWARD AGREEMENT

Under the Forward Agreement, the Manager pays the Counterparty an annual fee based on the gross proceeds of the offering calculated and payable monthly in arrears. To the extent that the amount incurred by the Counterparty in connection with the hedging of its exposure under the transaction (which includes third party borrowing fees and financing charges relating thereto) exceeds approximately 0.25% of the gross proceeds of the offering, the Counterparty will charge the Manager the excess amount incurred. The amounts payable by the Manager for the excess amount incurred are limited to a maximum of 0.65% of the gross proceeds of the offering. Any charges that exceed this level will be paid by the Fund.

The following is the Statements of Investments for Bond Trust as at December 31, 2009 and June 30, 2009.

NOTES TO THE FINANCIAL STATEMENTS

(Unaudited)

December 31, 2009

(Continued)

Bond Par Value	Description	Coupon	Maturity	December 31, 2009			June 30, 2009		
				Average Cost	Fair Value	% Of Net Assets	Average Cost	Fair Value	% Of Net Assets
Capital Repayment Portfolio (Par Value in CAN \$ except as noted)									
\$ 16,000,000	Ontario Hydro	0.000 %	04/15/2012	\$ 14,037,487	\$ 15,267,685	28.4	\$ 13,641,819	\$ 15,007,608	27.7
2,494,000	Ontario Hydro	0.000 %	02/06/2013	2,134,975	2,288,790	4.3	2,086,998	2,245,140	4.1
4,200,000	Ontario Hydro	0.000 %	02/18/2013	3,517,479	3,862,163	7.2	3,419,229	3,775,744	7.0
1,500,000	Province Of British Columbia	0.000 %	06/18/2012	1,300,511	1,427,401	2.7	1,263,380	1,400,873	2.6
4,500,000	Province Of British Columbia	0.000 %	08/23/2012	3,862,999	4,242,187	7.9	3,753,076	4,172,260	7.7
4,000,000	Province Of Ontario	0.000 %	12/02/2012	3,386,882	3,729,200	6.9	3,291,731	3,637,228	6.7
13,900,000	Province Of Ontario	0.000 %	01/13/2013	11,685,507	12,846,437	23.9	11,355,930	12,601,396	23.3
7,200,000	Province Of Quebec	0.000 %	04/01/2012	6,335,002	6,863,165	12.8	6,157,358	6,732,744	12.4
1,600,000 US \$	Credit Suisse First Boston	6.500 %	01/15/2012	2,517,384	1,825,287	3.4	2,517,384	2,005,178	3.7
800,000 US \$	Goldman Sachs Group	5.700 %	09/01/2012	1,211,072	902,136	1.7	1,211,072	972,558	1.8
1,600,000 US \$	Morgan Stanley Dean Witter	6.600 %	04/01/2012	2,549,853	1,824,951	3.4	2,549,853	1,967,338	3.6
12,584,000	UBS Default Contingency Zero Swap	0.000 %	12/31/2012	4,021,387	9,886,494	18.4	4,021,385	9,433,629	17.4
				56,560,538	64,965,896	120.9	55,269,215	63,951,696	118.0
Distribution Portfolio (Par Value In U.S. \$)									
738,000	Anthem Inc. (Wellpoint Inc.)	6.800 %	08/01/2012	1,250,420	853,618	1.6	1,250,420	894,504	1.7
165,000	AOL Time Warner Inc.	6.875 %	05/01/2012	258,742	189,366	0.4	258,741	204,987	0.4
729,000	Aon Corp.	7.375 %	12/14/2012	1,240,147	835,439	1.6	1,240,147	895,551	1.7
217,000	Arvinmeritor Inc.	8.750 %	03/01/2012	396,057	230,904	0.4	396,057	159,398	0.3
154,000	CIT Group Inc.	7.750 %	04/02/2012	255,724	115,115	0.2	255,724	107,111	0.2
512,000	Coca Cola Enterprises Inc.	6.125 %	08/15/2011	858,202	572,541	1.1	858,202	642,837	1.2
164,000	Disney (Walt) Co.	6.375 %	03/01/2012	264,449	187,800	0.3	264,449	209,171	0.4
802,000 (June 09)	Electronic Data Systems	7.125 %	10/15/2009	-	-	-	1,223,645	948,651	1.8
247,000	Falconbridge Ltd.	7.350 %	06/05/2012	388,623	277,722	0.5	388,623	305,942	0.6
618,000	Ford Motor Credit Co.	7.375 %	02/01/2011	853,451	661,089	1.2	853,451	649,729	1.2
256,000 (June 09)	General Electric Capital Corp.	4.625 %	09/15/2009	-	-	-	396,168	299,214	0.6
749,000	Safeco Corp.	7.250 %	09/01/2012	1,255,400	810,256	1.5	1,255,401	766,568	1.4
931,000	Sprint Capital Corp.	8.375 %	03/15/2012	1,259,265	1,010,174	1.9	1,259,266	1,064,999	2.0
722,000 (June 09)	Sun Microsystems Inc.	7.650 %	08/15/2009	-	-	-	1,251,207	839,543	1.5
633,000	Teco Energy Inc.	7.200 %	05/01/2011	836,431	692,792	1.3	836,430	758,067	1.4
				9,116,911	6,436,816	12.0	11,987,931	8,746,272	16.1
	Swap Contract				(17,699,234)	(32.9)		(18,635,728)	(34.4)
Total Investments				\$ 65,677,449	\$ 53,703,478	100.0	\$ 67,257,146	\$ 54,062,240	99.7
Other Assets Less Liabilities					24,815	0.0		137,109	0.3
Total Net Assets					\$ 53,728,293	100.0		\$ 54,199,349	100.0

NOTES TO THE FINANCIAL STATEMENTS

(Unaudited)

(Continued)

December 31, 2009

7. UNITHOLDERS' EQUITY

The Fund is authorized to issue an unlimited number of transferable, redeemable Units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. Unitholders are entitled to redeem their Units outstanding in December of each year. Units will be redeemed at the Net Asset Value per Unit on the redemption date or, at the latest, the Termination Date. During the six-month period there were redemptions of 501,145 Units at \$9.07 per Unit (2008 - 810,697 Units at \$7.69 per Unit).

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Fund's investment activities expose it to various types of risk associated with the financial instruments in which it invests directly and indirectly. In addition to the risks of investing in the equity markets generally, the Fund is also subject to other risks, including credit risk, interest rate risk, liquidity risk and currency risk. These risks and related risk management practices employed by the Fund are discussed below.

By entering into the Forward Agreement, as explained in Note 1, the Fund has exchanged some of the risks of its Common Share Portfolio for exposure to the risks of Bond Trust (see Note 6).

Credit Risk

Credit risk is the risk that an issuer defaults or that a counterparty will be unable or unwilling to meet a commitment that it has entered into with the Fund. All transactions in listed securities are settled upon delivery using approved brokers.

The credit risk of derivative contracts arises from the potential inability of the Counterparty to meet the terms of its contracts. The credit rating of the Counterparty is currently A+ (as per Standard & Poor's). Partially offsetting this risk are the equity securities held as collateral. The credit risk exposure is the aggregate of all derivative contracts with a positive value as disclosed on the Statement of Investments plus the credit risk of AA- for the one Province of Ontario strip bond.

For the bonds held by Bond Trust at December 31, 2009, using fair value, 57% are rated A+ or better; 36% are between A and BBB and 7% are rated lower than BBB or not rated.

The Swap Contract of Bond Trust exposes Bond Trust to additional credits with respect to the determination of the interest rate paid by the Counterparty to Bond Trust. The coupon rate on the Swap Contract was initially set at 6.05% (paid semi-annually on December 31 and June 30) and each credit event results in a reduction of 0.495% starting in the period in which the event occurred, to a maximum reduction of 4.95%.

The other credits are those listed in the Distribution Portfolio with the exception of Coca-Cola Enterprises Inc., and also includes Bombardier Inc., Comcast Corp., Dow Chemical Co., Freeport-McMoRan, Copper & Gold Inc. (formerly Phelps Dodge Corp.), Hilton Hotels Corp., Motorola Inc., Noranda Inc., Sears Roebuck Acceptance Corp., Supervalu Inc., Thomson Reuters Corporation, Toys R Us Inc., Tyco International Ltd., Tyson Foods Inc., Valero Energy Corp., and Weyerhaeuser Co.

On June 12, 2009, Bond Trust received a credit event notice from the Counterparty with respect to Visteon Corp. as a result of that entity filing for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. On December 16, 2009, the Fund received a credit event notice from the Counterparty with respect to CIT Group Inc. as a result of that entity filing for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. The interest rate for periods starting after December 31, 2009 is now 5.06%.

For the twelve companies listed on the Statements of Investments, excluding Visteon Corp. and CIT Group Inc., that can have an effect on the interest rate of the Swap Contract, five are rated BBB or better and seven are rated less than BBB.

The pricing model used by the Counterparty to determine the current price of the Swap Contract takes into account the expected recovery rates of any bond issuer from the Capital Repayment Portfolio or the Distribution Portfolio who have had a credit event.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Unaudited)

December 31, 2009

As well, Bond Trust has entered into the UBS Default Contingency Zero Swap derivative contract with USB AG. Through this contract, the Fund has the economic effect of creating a synthetic strip bond in the Capital Repayment Portfolio which is secured 75% by Provincial bonds and 25% by four financial institutions, thus creating exposure to the credit worthiness of the provinces of British Columbia, Ontario and Quebec and Credit Suisse First Boston, Goldman Sachs Group, Morgan Stanley Dean Witter and UBS AG, the Counterparty.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Fund invests in interestbearing financial instruments.

The Fund invests in equity securities with the exception of one strip bond, representing 0.2% of the Net Assets of the Fund.

Bond Trust invests in bond securities which subject the Fund to interest rate risk. As at December 31, if interest rates increased (decreased) by 1% with all other variables held constant, the fair value of the securities as shown on Bond Trust's Statements of Investments would have decreased (increased) by approximately \$1,400,000. However, Bond Trust has exchanged this risk on bond securities for the following risk on the Swap Contract. The Swap Contract results in Bond Trust's interest rate risk being highly correlated with that of a Government of Canada 10-year December 2012 bond. As at December 31, 2009, if interest rates had increased (decreased) by 1% with all other variables held constant, the fair value of the Swap Contract would have decreased (increased) by approximately \$1,400,000 (approximately 2.8% of the Net Assets of the Fund).

Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial obligations. The Fund is exposed to an annual redemption of units at which time the units of the Fund are redeemed at the current Net Asset Value per Unit. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed.

Therefore, in the short term, as at December 31, 2009, the Fund's liquidity risk is considered minimal.

In the longer term, there is also a liquidity risk associated with the Forward Agreement. The Forward Agreement is based upon the Swap Contract in Bond Trust which is considered to be illiquid.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. However, all of the equity securities have been exchanged for the bonds held by Bond Trust. The maximum risk resulting from financial instruments held by Bond Trust is determined by the fair value of those financial instruments. The Manager moderates this risk through a careful selection of securities and the Fund's market price risk is managed through diversification of the investment portfolio. The Manager monitors the Fund's security holdings for corporate actions and tax changes to ensure that the investments remain appropriate for the Fund.

The majority of the Fund's direct investments are in equity securities. As at December 31, 2009, had the prices on the respective stock exchanges for these securities increased (decreased) by 10%, with all other variables held constant, Net Assets would not have changed; the fair value of securities would have increased (decreased) by approximately \$2,400,000 (approximately 4.8% of total Net Assets) and would be offset by a decrease (increase) in the fair value of Forward Agreement of the same amount.

A reduction in the liquidity of the world bond markets may result in the fall in bond prices throughout the world.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Unaudited)

December 31, 2009

Currency Risk

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency (Canadian Dollar) of the Fund, will fluctuate due to changes in foreign exchange rates. The Statements of Investments identifies all investments denominated in foreign currencies. Equities in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are translated to the Fund's functional currency in determining fair value.

The Fund invests all of the investment portfolio in Canadian securities. Bond Trust has approximately 25% of its investment portfolio in U.S. securities. However, the foreign exchange risk is eliminated by a hedge in the Swap Contract in Bond Trust. Therefore, as at December, 31, 2009, the Fund's currency risk is considered minimal.

9. CAPITAL MANAGEMENT

The Fund's capital consists solely of Unitholders' equity. The Fund's Manager maintains the Fund's capital in accordance with its objectives, strategies and restrictions as detailed in its Declaration of Trust. There has been no change in the management of capital during the past year.