



BND.UN \$ 75,000,000

Financial Statements of

INVESTMENT GRADE TRUST

(Unaudited)

December 31, 2007

PBK.UN \$ 26,934,730 BND.UN

26,934,730 BND.UN \$ 75,000,000

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	(Unaudited)

Financial Statements

STATEMENT OF NET ASSETS (Unaudited)

	As at December 31, 2007	As at June 30, 2007
ASSETS		
Cash and short-term investments	\$ 48,774	\$ 30,007
Investments at market value (Note 4) (Cost December 31, 2007 - \$59,092,593; June 30, 2007 - \$70,411,262)	62,231,770	73,595,380
Forward Agreement (Note 6)	4,241,597	-
Receivable under forward agreement (Note 6)	2,196,000	1,944,000
	68,718,141	75,569,387
LIABILITIES AND UNITHOLDERS' EQUITY		
Forward Agreement (Note 6)	-	3,401,751
Payable for unitholder redemptions	6,687,795	-
Due to manager (Note 4)	144,341	95,574
Distributions payable (Note 5)	1,686,079	1,875,000
	8,518,215	5,372,325
NET ASSETS AND UNITHOLDERS' EQUITY (Notes 7 and 8)	\$ 60,199,926	\$ 70,197,062
NUMBER OF UNITS OUTSTANDING	6,744,317	7,500,000
NET ASSET VALUE PER UNIT (Note 8)	\$ 8.93	\$ 9.36

APPROVED BY THE TRUSTEE,

(signed) Wayne L. Pushka
Director

(signed) Thomas I. A. Allen
Director

The accompanying notes are integral to these unaudited financial statements.

Financial Statements

continued

STATEMENT OF OPERATIONS
(Unaudited)

For the six months ended December 31,	2007	2006
		Restated - Note 2
INCOME		
Interest	\$ 166	\$ -
Accretion on strip bonds	47,878	57,927
	48,044	57,927
EXPENSES		
Management fees (Note 4)	124,607	125,554
Forward agreement fees (Note 6)	163,697	162,803
Administrative expenses	62,336	46,944
Accounting and audit fees	20,201	22,756
Board expense	25,314	23,897
Insurance expense	56,935	26,810
Legal fees	63,595	10,517
Unitholder servicing expense	12,287	-
Custody, valuation and transfer fees	29,996	26,819
Regulatory and listing expenses	10,441	9,000
	569,409	455,100
NET INVESTMENT INCOME	(521,365)	(397,173)
NET REALIZED GAIN (LOSS) ON SALE OF INVESTMENTS	(8,952,304)	2,929,509
CHANGE IN UNREALIZED APPRECIATION OF INVESTMENTS AND FORWARD AGREEMENT (Note 6)	7,871,624	3,038,598
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	\$ (1,602,045)	\$ 5,570,934
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS PER UNIT	\$ (0.21)	\$ 0.74

The accompanying notes are integral to these unaudited financial statements.

Financial Statements

continued

STATEMENT OF CHANGES IN NET ASSETS

(Unaudited)

For the six months ended December 31,	2007	2006 Restated – Note 2
NET ASSETS, BEGINNING OF PERIOD	\$ 70,197,062	\$ 69,138,148
INITIAL ADOPTION OF NEW ACCOUNTING POLICY (Note 2)	(21,217)	-
	70,175,845	69,138,148
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	(1,602,045)	5,570,934
DISTRIBUTIONS TO UNITHOLDERS (Note 5)	(1,686,079)	(1,875,000)
UNITHOLDER TRANSACTIONS		
Paid for Units redeemed (Note 7)	(6,687,795)	-
NET ASSETS, END OF PERIOD	\$ 60,199,926	\$ 72,834,082

NET REALIZED GAIN (LOSS) ON SALE OF INVESTMENTS

Proceeds from sale of investments	\$ 11,232,855	\$ 13,618,271
Cost of investments, beginning of period	70,411,262	57,943,894
Cost of investments, purchased during the period	8,818,612	11,423,560
	79,229,874	69,367,454
Less: Cost of investments, end of period	(59,092,593)	58,792,575
Add back: Increase in bond cost due to accretion for the period	47,878	113,883
Cost of investments sold during the period	20,185,159	10,688,762
Net realized gain (loss) on sale of investments	\$ (8,952,304)	\$ 2,929,509

The accompanying notes are integral to these unaudited financial statements.

Financial Statements

continued

STATEMENT OF INVESTMENTS
As at December 31, 2007 (Unaudited)
CANADIAN EQUITIES

NUMBER OF SHARES	DESCRIPTION	AVERAGE COST	MARKET VALUE	% OF NET ASSETS
175,000	Axcan Pharma Inc.	2,838,500	3,897,250	6.5
117,334	Barrick Gold Corp.	3,496,858	4,876,817	8.1
371,900	Bombardier Inc., Class 'B'	2,249,995	2,216,524	3.7
89,917	Brookfield Asset Management Inc., Class 'A'	3,496,858	3,187,558	5.3
400,000	COM DEV International Ltd.	2,080,000	1,440,000	2.4
500,000	Domtar Inc.	3,825,000	3,790,000	6.3
97,814	Enbridge Inc.	3,496,858	3,912,560	6.5
158,000	Forzani Group Ltd.	2,836,100	2,638,600	4.4
200,000	Ivanhoe Mines Ltd.	2,250,000	2,140,000	3.5
198,525	Kingsway Financial Services Inc.	3,088,800	2,382,300	3.9
249,440	Kinross Gold Corporation	2,110,285	4,557,269	7.6
102,540	MDS Inc.	2,069,257	1,962,616	3.3
37,661	Magna International Inc., Class 'A'	3,496,858	2,941,701	4.9
138,070	Nortel Networks Corporation	3,175,620	2,068,295	3.4
62,000	Onex Corp.	2,249,360	2,163,800	3.6
134,800	Open Text Corp.	3,397,200	4,184,192	7.0
66,178	Petro-Canada	3,496,858	3,465,080	5.7
48,710	Quebecor Inc., Class 'B'	886,521	1,738,947	2.9
71,657	Shoppers Drug Mart Corp.	3,496,857	3,816,452	6.3
78,918	Thomson Corp.	3,496,857	3,184,339	5.3
TOTAL CANADIAN EQUITIES		57,534,642	60,564,300	100.6

CANADIAN BONDS

PAR VALUE				
\$2,050,000	Province of Ontario Strip Bond 12/02/2012	1,557,951	1,667,470	2.8
TOTAL INVESTMENTS		\$ 59,092,593	62,231,770	103.4
RECEIVABLE UNDER FORWARD AGREEMENT			4,241,597	7.0
			66,473,367	110.4
OTHER ASSETS, NET OF LIABILITIES			(6,273,441)	(10.4)
TOTAL NET ASSETS			\$ 60,199,926	100.0

The accompanying notes are integral to these unaudited financial statements.

Notes to the Financial Statements

December 31, 2007 (Unaudited)

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 (formerly Hollister Capital Corporation) is both the Manager (the “Manager”) and Trustee of the Fund.

The stated investment objectives are: i) to pay Unitholders on or about the Termination Date an amount per Unit equal to the original subscription price of \$10; and ii) to provide 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 the 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 the 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 UBS AG 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 the Bond Trust.

For additional information about the holdings that the Fund is exposed to through the Forward Agreement see Note 6.

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. The Counterparty's issuer rating by Moody's is Aa2.

Reference is made to the Fund's prospectus for complete details of the Fund's objectives and structure.

Notes to the Financial Statements

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December 31, 2007 (Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, 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) Consolidation

Change in accounting policy

Pursuant to the February 2007 amendments to Accounting Guideline 15 – Consolidation of Variable Interest Entities and Accounting Guideline 18 – Investment Companies, the Fund retroactively de-consolidated the assets, liabilities, income and expenses arising from its investment in the Bond Trust. As a result, the Fund accounts for its investment in the Bond Trust based on fair value of the forward agreement as described in Note 2 (d) to these financial statements. The portfolio of debt securities held by the Bond Trust is disclosed in Note 6.

The de-consolidation does not impact the net assets and unitholders' equity or the results of operations. The table below summarizes the major changes as a result of the change in accounting policy.

Comparative Statement of Operations:

	<i>As previously reported</i>		<i>As restated</i>		<i>Increase (Decrease)</i>
Income	\$	3,325,278	\$	57,927	\$ (3,267,351)
Expenses		580,014		455,100	(124,914)
Net realized gain on sale of investments		2,929,509		2,929,509	-
Partial settlement of swap contract		(2,701,264)		-	2,701,264
Change in unrealized appreciation on investments		15,979,225		3,038,598	(12,940,627)
Non-controlling interest		(13,381,800)		-	13,381,800
INCREASE IN NET ASSETS FROM OPERATIONS	\$	5,570,934	\$	5,570,934	-

Notes to the Financial Statements

continued

December 31, 2007 (Unaudited)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Investment Valuation

Change in accounting policy

Effective July 1, 2007, the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, Financial Instruments: Recognition and Measurement, requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for securities held short. Prior to this new section, the fair value was based on the last traded price for the day, when available.

Effective July 1, 2007, Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities be charged to net income in the period. Prior to this new section, these costs if any, would have been added to the cost of the securities purchased or deducted from the proceeds of sale. This change has no impact on the Fund since the Fund does not pay brokerage commissions.

On July 1, 2007, the Fund adopted Section 3855 on a retroactive basis (that is, without retroactive restatement of prior periods) for financial reporting purposes. The effect of the initial adoption of this new accounting policy, using the closing bid price as at June 30, 2007, is a decrease of \$12,217 in the net assets of the Fund at the beginning of the period.

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 December 31 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 market 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 Statement of Operations.

Short-term investments

Short-term investments are recorded at cost and valued at cost plus accrued interest which approximates market 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 added to the cost of the strip bond. The difference between the market value and the accredited cost of the strip bond is recorded as part of the unrealized gain (loss) on investments on the Statement of Operations.

Notes to the Financial Statements

continued

December 31, 2007 (Unaudited)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***c) Investment transactions and income recognition*

- i. Investment transactions are accounted for on the trade date.
- ii. Interest income is recorded on the accrual basis.
- 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.

d) 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 market value of the securities held in the Common Share Portfolio and the value of the portfolio of debt securities held by the Bond Trust, including interest receivable, net of accrued expenses.

e) Net asset value per unit

The net asset value per unit is computed by dividing the net assets of the Fund by the total number of units outstanding

3. TAXATION

The Fund and Bond Trust are mutual fund trusts within the meaning of the Income Tax Act (Canada). The Fund and Bond Trust are 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 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, 2007 taxation year, the Fund has no non-capital losses available to carry forward to future taxation years of \$3,111,564 (2006 - \$3,111,564). Such non-capital losses will be expired in the taxation year 2010 and 2011.

As of the December 31, 2007 taxation year, the Fund has capital losses available to carry forward to future taxation years of \$1,358,987 (2006 - \$1,358,978).

4. RELATED PARTY TRANSACTIONS

The Manager is entitled to an annual fee of 0.90% of the gross proceeds of the Offering, payable monthly in arrears. From this fee, the Manager is responsible to pay certain fees due under the Forward Agreement which totaled \$163,697 for the six month period ended December 31, 2007 (2006 - \$162,803) (Note 6). The Manager, for its services, retains the net amount which totaled \$124,607 for the period (2006 - \$125,554). All other expenses of the Fund are initially paid by the Manager, and the Manager is reimbursed by the Fund.

Consolidated administration expenses for the period totaled \$62,336 (2006 - \$46,944). 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 \$50,244 (2006 - \$52,486).

Notes to the Financial Statements

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December 31, 2007 (Unaudited)

5. DISTRIBUTIONS

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

During the period, the Fund declared one distribution of \$0.25 per Unit. The distribution was declared in December 2007 and paid out in the following month.

6. FORWARD AGREEMENT FEES

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.

Notes to the Financial Statements

continued

December 31, 2007 (Unaudited)

6. FORWARD AGREEMENT FEES (continued)

The following is the statement of investments for the Bond Trust as at December 31, 2007.

STATEMENT OF INVESTMENTS
As at December 31, 2007 (Unaudited)

BOND PAR VALUE	DESCRIPTION	COUPON	MATURITY	AVERAGE COST	MARKET VALUE	% OF NET ASSETS
Capital Repayment Portfolio (Par Value in CAN \$ except as noted)						
\$ 16,000,000	Ontario Hydro	0.000%	15/04/2012	\$ 12,520,482	\$ 13,340,402	20.6
2,494,000	Ontario Hydro	0.000%	06/02/2013	1,949,441	2,006,470	3.1
4,200,000	Ontario Hydro	0.000%	18/02/2013	3,140,640	3,372,613	5.2
1,500,000	Province of British Columbia	0.000%	18/06/2012	1,158,227	1,241,151	1.9
4,500,000	Province of British Columbia	0.000%	23/08/2012	3,441,723	3,710,592	5.7
4,000,000	Province of Ontario	0.000%	02/12/2012	3,022,018	3,247,272	5.0
13,900,000	Province of Ontario	0.000%	13/01/2013	10,421,930	11,189,344	17.3
7,200,000	Province of Quebec	0.000%	01/04/2012	5,653,759	6,012,581	9.3
1,600,000	US Credit Suisse First Boston	6.500%	15/01/2012	2,517,384	1,664,718	2.6
800,000	US Goldman Sachs Group	5.700%	01/09/2012	1,211,072	812,317	1.3
1,600,000	US Morgan Stanley Dean Witter	6.600%	01/04/2012	2,549,853	1,659,216	2.6
12,584,000	UBS Default Contingency Zero Swap (Note 6a)	0.000%	31/12/2012	4,021,385	8,088,505	12.4
				51,607,914	56,345,181	86.9
Distribution Portfolio (Par Value in U.S. \$)						
738,000	Anthem Inc. (Wellpoint Inc.)	6.800%	01/08/2012	1,250,420	795,058	1.2
165,000	AOL Time Warner Inc.	6.875%	01/05/2012	258,741	171,479	0.3
729,000	AON Corp.	7.375%	14/12/2012	1,240,147	801,559	1.2
217,000	Arvinmeritor Inc.	8.750%	01/03/2012	396,057	199,712	0.3
154,000	CIT Group Inc.	7.750%	02/04/2012	255,724	152,782	0.2
512,000	Coca Cola Enterprises Inc.	6.125%	15/08/2011	858,202	526,860	0.8
374,000	Computer Associates International Inc	6.500%	15/04/2008	614,190	368,197	0.6
164,000	Disney (Walt) Co.	6.375%	01/03/2012	264,449	171,854	0.3
802,000	Electronic Data Systems	7.125%	15/10/2009	1,223,645	817,120	1.3
247,000	Falconbridge Ltd.	7.350%	05/06/2012	388,623	264,730	0.4
618,000	Ford Motor Credit Co.	7.375%	01/02/2011	853,451	546,201	0.8
256,000	General Electric Capital Corp.	4.625%	15/09/2009	396,168	253,913	0.4
749,000	Safeco Corp.	7.250%	01/09/2012	1,255,401	796,589	1.2
931,000	Sprint Capital Corp.	8.375%	15/03/2012	1,259,266	955,137	1.5
722,000	Sun Microsystems Inc.	7.650%	15/08/2009	1,251,207	740,162	1.1
633,000	Teco Energy Inc.	7.200%	01/05/2011	836,430	668,295	1.0
778,000	Thompson Corp.	5.750%	01/04/2008	1,251,093	767,639	1.2
				13,853,214	9,037,287	13.9
	Derivative contract				(560,868)	(0.8)
				13,853,214	8,476,419	13.1
TOTAL INVESTMENTS				\$ 65,461,128	64,821,600	100.0
OTHER ASSETS LESS LIABILITIES					(5,703)	0.0
TOTAL NET ASSETS					\$ 64,815,897	100.0

Notes to the Financial Statements

continued

December 31, 2007 (Unaudited)**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 months ended December 31, 2007, there were redemptions of 755,683 Units at \$8.85 per Unit.

8. NET ASSET VALUE RECONCILIATION

On July 1, 2007, the Fund adopted Section 3855 on a retroactive basis (that is, without retroactive restatement of prior periods) for financial reporting purposes. However, the Canadian Securities Administrators have granted temporary relief to investment funds from complying with Section 3855, for the purpose of calculating and reporting of NAV (other than for financial reporting purposes) until September 30, 2008, to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements, such as the purchase and redemption price of an investment fund.

A reconciliation of net assets and net asset value per unit at the current period's last traded price for the day ('Transactional') and at the current period's bid price according to GAAP ('GAAP') as at December 31, 2007, is provided below:

	Net asset value		Net asset value per unit	
Transactional	\$	60,199,926	\$	8.93
Difference as a result of adopting Section 3855 (Note 2)		-		-
GAAP	\$	<u>60,199,926</u>	\$	<u>8.93</u>