



Financial Statements of

INVESTMENT GRADE TRUST

Audited

For the year ended June 30, 2009

26,934,730 BND.UN \$75,900,000

TABLE OF CONTENTS

1	Auditors' Report
2	Statements of Net Assets
3	Statements of Operations
4	Statements of Changes in Net Assets
5	Statement of Investments
6 - 13	Notes to the Financial Statements

Auditors' Report

To the Unitholders of
Investment Grade Trust

We have audited the statement of investments of Investment Grade Trust (the "Fund") as at June 30, 2009, the statements of net assets as at June 30, 2009 and 2008 and the statements of operations and of changes in net assets for the years then ended. These financial statements are the responsibility of the Fund 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 financial position of the Fund as at June 30, 2009 and 2008 and the results of its operations and changes in net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
October 6, 2009

Financial Statements

STATEMENTS OF NET ASSETS

As at June 30,	2009	2008
ASSETS		
Investments at fair value (Cost 2009 - \$41,796,156; 2008 - \$51,240,488)	\$ 26,013,796	\$ 47,376,047
Forward Agreement (Note 6)	28,731,137	12,648,093
Receivable under Forward Agreement (Note 6)	1,550,000	2,200,000
Cash and short-term investments	4,662	20,721
	56,299,595	62,244,861
LIABILITIES AND UNITHOLDERS' EQUITY		
Due to Manager (Note 4)	102,268	103,249
Distributions payable (Note 5)	1,482,155	1,686,079
	1,584,423	1,789,328
NET ASSETS AND UNITHOLDERS' EQUITY (Notes 2g and 7)	\$ 54,715,172	\$ 60,455,533
NUMBER OF UNITS OUTSTANDING (Note 7)	5,928,620	6,744,317
NET ASSET VALUE PER UNIT (Note 2g)	\$ 9.23	\$ 8.96

APPROVED BY THE TRUSTEE,



(signed) Wayne L. Pushka
Director



(signed) Bruce K. Atchison
Chief Financial Officer

The accompanying notes are integral to these financial statements.

Financial Statements

continued

STATEMENTS OF OPERATIONS

For the year ended June 30,	2009		2008	
INCOME				
Interest	\$	33,175	\$	67,597
EXPENSES				
Forward agreement fees (Note 6)		326,421		326,500
Management fees (Note 4)		248,920		248,976
Board and IRC fees		124,295		88,429
Administrative expenses (Note 4)		99,498		115,710
Custody, valuation and transfer fees		53,232		57,465
Legal fees		44,598		63,595
Insurance expense		32,561		56,935
Audit fees		30,641		30,607
Accounting		25,213		28,300
Regulatory and listing expenses		22,887		23,550
Unitholder servicing expense		2,238		12,772
		1,010,504		1,052,839
NET INVESTMENT LOSS		(977,329)		(985,242)
NET REALIZED GAIN (LOSS) ON SALE OF INVESTMENTS		950,415		(7,953,620)
CHANGE IN UNREALIZED APPRECIATION OF INVESTMENTS AND FORWARD AGREEMENT (Note 6)		3,515,125		9,257,285
INCREASE IN NET ASSETS FROM OPERATIONS	\$	3,488,211	\$	8,423
INCREASE IN NET ASSETS FROM OPERATIONS PER UNIT ⁽¹⁾	\$	0.55	\$	0.04

⁽¹⁾ Based on the weighted average number of Units outstanding during the period.

The accompanying notes are integral to these financial statements.

Financial Statements

continued

STATEMENTS OF OPERATIONS (continued)

For the year ended June 30,	2009		2008	
NET REALIZED GAIN (LOSS) ON SALE OF INVESTMENTS				
Proceeds from sale of investments	\$	10,427,480	\$	20,102,916
Cost of investments, beginning of period		51,240,488		70,411,262
Cost of investments, purchased during the period		-		8,818,613
		51,240,488		79, 229,875
Less: Cost of investments, end of period		(41,796,156)		(51,240,488)
Add back: Increase in bond cost due to accretion for the period		32,733		67,149
Cost of investments sold during the period		9,477,065		28,056,536
Net realized gain (loss) on sale of investments	\$	950,415	\$	(7,953,620)

STATEMENTS OF CHANGES IN NET ASSETS

For the year ended June 30,	2009		2008	
NET ASSETS, BEGINNING OF YEAR	\$	60,455,533	\$	70,197,062
INCREASE IN NET ASSETS FROM OPERATIONS		3,488,211		318,423
DISTRIBUTIONS TO UNITHOLDERS (Note 5)		(2,964,312)		(3,372,158)
UNIT TRANSACTIONS				
Paid for Units redeemed (Note 7)		(6,264,260)		(6,687,794)
NET ASSETS, END OF YEAR	\$	54,715,172	\$	60,455,533

The accompanying notes are integral to these financial statements.

Financial Statements

continued

STATEMENT OF INVESTMENTS

As at June 30, 2009

CANADIAN EQUITIES

NUMBER OF SHARES	DESCRIPTION	AVERAGE COST	FAIR VALUE	% OF NET ASSETS
60,944	Barrick Gold Corp.	1,816,135	2,375,634	4.3
371,900	Bombardier Inc., Class 'B'	2,249,995	1,275,617	2.3
89,917	Brookfield Asset Management Inc., Class 'A'	3,496,858	1,783,315	3.3
400,000	COM DEV International Ltd.	2,080,000	1,148,000	2.1
41,667	Domtar (Canada) Paper Inc.	3,825,000	799,583	1.5
158,000	Forzani Group Ltd.	2,836,100	2,268,880	4.1
200,000	Ivanhoe Mines Ltd.	2,250,000	1,298,194	2.4
198,525	Kingsway Financial Services Inc.	3,088,800	661,088	1.2
102,540	MDS Inc.	2,069,257	632,245	1.2
37,661	Magna International Inc., Class 'A'	3,496,858	1,847,634	3.4
138,070	Nortel Networks Corporation	3,175,620	25,543	0.1
62,000	Onex Corp.	2,249,360	1,240,000	2.3
109,360	Open Text Corp.	2,756,067	4,626,103	8.4
66,178	Petro-Canada	3,496,858	2,959,268	5.4
48,710	Quebecor Inc., Class 'B'	886,521	964,458	1.8
31,278	Shoppers Drug Mart Corp.	1,526,364	1,562,650	2.8
TOTAL COMMON SHARE PORTFOLIO		41,299,793	25,468,212	46.6

CANADIAN BONDS

PAR VALUE	DESCRIPTION	AVERAGE COST	FAIR VALUE	% OF NET ASSETS
\$600,000	Province of Ontario Strip Bond 12/02/2012	496,363	545,584	1.0
TOTAL INVESTMENTS		\$ 41,796,156	26,013,796	47.6
FORWARD AGREEMENT			28,731,137	52.5
RECEIVABLE UNDER FORWARD AGREEMENT			1,550,000	2.8
LIABILITIES, NET OF OTHER ASSETS			(1,579,761)	(2.9)
TOTAL NET ASSETS			\$ 54,715,172	100.0%

The accompanying notes are integral to these financial statements.

Notes to the Financial Statements

June 30, 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. It is expected that the Fund will terminate operations on or about 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 manages 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 held by Bond Trust is 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 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.

Notes to the Financial Statements*continued***June 30, 2009****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***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.

*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 June 30 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.

Notes to the Financial Statements*continued***June 30, 2009****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***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 the 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.

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 June 30, 2009 and 2008 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.

Notes to the Financial Statements

continued

June 30, 2009**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, 2008 taxation year, the Fund had non-capital losses available to carry forward to future taxation years of \$3,072,833 (2007 - \$2,525,530). Approximately \$2,525,530 of such non-capital losses will expire in the taxation years 2014 and 2015 with the remainder in 2028.

As of the December 31, 2008 taxation year, the Fund had capital losses available to carry forward to future taxation years of \$1,358,978 (2007 - \$1,358,978).

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 to the Counterparty certain fees (which are not subject to GST) due under the Forward Agreement (see note 6) which totaled \$326,421 for the year ended June 30, 2009 (2008 - \$326,500). The Manager, for its services, retains the net amount which totaled \$248,920 (inclusive of GST) for the year (2008 - \$248,976).

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 June 30, 2009 is \$102,268 (2008 - \$103,249).

Administration expenses for the year totaled \$99,498 (2008 - \$115,710). As part of these expenses the Fund pays a general overhead cost to First Paladin Inc. (a company under common control with the Manager) which varies depending on the costs incurred. The general overhead cost for the year was \$99,498 (2008 - \$99,954).

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 year, the Fund declared two distributions of \$0.25 per Unit. The distributions were declared in December 2008 and June 2009 and were paid out in the following month.

6. FORWARD AGREEMENT

Under the Forward Agreement, the Manager pays the Counterparty an annual fee of \$144,000 plus a hedging fee 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 \$180,000, the Counterparty will charge the Manager the excess amount incurred. The amounts payable by the Manager to the Counterparty are limited to a maximum of \$487,500 per annum. Any charges that exceed this level will be paid by the Fund. During the year, hedging fees of \$ 326,421 (2008 - \$ 326,500) were paid or payable to the Counterparty.

Financial Statements

continued

June 30, 2009

6. FORWARD AGREEMENT (continued)

The following is the statement of investments for Bond Trust as of June 30, 2009.

	BOND PAR VALUE	DESCRIPTION	COUPON	MATURITY	AVERAGE COST	FAIR VALUE	% OF NET ASSETS
Capital Repayment Portfolio (Par Value in CAN \$ except as noted)							
\$	16,000,000	Ontario Hydro	0.000%	15/04/2012	\$ 13,641,819	\$ 15,007,608	27.7
	2,494,000	Ontario Hydro	0.000%	06/02/2013	2,086,998	2,245,140	4.1
	4,200,000	Ontario Hydro	0.000%	18/02/2013	3,419,229	3,775,744	7.0
	1,500,000	Province of British Columbia	0.000%	18/06/2012	1,263,380	1,400,873	2.6
	4,500,000	Province of British Columbia	0.000%	23/08/2012	3,753,076	4,172,260	7.7
	4,000,000	Province of Ontario	0.000%	02/12/2012	3,291,731	3,637,228	6.7
	13,900,000	Province of Ontario	0.000%	13/01/2013	11,355,930	12,601,396	23.3
	7,200,000	Province of Quebec	0.000%	01/04/2012	6,157,358	6,732,744	12.4
	1,600,000 US \$	Credit Suisse First Boston	6.500%	15/01/2012	2,517,384	2,005,178	3.7
	800,000 US \$	Goldman Sachs Group	5.700%	01/09/2012	1,211,072	972,558	1.8
	1,600,000 US \$	Morgan Stanley Dean Witter	6.600%	01/04/2012	2,549,853	1,967,338	3.6
	12,584,000	UBS Default Contingency Zero Swap	0.000%	31/12/2012	4,021,385	9,433,629	17.4
					55,269,215	63,951,696	118.0
Distribution Portfolio (Par Value in U.S. \$)							
	738,000	Anthem Inc. (Wellpoint Inc.)	6.800%	01/08/2012	1,250,420	894,504	1.6
	165,000	AOL Time Warner Inc.	6.875%	01/05/2012	258,741	204,987	0.4
	729,000	AON Corp.	7.375%	14/12/2012	1,240,147	895,551	1.6
	217,000	Arvinmeritor Inc.	8.750%	01/03/2012	396,057	159,398	0.3
	154,000	CIT Group Inc.	7.750%	02/04/2012	255,724	107,111	0.2
	512,000	Coca Cola Enterprises Inc.	6.125%	15/08/2011	858,202	642,837	1.2
	164,000	Disney (Walt) Co.	6.375%	01/03/2012	264,449	209,171	0.4
	802,000	Electronic Data Systems	7.125%	15/10/2009	1,223,645	948,651	1.7
	247,000	Falconbridge Ltd.	7.350%	05/06/2012	388,623	305,942	0.6
	618,000	Ford Motor Credit Co.	7.375%	01/02/2011	853,451	649,729	1.2
	256,000	General Electric Capital Corp.	4.625%	15/09/2009	396,168	299,214	0.6
	749,000	Safeco Corp.	7.250%	01/09/2012	1,255,401	766,568	1.4
	931,000	Sprint Capital Corp.	8.375%	15/03/2012	1,259,266	1,064,999	2.0
	722,000	Sun Microsystems Inc.	7.650%	15/08/2009	1,251,207	839,543	1.5
	633,000	Teco Energy Inc.	7.200%	01/05/2011	836,430	758,067	1.4
					11,987,931		16.1
Swap Contract						(18,635,728)	(34.4)
TOTAL INVESTMENTS					\$ 67,257,146	54,062,240	99.7
OTHER ASSETS LESS LIABILITIES						137,109	0.3
TOTAL NET ASSETS					\$	54,199,349	100.0

The effective interest rates of the bonds range from 2.31% to 8.75%.

Notes to the Financial Statements

continued

June 30, 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 year there were redemptions of 815,697 Units at \$7.68 per Unit (2008 – 755,683 Units at \$8.85 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 for 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 AA- (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 June 30, 2009, using fair value, 71% are rated AA or better; 12% are rated A or BBB and 17% are rated below BBB.

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., Visteon 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. The interest rate for periods starting after December 31, 2008 is now 5.555%.

For the fifteen companies listed above, excluding Visteon Corp., that can have an effect on the interest rate of the Swap Contract, seven are rated BBB or better and eight are rated less than BBB.

Notes to the Financial Statements*continued***June 30, 2009****8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)***Credit Risk (continued)*

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.

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 interest-bearing financial instruments.

The Fund invests in equity securities with the exception of one strip bond, representing 1.0% of the Net Assets of the Fund.

The Bond Trust invests in bond securities which subject the Fund to interest rate risk. As at June 30, if interest rates increased (decreased) by 1% with all other variables held constant, the fair value of the securities as shown on the Bond Trust Statement of Investments would have decreased (increased) by approximately \$1,900,000. However, the Bond Trust has exchanged this risk on bond securities for the following risk on the Swap Contract. The Swap Contract results in the Bond Trust's interest rate risk being highly correlated with that of a Government of Canada 10-year December 2012 bond. As at June 30, 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 \$1,900,000 (approximately 3.5% 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 June, 30, 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.

Notes to the Financial Statements*continued***June 30, 2009****8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)***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 June 30, 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 \$2,600,000 (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.

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 Statement 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 June, 30, 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.

10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current period.