



BND.UN \$ 75,000,000

Management's Report on Fund Performance of

INVESTMENT GRADE TRUST

December 31, 2006

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

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

Management's Report of Fund Performance

FOR THE SIX MONTHS ENDED DECEMBER 31, 2006

DISCLOSURE	<p>This management report of fund performance contains financial highlights but does not contain the complete financial statements of the investment fund. You can get a copy of the unaudited financial statements at your request, and at no cost, by calling 416-361-1212, by writing to us at Crown Hill Investment Corporation, 141 Adelaide Street West, Suite 1006, Toronto, Ontario, M5H 3L5 or by visiting our website at www.crownhill.ca or SEDAR at www.sedar.com.</p> <p>This management report is an analysis of the unaudited consolidated financial statements of Investment Grade Trust (the "Fund") and Bond Trust.</p> <p>Holders of units (the "Unitholders" and the "Units"), may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.</p>
CORPORATE STRUCTURE	<p>The Fund is an investment fund 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 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 Unitholders. Crown Hill Investment Corporation (formerly Hollister Capital Corporation) is both the Manager (the "Manager") and Trustee of the Fund.</p> <p>On June 2, 2006 Crown Hill Asset Management Inc. replaced Kensington Investment Management Inc. as the investment advisor (the "Investment Advisor") to the Fund.</p>
INVESTMENT OBJECTIVES AND STRATEGY OF THE FUND	<p>The Fund's investment objectives are:</p> <ul style="list-style-type: none">(i) to pay to Unitholders on or about December 31, 2012 (the "Termination Date"), an amount equal to \$10.00 per Unit and(ii) to provide Unitholders with a stable stream of tax-efficient semi-annual distributions of approximately \$0.25 per Unit. <p>To provide the Fund with the means to meet its investment objectives, the Fund manages its assets to provide exposure to two portfolios of debt securities as follows:</p> <ul style="list-style-type: none">(i) the "Capital Repayment Portfolio": a portfolio structured to pay, at the Termination Date, \$10.00 per Unit and consist primarily of debt securities issued or guaranteed by Provinces of Canada (comprising at least 75% of the Capital Repayment Portfolio) and by global financial institutions; and(ii) the "Distribution Portfolio": a portfolio structured to pay

Management's Report on Fund Performance

continued

<p>INVESTMENT OBJECTIVES AND STRATEGY OF THE FUND</p> <p>(continued)</p>	<p>approximately \$0.25 per Unit semi-annually commencing June 30, 2003 through to the Termination Date and consist of or provide exposure to debt securities issued by North American corporations considered investment grade, at the time of investment, by S&P or another recognized rating agency.</p> <p>The Fund gains exposure to the performance of the Capital Repayment Portfolio and the Distribution Portfolio of the Bond Trust through a forward purchase and sale agreement (the "Forward Agreement") with Union Bank of Switzerland, a major global financial institution (the "Counterparty"). The return to Unitholders will be dependent upon the return on the Capital Repayment Portfolio and the Distribution Portfolio by virtue of the Forward Agreement. The Fund invested a portion of the proceeds of the offering of Units in a portfolio of common shares of Canadian public companies (the "Common Share Portfolio") and entered into the Forward Agreement with the Counterparty pursuant to which the Counterparty agreed to pay to the Fund on or about the Termination Date as the purchase price for the Common Share Portfolio an amount equal to 100% of the redemption proceeds of a corresponding number of units of the Bond Trust.</p> <p>The Fund will partially settle the Forward Agreement prior to the Termination Date in order to fund semi-annual distributions as well as redemptions of Units by Unitholders, purchases of Units in the market by the Fund and expenses of the Fund.</p> <p>The Investment Advisor actively monitors the Capital Repayment and Distribution Portfolios on behalf of the Unitholders.</p>
<p>RISK</p>	<p>An investment in Units is subject to certain risk factors, including:</p> <ul style="list-style-type: none"> (i) there can be no assurance that the Fund will be able to achieve its capital repayment objective or its distribution objective; (ii) the NAV per Unit will vary according to, among other things, interest rates, the overall performance of the debt markets, the value of the securities in the Capital Repayment Portfolio and the Distribution Portfolio and distributions paid on the Units; (iii) Units may trade in the market at a premium or discount to the NAV per Unit and there can be no assurance that Units will trade at a price equal to the NAV per Unit; (iv) counterparty risks associated with the Forward Agreement; (v) counterparty risks associated with securities lending;

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continued

RISK**(continued)**

- (vi) the fact that if, contrary to the advice of counsel to the Fund physical settlement of the Forward Agreement the character and timing of the gain under the Forward Agreement were other than a capital gain on the sale of the securities thereunder, after-tax returns to Unitholders could be reduced;
- (vii) a court could find the general anti-avoidance rule ("GAAR") contained in the Tax Act to apply and, therefore, re-characterize the distributions received by the Unitholders as income derived from the bond portfolios held by the Bond Trust rather than capital gains and return of capital thereby reducing the after-tax returns to Unitholders. In the opinion of counsel, GAAR should not apply;
- (viii) reliance on the Manager, the Investment Advisor and key personnel;
- (ix) possible changes in tax or other legislation;
- (x) legal and statutory rights;
- (xi) the potential liability of Unitholders;
- (xii) potential conflicts of interest; and
- (xiii) status of the Fund;
- (xiv) there is no guarantee that the Capital Repayment Portfolio and the Distribution Portfolio will earn any return and the Capital Repayment Portfolio and the Distribution Portfolio could be subject to losses;
- (xv) risks of investing in debt securities;
- (xvi) risks associated with interest rate hedging;
- (xvii) sensitivity of market price of Units to interest rates;
- (xviii) foreign market exposure; and
- (xix) the possibility of the Bond Trust being unable to acquire or dispose of illiquid securities.

Currently, the Manager believes that the main risk with investing in the Fund is risk factor (xv), the risks of investing in debt securities, and in particular the credit risks in the Distribution Portfolio. In the event that one of the credits in the Distribution Portfolio was to default, there would be a reduction in distributions to Unitholders.

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RESULTS OF OPERATIONS

The Fund's current fiscal year began on July 1, 2006. Total expenses, inclusive of investment management fees, forward fees, general & administrative costs and interest expense, for the six months ended December 31, 2006 were \$580,014. Net gain from operations for the Fund was \$5,570,934 (or \$0.74 per Unit). There was a distribution of \$1,875,000 to Unitholders.

The Fund's net asset value increased from \$69,138,148 (\$9.22 per Unit) as at June 30, 2006, the end of the previous fiscal year, to \$72,836,359 (\$9.71 per Unit) as at December 31, 2006. This represents a 5.35% increase over the period. This increase was largely due to the rise in the Canadian bond market where the yield on the Government of Canada ten-year bond moved from 4.5% to 4.0% over the period (prices move inversely to yields).

RECENT DEVELOPMENTS

The past six months has been positive for the Canadian bond investor in general and Investment Grade Trust in particular. In May and June of 2006, long-term bond yields rose as the Canadian equity market fell. This resulted in a yield spike at the end of June. Since then, yields have fallen with the 10-year bond hovering near 4.0%. Together with this decline in bond yields, the global credit markets have experienced a continued tightening in credit spreads as the supply of capital outweighs the supply of corporate debt. North American corporations continue to adopt a conservative attitude towards their debt financing, and those companies that have high leverage have been reducing their debt loads.

While our most vulnerable credits continue to be Ford Motor Credit Corp., Visteon Corp., ArvinMeritor Inc., Toys R Us Inc. and Bombardier Inc., they have all seen their credit quality improve over the past six months and their spreads tighten. The only credit that saw a substantial decline in quality was Park Place/Caesar's/Harrah which experienced a leveraged buy-out of Harrah's operation. Leveraged buy-outs continue to be the main threat to the portfolio's performance since the post buy-out company is saddled with additional debt. It is difficult to predict which companies will be subject to successful buy-outs. On the other hand, the fund has only six years remaining in its term and if one of these leveraged companies does become distressed, it is likely that this would not occur for at least a few years after the buy-out.

The Distribution Portfolio in general and the corporate bond market as a whole remain in good shape. Energy costs have stabilized leading to the next danger on the horizon coming from a correction in the U.S. residential real-estate market. The Portfolio does not have a great deal of direct exposure to this market. Indirectly, its exposure would be due to a softening in consumer demand.

Management's Report on Fund Performance

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RECENT DEVELOPMENTS

(continued)

The Manager has begun a program to reduce the expenses incurred by the Trust. Unfortunately, these efforts have been frustrated by regulatory changes. Specifically, Generally Accepted Accounting Principals have been changed every year, forcing the Trust to hire additional accounting and audit expertise to meet the new and changing requirements. Also, the latest regulatory requirement is to have an Independent Review Committee. This will involve hiring three additional people to sit on the committee as well as provide them with insurance coverage and operational support.

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 \$162,805 for the six months ended December 31, 2006 (\$164,697 for the six months ended December 31, 2005). The Manager, for its services, retains the net amount which totaled \$184,615 for the six months ended December 31, 2006 (\$185,969 for the six months ended December 31, 2005). All other expenses of the Fund are initially paid by the Manager, and the Manager is reimbursed by the Fund.

Administration expenses for the six months ended December 31, 2006 totaled \$63,109 (\$60,927 for the six months ended December 31, 2005). 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 six months ended December 31, 2006 was \$52,487 (\$45,977 for the six months ended December 31, 2005).

Management's Report on Fund Performance

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FINANCIAL HIGHLIGHTS

The past six months have seen a rise in the value of the Fund. This was largely due to the decline in the yields on the Government of Canada benchmark bond. The following table provides information on the Fund performance on a per unit basis (the figures have been consolidated with those of the Bond Trust).

Net Asset Value per Unit

Six months ended December 31,	2006	2005
NAV per Unit, June 30	\$ 9.218	\$ 10.233
Increase (decrease) from operations:		
Total revenue	0.443	0.437
Total expenses	0.077	0.070
Realized gains (losses) for the period	0.391	(0.522)
Unrealized gains (losses) for the period	(0.013)	0.013
Total increase (decrease) from operations ⁽¹⁾	0.744	(0.142)
Distributions:		
From income (excluding dividends)	-	-
From dividends	-	-
From capital gains	-	-
Return of capital	0.250	0.250
Total net annual distributions ⁽²⁾	0.250	0.250
NAV per Unit, December 31	\$ 9.712	\$ 9.841

There has been no net change in the number of units outstanding.

- 1) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase from operations is based on the weighted average number of units outstanding over the financial period.
- 2) Distributions were paid in cash.

RATIOS AND SUPPLEMENTAL DATA

(The following figures are consolidated with those of the Bond Trust)

Six months ended December 31,	2006	2005
Net assets (000's) ⁽¹⁾	\$ 72,836	\$ 73,806
Number of units outstanding ⁽¹⁾	7,500,000	7,500,000
Management expense ratio ⁽²⁾	1.63 %	1.42 %
Management expense ratio before waivers or absorptions	1.63 %	1.42 %
Portfolio turnover rate	Not Applicable	Not Applicable
Trading expense ratio	Not Applicable	Not Applicable
Closing market price	\$ 10.00	\$ 10.62

- 1) This information is provided as at December 31st.
- 2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

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MANAGEMENT FEES

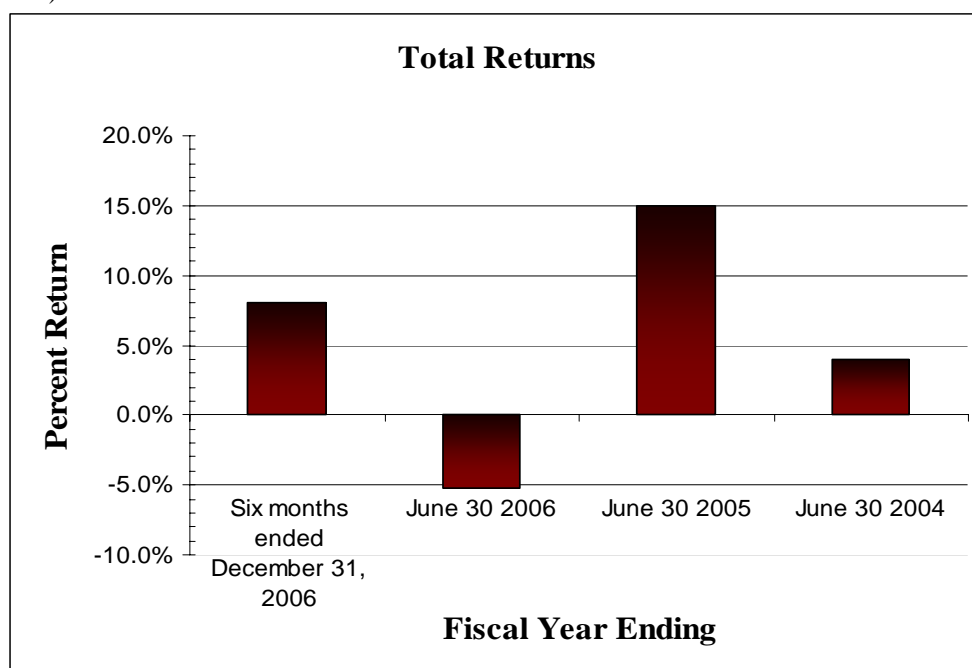
The main costs for Investment Grade Trust are management fees, and forward fees with some increases in administration, board and audit fees over the previous year.

The total fees and expenses for the six months ended December 31, 2006 was \$580,014, with the following breakdown (the figures have been consolidated with the Bond Trust).

<i>Category</i>	<i>Amount Paid</i>	<i>Percent of Fees & Expenses</i>
Management fees	\$ 184,615	31.83 %
Forward agreement fees	162,805	28.07 %
Administrative expenses	63,109	10.88 %
Accounting and audit fees	77,083	13.29 %
Board and insurance expenses	35,707	6.16 %
Legal fees	10,517	1.81 %
Custody, valuation and transfer fees	34,206	5.90 %
Regulatory and listing expenses	11,972	2.06 %

PAST PERFORMANCE**Year-by-Year Returns**

The following bar chart shows the Fund's annual performance for its past three full fiscal years, plus the six months ended December 31, 2006. These charts indicate, in percentage terms, how much an investment made on the first day of each financial year (if purchased at the NAV per Unit) would have grown by the last day of each year (if sold at the NAV per Unit).



Management's Report on Fund Performance

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ANNUAL
COMPOUND
RETURNS

In the Manager's view, the best benchmark for measuring the performance of the Fund is the Government of Canada June 2012 Bond. This bond has a similar duration to the Fund portfolios and like the Fund, will terminate in 2012. Differences in performance between the Fund and this bond will arise from difference in yield and the credit quality between the Distribution Portfolio and the government risk free rate. As can be seen in the following table, the Fund has outperformed the government bond since inception.

	<i>1-Year</i>	<i>Since Inception</i>
Investment Grade Trust	3.7%	5.8%
Government Of Canada Bond June 2012	3.9%	6.3%

SUMMARY
OF
INVESTMENT
PORTFOLIO

The following is a summary of the investment portfolio held by the Bond Trust as at December 31, 2006. The entire portfolio is subject to a cash flow smoothing swap. For more information, please consult the financial statements.

Par Value	Description	Coupon	Maturity	Market Value	% of Net Assets
CAPITAL REPAYMENT PORTFOLIO					
Par Value in CDN \$ (except as noted)					
\$16,000,000	Ontario Hydro	0.000%	4/15/2012	\$ 12,856,145	17.7 %
2,494,000	Ontario Hydro	0.000%	2/6/2013	1,931,159	2.7 %
4,200,000	Ontario Hydro	0.000%	2/18/2013	3,247,704	4.5 %
1,500,000	Province of British Columbia	0.000%	6/18/2012	1,196,516	1.6 %
4,500,000	Province of British Columbia	0.000%	8/23/2012	3,558,569	4.9 %
4,000,000	Province of Ontario	0.000%	12/2/2012	3,127,363	4.3 %
13,900,000	Province of Ontario	0.000%	1/13/2013	10,792,585	14.9 %
7,200,000	Province of Quebec	0.000%	4/1/2012	5,778,154	8.0 %
1,600,000	U.S. Credit Suisse First Boston	6.500%	1/15/2012	1,956,747	2.7 %
800,000	U.S. Goldman Sachs Group	5.700%	9/1/2012	948,123	1.3 %
1,600,000	U.S. Morgan Stanley Dean Witter	6.600%	4/1/2012	1,966,339	2.7 %
12,584,000	UBS Default Contingency Swap	0.000%	12/31/2012	7,184,975	9.9 %
TOTAL CAPITAL REPAYMENT PORTFOLIO				54,544,379	74.9 %

Management's Report on Fund Performance

continued

SUMMARY
OF
INVESTMENT
PORTFOLIO

(continued)

Par Value	Description	Coupon	Maturity	Market Value	% of Net Assets
DISTRIBUTION PORTFOLIO					
Par Value in US \$					
738,000	Anthem Inc. (Wellpoint Inc.)	6.800%	8/1/2012	910,918	1.3 %
\$ 311,000	AOL Time Warner Inc.	6.150%	5/1/2007	\$ 362,623	0.5 %
165,000	AOL Time Warner Inc.	6.875%	5/1/2012	202,907	0.3 %
729,000	AON Corp.	7.375%	12/14/2012	923,083	1.3 %
217,000	Arvinmeritor Inc.	8.750%	3/1/2012	259,467	0.4 %
302,000	CIT Group Inc.	7.375%	4/2/2007	197,580	0.5 %
154,000	CIT Group Inc.	7.750%	4/2/2012	285,386	0.3 %
242,000	Coca Cola Enterprises Inc.	5.250%	5/15/2007	616,891	0.4 %
512,000	Coca Cola Enterprises Inc.	6.125%	8/15/2011	438,746	0.9 %
374,000	Computer Associates Inc.	6.500%	4/15/2008	362,153	0.6 %
311,000	Disney (Walt) Co.	5.375%	6/1/2007	200,014	0.5 %
164,000	Disney (Walt) Co.	6.375%	3/1/2012	972,955	0.3 %
802,000	Electronic Data Systems	7.125%	10/15/2009	310,583	1.3 %
247,000	Falconbridge Ltd.	7.350%	6/5/2012	294,100	0.4 %
618,000	Ford Motor Credit Co.	7.375%	2/1/2011	942,118	1.0 %
256,000	General Electric Capital Corp.	4.625%	9/15/2009	882,066	0.4 %
749,000	Safeco Corp.	7.250%	9/1/2012	326,999	1.3 %
931,000	Sprint Capital Corp.	8.375%	3/15/2012	780,819	1.7 %
722,000	Sun Microsystems Inc.	7.650%	8/15/2009	908,069	1.1 %
281,000	Teco Energy Inc.	6.125%	5/1/2007	362,623	0.5 %
633,000	Teco Energy Inc.	7.200%	5/1/2011	202,907	1.0 %
778,000	Thompson Corp.	5.750%	4/1/2008	923,083	1.3 %
				12,446,602	17.1 %
	Derivative contract (Note 6b)			3,374,619	4.6 %
	TOTAL DISTRIBUTION PORTFOLIO			15,821,221	21.7 %
	TOTAL BOND TRUST			\$ 70,365,600	96.6 %

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continued

SUMMARY
OF
INVESTMENT
PORTFOLIO

(continued)

The following is a summary of the investment portfolio held by Investment Grade Trust as at December 31, 2006. For more information please consult the financial statements.

Number of Shares	Description	Market Value	% of Net Assets
CANADIAN EQUITIES			
147,230	Alimentation Courche-Tard Inc.	\$ 3,732,287	5.1 %
78,600	Angiotech Pharmaceuticals, Inc.	753,778	1.0 %
175,000	Axcan Pharma Inc.	2,901,508	4.0 %
55,000	Biovail Corp.	1,353,002	1.9 %
580,000	Catalyst Paper Corporation	2,058,990	2.8 %
170,000	Celestica Inc.	1,543,600	2.1 %
80,000	Cognos, Inc.	3,964,000	5.5 %
400,000	COM DEV International Ltd.	2,584,019	3.6%
113,000	Cott Corp.	1, 885,972	2.6 %
158,000	Domtar Inc.	4,925,011	6.8%
158,000	Forzani Group Ltd.	3,028,857	4.2 %
841,700	Husky Injection Molding Systems Ltd.	4,435,800	6.1 %
198,525	Kingsway Financial Services Inc.	4,826,151	6.7 %
312,100	Kinross Gold Corporation	4,313,217	5.9 %
400,000	LionOre Mining International Ltd.	5,300,002	7.3%
138,070	Nortel Networks Corporation	4,318,845	6.0%
158,400	Novelis, Inc.	5,141,095	7.1 %
134,800	Open Text Corp.	3,224,411	4.4 %
175,000	Patheon Inc.	883,750	1.2 %
155,000	Quebecor Inc.	5,044,220	7.0 %
TOTAL CANADIAN EQUITIES		66,218,515	90.9 %
CANADIAN BONDS			
Par Value			
\$2,750,000	Province of Ontario Strip Bond 12/02/2012	2,147,200	3.0 %
TOTAL INVESTMENT GRADE TRUST		68,364,715	93.9 %
TOTAL PORTFOLIO INVESTMENTS		138,731,315	190.5 %
NON-CONTROLLING INTEREST		(66,218,515)	(90.9) %
OTHER ASSETS LESS LIABILITIES		323,559	0.4 %
TOTAL NET ASSETS		\$ 72,836,359	100.0 %

This summary of the investment portfolio may change due to ongoing portfolio transactions of the Fund and a quarterly update is available.