



BND.UN \$ 75,000,000

Management's Report on Fund Performance of

INVESTMENT GRADE TRUST

December 31, 2007

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, 2007

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

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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, or as a result of a change of law, 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.
- (xx) Reliance on UBS AG and CIBC Mellon to provide the Manager with weekly pricing information;

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.

Management's Report on Fund Performance

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RESULTS OF OPERATIONS

The Fund's current fiscal year began on July 1, 2007. Total expenses, inclusive of investment management fees, forward fees, general & administrative costs and interest expense, for the six months ended December 31, 2007 were \$569,409. The decrease in net assets from operations for the Fund was \$1,602,045 (or \$0.21 per Unit). There was a distribution of \$1,686,079 to Unitholders.

A Unitholder meeting was called for November 2007. The Unitholder servicing expense of \$12,287 and the majority of the increase in legal fees from the previous reporting period (\$63,595 – 2007, versus \$10,517 – 2006) were costs associated with the arrangement of this meeting.

The Fund's net asset value decreased from \$70,197,062 (\$9.36 per Unit) as at June 30, 2007, the end of the previous fiscal year, to \$60,199,926 (\$8.93 per Unit) as at December 31, 2007. This represents a 14.30% decrease in the net assets over the period of which \$6,687,795 was due to redemptions and the cause of the remaining decrease was split almost evenly between the semi annual distribution and a decrease in the market value of the investments and the forward agreement.

RECENT DEVELOPMENTS

The past six months has been very tumultuous in the global and domestic fixed income markets. The meltdown in the sub prime mortgage market in the United States has resulted in a cascade of write-downs across the global financial system. In Canada, the asset-backed commercial paper market seized up in August, resulting in significant losses for a number of financial institutions and investors. In the United States and globally, many large banks have taken multi-billion dollar write-downs. This has affected the Trust in two ways; the first has been a significant widening in corporate and interbank swap spreads; and the second has been a series of major write-downs at the Trust's counterparty, UBS AG.

The widening in corporate spreads directly reduces the price of the bonds in the Distribution Portfolio and to a lesser degree the Capital Repayment Portfolio. In the Manager's view, corporate spreads had been too tight relative to the risk free rate, so some of this widening was to be expected. The widening in the interbank swap spreads, however, has come as a surprise. The banks have begun charging each other substantially higher rates in taking on counterparty risk. These higher rates have increased their hedging costs and generally their cost of doing business. The major losses and recapitalization at the Trust's counterparty UBS AG, has also increased UBS AG's hedging costs. The higher hedging costs at UBS AG has reduced the price of the derivative contracts with them, that are within the Distribution Portfolio and the Capital Repayment Portfolios.

Neither the Distribution Portfolio or the Capital Repayment Portfolio have direct exposure to the U.S. real estate or sub prime markets. Nevertheless, the problems in these markets have indirectly affected the Trust. We do not believe that this will result in any losses, but these issues will likely continue having an effect on the net asset value of the Trust.

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RECENT DEVELOPMENTS

(continued)

The Trustee called a Unitholder meeting for November 2007. The purpose of the meeting was to determine whether Unitholders would be in favour of converting the Trust into a corporate structure. The Trustee believed that it was appropriate to offer this opportunity to Unitholders and believed that the resulting structure would prove beneficial to them. When the Trustee realized that a sufficient number of Unitholders did not wish to proceed with this conversion it promptly canceled the meeting.

Change in accounting policy

For financial reporting purposes, on July 1, 2007, the Fund adopted a new accounting policy as per the Canadian Institute of Chartered Accountant's Handbook Section 3855, Financial Instruments: Recognition and Measurement, on a retroactive basis without restatement of prior periods. The Fund now values its securities at closing bid price (rather than using the last traded price). Transaction costs, if any, are now charged to the results of operations (rather than purchase costs being added to the cost of securities purchased and sales costs being deducted from sales proceeds).

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 \$21,217 in the net assets of the Fund at the beginning of the period. The change in recording of transaction costs has no impact since the Fund does not pay brokerage commissions.

For the purpose of calculating and reporting of NAV (other than for financial reporting purposes) the Canadian Securities Administrators have granted temporary relief to investment funds from complying with Section 3855, 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. As a result, we present the December 31, 2007 net assets and net asset value per unit calculated using both the last traded price ("Transactional") and the closing bid price ("GAAP"). For December 31, 2007, there is no difference.

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 months ended December 31, 2007 (\$162,803 for the six months ended December 31, 2006). The Manager, for its services, retains the net amount which totaled \$124,607 for the six months ended December 31, 2007 (\$125,554 for the six months ended December 31, 2006). 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, 2007 totaled \$62,336 (\$46,944 for the six months ended December 31, 2006). 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, 2007 was \$50,244 (\$52,487 for the six months ended December 31, 2006).

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FINANCIAL HIGHLIGHTS

The following table shows selected key financial highlights of the Fund and is intended to help you understand the Fund's financial highlights for the past two and a half years. The information for the years ended June 30, 2006 and 2007 is derived from the Fund's annual audited financial statements and the information for the six months ended December 31, 2007 is derived from the Fund's interim financial statements.

	<i>Six months ended December 31, 2007</i>	<i>Year ended June 30, 2007</i>	<i>Year ended June 30, 2006</i>
GAAP NAV per unit ⁽³⁾, beginning of period	\$ 9.36	\$ 9.22	\$ 10.23
Initial adoption of new accounting policy	-	n/a	n/a
<u>Increase (decrease) from operations:</u>			
Total revenue	0.01	0.01	0.02
Total expenses	(0.08)	(0.12)	(0.13)
Realized gains (losses) for the period	(1.19)	2.23	(0.47)
Unrealized gains (losses) for the period	1.05	(1.48)	0.07
Total increase (decrease) from operations ⁽¹⁾	(0.21)	0.64	(0.51)
<u>Distributions:</u>			
From income (excluding dividends)	-	-	-
From dividends	-	-	-
From capital gains	-	-	-
Return of capital	0.25	0.50	0.50
Total annual distributions⁽²⁾	0.25	0.50	0.50
GAAP NAV per unit ⁽³⁾, end of period	\$ 8.93	\$ 9.36	\$ 9.22

- 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.
- 3) See Change in Accounting Policy under Recent Developments.

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RATIOS AND
SUPPLEMENTAL DATA

	<i>Six months ended December 31, 2007</i>	<i>Year ended June 30, 2007</i>	<i>Year ended June 30, 2006</i>
GAAP net asset value⁽⁵⁾	\$ 60,199,926	\$ 70,197,062	\$ 69,138,148
Adjustment from bid to closing price⁽⁵⁾	\$ -	n/a	n/a
Transactional net asset value⁽⁵⁾	\$ 60,199,926	n/a	n/a
Number of units outstanding	6,744,317	7,500,000	7,500,000
Transactional net asset value per unit⁽⁵⁾	\$ 8.93	n/a	n/a
Management expense ratio⁽²⁾	1.64 %	1.28 %	1.64 %
Management expense ratio before waivers or absorptions	1.64 %	1.28 %	1.64 %
Portfolio turnover rate⁽³⁾	12.76 %	Not applicable	Not applicable
Trading expense ratio⁽⁴⁾	Not applicable	Not applicable	Not applicable
Closing market price	\$ 9.24	\$ 9.97	\$ 10.10

- 1) This information is provided as at December 31, 2007, June 30, 2007 and June 30, 2006.
- 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.
- 3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio turnover rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.
- 4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.
- 5) See Change in Accounting Policy under Recent Developments. At December 31, 2007 there is no difference between Transactional and GAAP NAV.

Management's Report on Fund Performance

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MANAGEMENT FEES

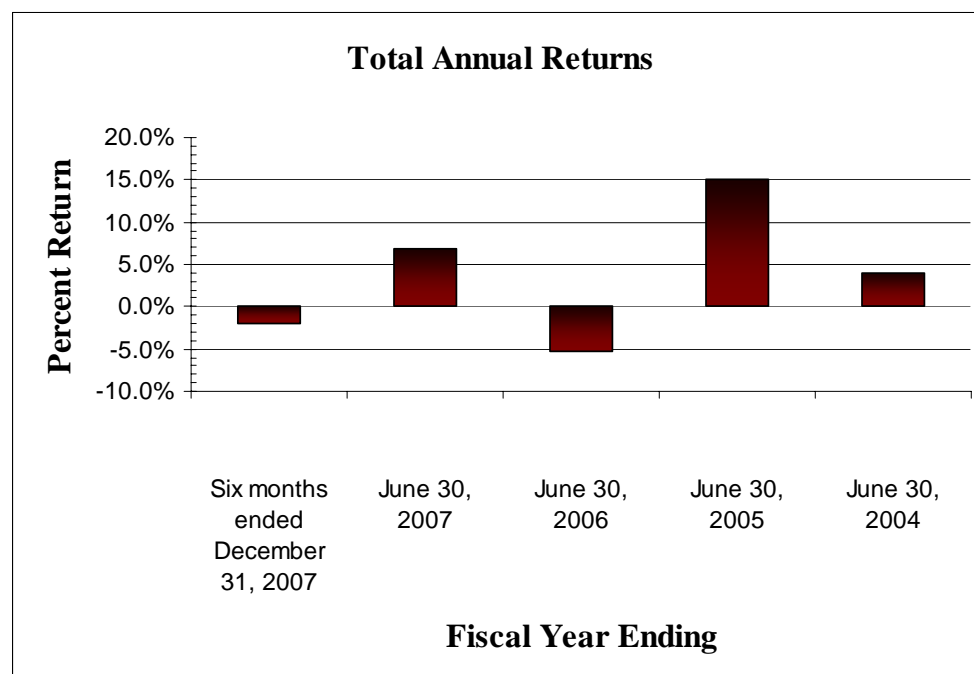
The main costs for Investment Grade Trust are management fees, and forward fees with some increases in administration, board and audit fees over the previous year.

The total fees and expenses for the six months ended December 31, 2007 was \$569,409, with the following breakdown.

<i>Category</i>	<i>Amount Paid</i>	<i>Percent of Fees & Expenses</i>
Management fees	\$ 124,607	21.9 %
Forward agreement fees	163,697	28.7 %
Administrative expenses	62,336	10.9 %
Accounting and audit fees	20,201	3.6 %
Board and insurance expenses	82,249	14.4 %
Legal fees	63,595	11.2 %
Unitholder servicing expense	12,287	2.2 %
Custody, valuation and transfer fees	29,996	5.3 %
Regulatory and listing expenses	10,441	1.8 %

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

The following bar chart shows the Fund's annual performance for its past four full fiscal years, plus the six months ended December 31, 2007. These charts indicate, in percentage terms, how much an investment made on the first day of each financial period (if purchased at the NAV per Unit) would have grown by the last day of each period (if sold at the NAV per Unit).



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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 underperformed the government bond.

	<i>1-Year</i>	<i>Since Inception</i>
Investment Grade Trust	-3.6%	2.0%
Government Of Canada Bond June 2012	3.5%	6.0%

SUMMARY
OF
INVESTMENT
PORTFOLIO

The following is a summary of the investment portfolio held by the Bond Trust as at December 31, 2007. 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	\$ 13,340,402	20.6 %
2,494,000	Ontario Hydro	0.000%	2/6/2013	2,006,470	3.1 %
4,200,000	Ontario Hydro	0.000%	2/18/2013	3,372,613	5.2 %
1,500,000	Province of British Columbia	0.000%	6/18/2012	1,241,151	1.9 %
4,500,000	Province of British Columbia	0.000%	8/23/2012	3,710,592	5.7 %
4,000,000	Province of Ontario	0.000%	12/2/2012	3,247,272	5.0 %
13,900,000	Province of Ontario	0.000%	1/13/2013	11,189,344	17.3 %
7,200,000	Province of Quebec	0.000%	4/1/2012	6,012,581	9.3 %
1,600,000	^{U.S} Credit Suisse First Boston	6.500%	1/15/2012	1,664,718	2.6 %
800,000	^{U.S} Goldman Sachs Group	5.700%	9/1/2012	812,317	1.3 %
1,600,000	^{U.S} Morgan Stanley Dean Witter	6.600%	4/1/2012	1,659,216	2.6 %
12,584,000	UBS Default Contingency Swap	0.000%	12/31/2012	8,088,505	12.4 %
				56,345,181	86.9 %

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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	\$ 795,058	1.2 %
165,000	AOL Time Warner Inc.	6.875%	5/1/2012	171,479	0.3 %
729,000	AON Corp.	7.375%	12/14/2012	801,559	1.2 %
217,000	Arvinmeritor Inc .	8.750%	3/1/2012	199,712	0.3 %
154,000	CIT Group Inc.	7.750%	4/2/2012	152,782	0.2 %
512,000	Coca Cola Enterprises Inc.	6.125%	8/15/2011	526,860	0.8 %
374,000	Computer Associates Inc.	6.500%	4/15/2008	368,197	0.6 %
164,000	Disney (Walt) Co.	6.375%	3/1/2012	171,854	0.3 %
802,000	Electronic Data Systems	7.125%	10/15/2009	817,120	1.3 %
247,000	Falconbridge Ltd.	7.350%	6/5/2012	264,730	0.4 %
618,000	Ford Motor Credit Co.	7.375%	2/1/2011	546,201	0.8 %
256,000	General Electric Capital Corp.	4.625%	9/15/2009	253,913	0.4 %
749,000	Safeco Corp.	7.250%	9/1/2012	796,589	1.2 %
931,000	Sprint Capital Corp.	8.375%	3/15/2012	955,137	1.5 %
722,000	Sun Microsystems Inc.	7.650%	8/15/2009	740,162	1.1 %
633,000	Teco Energy Inc.	7.200%	5/1/2011	668,295	1.0 %
778,000	Thompson Corp.	5.750%	4/1/2008	767,639	1.2 %
				9,037,287	13.9 %
	Derivative contract			(560,868)	(0.8) %
				8,476,419	13.1 %
	TOTAL INVESTMENTS			64,821,600	100.0 %
	OTHER ASSETS LESS LIABILITIES			(15,703)	0.0 %
	TOTAL NET ASSETS			\$ 64,805,897	100.0 %

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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, 2007. For more information please consult the financial statements.

Number of Shares	Description	Market Value	% of Net Assets
CANADIAN EQUITIES			
175,000	Axcan Pharma Inc.	\$ 3,897,250	6.5 %
117,334	Barrick Gold Corp.	4,876,817	8.1 %
371,900	Bombardier Inc., Class 'B'	2,216,524	3.7 %
89,917	Brookfield Asset Management Inc., Class 'A'	3,187,558	5.3 %
400,000	COM DEV International Ltd.	1,440,000	2.4 %
500,000	Domtar Inc.	3,790,000	6.3%
97,814	Enbridge Inc.	3,912,560	6.5 %
158,000	Forzani Group Ltd.	2,638,600	4.4 %
200,000	Ivanhoe Mines Ltd.	2,140,000	3.5 %
198,525	Kingsway Financial Services Inc.	2,382,300	3.9 %
249,440	Kinross Gold Corporation	4,557,269	7.6 %
102,540	MDS Inc.	1,962,616	3.3%
37,661	Magna International Inc., Class 'A''	2,941,701	4.9 %
138,070	Nortel Networks Corporation	2,068,295	3.4%
62,000	Onex Corp.	2,163,800	3.6 %
134,800	Open Text Corp.	4,184,192	7.0 %
66,178	Petro-Canada	3,465,080	5.7 %
48,710	Quebecor Inc., Class 'B'	1,738,947	2.9 %
71,657	Shoppers Drug Mart Corp.	3,816,452	6.3 %
78,918	Thomson Corp.	3,184,339	5.3 %
TOTAL CANADIAN EQUITIES		60,564,300	100.6 %
CANADIAN BONDS			
Par Value			
\$2,050,000	Province of Ontario Strip Bond 12/02/2012	1,667,470	2.8 %
TOTAL INVESTMENTS		62,231,770	103.4 %
RECEIVABLE UNDER FORWARD AGREEMENT		4,241,597	7.0 %
		66,473,367	110.4 %
OTHER ASSETS LESS LIABILITIES		(6,273,441)	(10.4) %
TOTAL NET ASSETS		\$ 60,199,926	100.0 %

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