



BND.UN \$ 75,000,000

Management's Report on Fund Performance of

INVESTMENT GRADE TRUST

For the year ended June 30, 2007

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

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

Management's Report of Fund Performance

FOR THE YEAR ENDED June 30, 2007

DISCLOSURE

This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual 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.

This management report is an analysis of the financial statements of Investment Grade Trust (the "Fund").

Holder 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.

CORPORATE STRUCTURE

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 is both the Manager (the "Manager") and Trustee of the Fund.

Crown Hill Asset Management Inc. is the investment advisor (the "Investment Advisor") to the Fund.

INVESTMENT OBJECTIVES AND STRATEGY OF THE FUND

The Fund's investment objectives are:

- (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.

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:

- (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 approximately \$0.25 per Unit semi-annually commencing June 30, 2003 through to the Termination Date and consist of or

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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.

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.

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.

The Investment Advisor actively monitors the Capital Repayment and Distribution Portfolios on behalf of the Unitholders.

RISK

An investment in Units is subject to certain risk factors, including:

- (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, distributions paid on the Units and the liquidity in the debt securities market;
- (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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- (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;
- (xix) the possibility of the Bond Trust being unable to acquire or dispose of illiquid securities; and
- (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.

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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 period ending June 30, 2007 were \$921,852. Net gain from operations for the Fund was \$4,806,331 (or \$0.64 per Unit). There was a distribution of \$3,750,000 to Unitholders.

The Fund's net asset value increased from \$69,138,148 (\$9.22 per Unit) as of June 30, 2006, the end of the previous fiscal year, to \$70,197,062 (\$9.36 per Unit) as at June 30, 2007. This represents a 7.0% return over the year.

RECENT DEVELOPMENTS

The past year has seen little change in the value of the Fund. The decline in yields from July 2006 to December 2006 reversed itself in the first six months of 2007. The net result has been a small increase in the value of the Fund. The global credit markets were relatively stable in the first six months of the year. The seizing up of the asset-backed securities market in July and August was primarily due to the deterioration in the U.S. mortgage market. This has recently cascaded into a general credit crunch with the subsequent widening in credit spreads.

While our most vulnerable credits continue to be Ford Motor Credit Corp., Visteon Corp., ArvinMeritor Inc., Toys R Us Inc. and Bombardier Inc., they all saw their credit quality improve in 2006 and the first half of 2007. 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. Until June 2007, leveraged buy-outs were the main threat to the portfolio's performance since the post buy-out company is saddled with additional debt. The recent credit crunch has substantially reduced this risk.

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 the continued decline 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 and a tightening of credit. These negative effects are partially offset by the reduced likelihood of leveraged buy-outs and lower inflation pressure, thereby keeping longer-term rates low.

The Common Share Portfolio has experienced a significant turnover. This has been due to the extraordinary number of leveraged buy-outs and foreign acquisitions of Canadian companies. This has had the affect of crystallizing a large amount of unrealized gains that were building up in the Fund into realized gains. While this does not affect the Fund's NAV or its expected performance, it does affect its tax situation. The Manager is examining the situation and may decide to hold a Unitholder meeting this fall to address the issue.

The Manager has continued its program of reducing expenses incurred by the Trust, although this continues to be difficult with the additional regulatory requirements and their associated costs. An Independent Review Committee was selected and will meet in the fall of 2007.

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RECENT DEVELOPMENTS (continued)

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.

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 \$325,606 for the year ended June 30, 2007 (\$327,742 for the year ended June 30, 2006). The Manager, for its services, retains the net amount which totaled \$254,108 for the year ended June 30, 2007 (\$251,878 for the year ended June 30, 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 year totaled \$90,969 (\$114,986 for the year ended June 30, 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 period ended June 30, 2007 was \$76,792 (\$71,330 for the year ended June 30, 2006).

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FINANCIAL HIGHLIGHTS

The past year has seen a slight increase in the value of the Fund. The following table provides information on the Fund performance on a per unit basis.

Net Asset Value per Unit

	<i>Year ending June 30, 2007</i>	<i>Year ending June 30, 2006</i>
Net asset value per unit, beginning of year	\$ 9.22	\$ 10.23
Increase (decrease) from operations:		
Total revenue	0.01	0.02
Total expenses	(0.12)	(0.13)
Realized gains (losses) for the period	2.23	(0.47)
Unrealized gains (losses) for the period	(1.48)	0.07
Total increase (decrease) from operations ⁽¹⁾	0.64	(0.51)
Distributions:		
From income (excluding dividends)	-	-
From dividends	-	-
From capital gains	0.50	-
Return of capital	-	0.50
Total net annual distributions ⁽²⁾	0.50	0.50
Net asset value per unit, end of year	\$ 9.36	\$ 9.22

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

	<i>Year ending June 30, 2007⁽¹⁾</i>	<i>Year ending June 30, 2006</i>
Net assets (\$ 000's)	70,197	69,138
Number of units outstanding	7,500,000	7,500,000
Management expense ratio ⁽²⁾	1.28%	1.64%
Management expense ratio before waivers or absorptions	1.28%	1.64%
Portfolio turnover rate	Not Applicable	Not Applicable
Trading expense ratio	Not Applicable	Not Applicable
Closing market price per unit	\$ 9.97	\$ 10.10

- 1) This information is provided as at June 30, 2007.
- 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

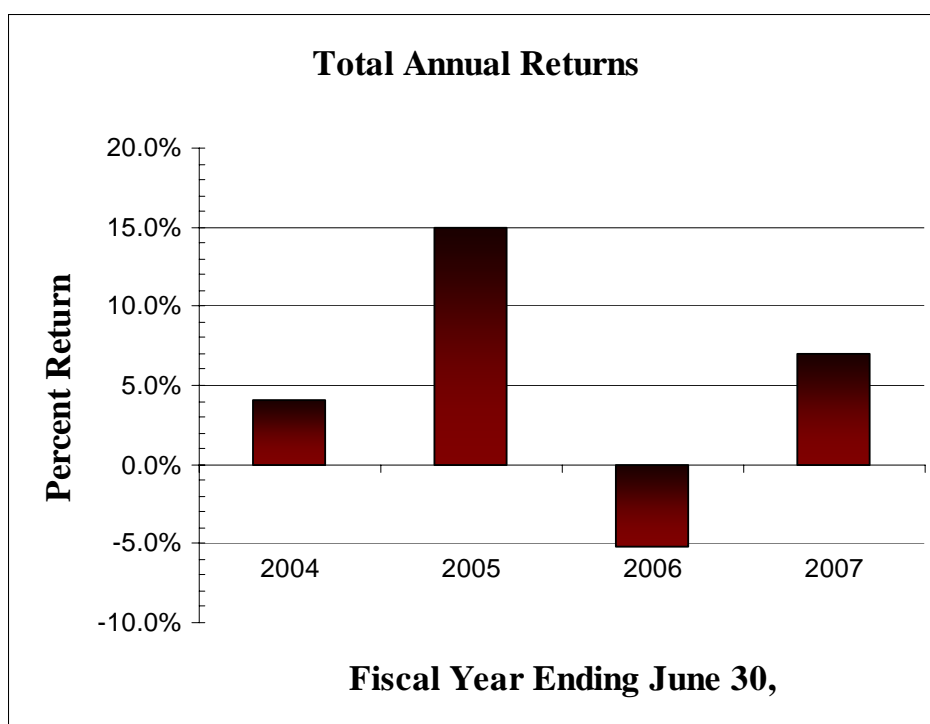
The main costs for Investment Grade Trust are management fees, and forward fees.

The total fees and expenses for the period was \$921,852, with the following breakdown:

<i>Category</i>	<i>Amount Paid</i>	<i>Percent of Fees & Expenses</i>
Forward agreement fees	\$ 325,606	35.32 %
Management fees	\$ 254,108	27.56 %
Administrative expenses	\$ 90,969	9.87 %
Board and insurance expenses	\$ 87,608	9.50 %
Accounting and audit fees	\$ 75,159	8.15 %
Custody, valuation and transfer fees	\$ 52,973	5.75 %
Regulatory and listing expenses	\$23,469	2.55 %
Legal fees	\$ 11,851	1.29 %
Unitholder servicing expenses	\$ 109	0.01 %

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

The following bar chart shows the Fund's annual performance for its past full fiscal years. These charts indicate, in percentage terms, how much an investment made on the first day of each financial year (if purchased at NAV per unit) would have grown by the last day of each year (if sold at 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 differences in the 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 approximately the same performance as the government bond since inception.

	<i>1-Year</i>	<i>3-Year</i>	<i>Since Inception</i>
Investment Grade Trust	7.0%	5.1%	4.9%
Government Of Canada Bond June 2012	4.7%	5.3%	5.6%

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SUMMARY
OF
INVESTMENT
PORTFOLIO

The following is a summary of the investment portfolio currently held by the Fund.

Number of Shares	Description	Market Value	% of Net Assets
CANADIAN EQUITIES			
147,230	Alimentation Courche-Tard Inc.	\$ 3,234,635	4.6
78,600	Angiotech Pharmaceuticals, Inc.	598,143	0.9
175,000	Axcan Pharma Inc.	3,613,758	5.2
117,344	Barrick Gold Corp.	3,635,319	5.2
55,000	Biovail Corp.	1,493,249	2.1
89,917	Brookfield Asset Management Inc.	3,831,363	5.5
580,000	Catalyst Paper Corporation	1,966,176	2.8
170,000	Celestica Inc.	1,142,405	1.6
80,000	Cognos, Inc.	3,398,400	4.8
400,000	Com Dev International Ltd.	2,140,010	3.1
113,000	Cott Corp.	1,746,981	2.5
500,000	Domtar (Canada) Paper Inc.	5,914,982	8.4
97,814	Enbridge	3,511,519	5.0
158,000	Forzani Group Ltd.	3,706,688	5.3
198,525	Kingsway Financial Services Inc.	3,962,557	5.6
312,100	Kinross Gold Corporation	3,866,928	5.5
37,661	Magna International Inc.	3,671,949	5.2
138,070	Nortel Networks Corp.	3,545,646	5.1
134,800	Open Text Corp.	3,146,225	4.5
175,000	Patheon Inc.	736,751	1.1
66,178	Petro-Canada	3,755,601	5.4
155,000	Quebecor Inc.	1,955,705	2.8
71,657	Shoppers Drug Mart Corp.	3,535,558	5.0
78,918	Thomson Corp. (The)	3,432,937	4.8
TOTAL CANADIAN EQUITIES		71,543,485	102.0
CANADIAN BONDS			
Par Value			
\$2,650,000	Province of Ontario Strip Bond 12/02/2012	2,051,895	2.9
TOTAL INVESTMENTS		73,595,380	104.9
PAYABLE UNDER FORWARD AGREEMENT		(3,401,751)	(4.9)
OTHER ASSETS LESS LIABILITIES		3,433	(0.0)
TOTAL NET ASSETS		\$ 70,197,062	100.0

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