



Diversified Investment Grade Income Trust, Series 1

MANAGEMENT REPORT OF FUND PERFORMANCE June 30, 2007

This interim management report of fund performance contains financial highlights but does not contain the complete interim financial statements of the investment fund. You can get a copy of the interim financial statements by visiting the website of National Bank Financial Inc. at www.nbfinc.com or SEDAR at www.sedar.com or at your request, and at no cost, by calling toll-free 1-877-879-6424, or by writing to us at 800 Victoria Square, Suite 3400, Montréal, Québec H4Z 1E9.

Securityholders may also contact us using one of these methods to request a copy of the investment fund's quarterly portfolio disclosure.

Management Report of Fund Performance

In absence of a credit event occurring between June 30, 2007 and September 24, 2007 and based on certain revenue and expenses assumptions, the Trustee estimates that a final distribution of \$9.33 (including the regular distribution of \$0.34 payable on that date) will be made on October 9, 2007. Based on those revenue and expenses assumptions, the Trustee estimates that, from the amount of \$9.33, an amount of \$5.53 will represent an attribution of ordinary income. Taxpayers should consult their fiscal advisor to determine how they are going to be affected.

This interim management report of fund performance for Diversified Investment Grade Income Trust, Series I (the “**Trust**”) contains financial highlights but does not contain the complete interim financial statements of the Trust.

Metcalfe & Mansfield Alternative Investments Corp. is the trustee of the Trust (the “**Trustee**”).

1. Investment Objectives and Strategy

The Trust’s investment objectives are:

- (i) to provide holders of units (the “**Unitholders**”) with a stream of quarterly distributions consisting of partial capital reimbursement equal to \$0.34 per unit to yield 13.6% per annum of the original issue price which will reduce the adjusted cost base thereof, and
- (ii) to redeem all outstanding units on October 9, 2007 (the “**Maturity Date**”) at 100% of the net asset value.

To meet its objectives, the Trust entered into a swap agreement (the “**Swap Agreement**”) with the Toronto branch of JPMorgan Chase Bank (the “**Bank**”) to provide Unitholders with a credit exposure to an equity tranche of a portfolio (the “**Reference Portfolio**”) of initially 100 equally weighted investment grade corporate obligors (the “**Reference Entities**”). Pursuant to the Swap Agreement, the Trust:

- (i) invested the net proceeds from the offering (the “**Initial Amount**”) in banker’s acceptance from a Canadian financial institution (the “**Permitted Investments**”);
- (ii) pledged to the Bank, as collateral, the Permitted Investments in an amount equal to the Initial Amount, which decreases by an amount equal to the quarterly payments paid by the Bank pursuant to the Swap Agreement (the “**Collateral Amount**”);
- (iii) pays to the Bank, quarterly, the return on such Collateral Amount; and
- (iv) at the Maturity Date, (A) will receive from the Bank a payment equal to an amount by which the outstanding amount (being the Initial Amount less cumulative net losses on the Reference Portfolio (the “**Outstanding Amount**”)) (less any holdback amount for any unsettled credit event) exceeds the Collateral Amount, or (B) will

pay to the Bank a payment equal to an amount by which the Collateral Amount exceeds the Outstanding Amount (less any holdback amount), subject to a maximum payment equal to the Collateral Amount.

At maturity, the Bank will release the remaining Collateral Amount.

2. Risks

The Unitholders assume the first loss credit risk on the Reference Portfolio up to the Initial Amount. The portfolio size is equal to ten times the Initial Amount. The occurrence of numerous credit events could reduce the Outstanding Amount to zero resulting in quarterly distributions and payments on the Maturity Date reduced to zero.

A credit event is the occurrence of one of the following events in respect of a Reference Entity in the Reference Portfolio: bankruptcy, failure to pay and restructuring.

For a disclosure on the risks associated with the units, please refer to Schedule A.

3. Results of Operations

The assets of the Trust are primarily an investment in term deposits and a Swap Agreement providing an exposure to the Reference Portfolio. The following description is intended to provide a plain language summary of the assets and liabilities of the Trust.

Short-Term Investments

Under the Swap Agreement, short-term investments are pledged to the Bank. The Trust held as at June 30, 2007 short-term investments in the form of banker's acceptance from a Canadian financial institution having a short-term and long-term rating from Standard & Poor's Rating Service, a division of McGraw-Hill Companies, Inc. ("**S&P**"), of A-1+ and AA- and a short-term and long-term rating from Moody's Investment Services ("**Moody's**") of P-1 and Aa3 respectively. The short-term investments as at June 30, 2007 had a maturity date of July 6, 2007 (July 7, 2006 as at June 30, 2006) and bears interest at 4.32% (2006 – 4.02%).

The value of the short-term investments was \$2,811,947 as at June 30, 2007.

Management of the Reference Portfolio

The composition of the Reference Portfolio is not expected to change, even if the Reference Entities included in the Reference Portfolio may no longer meet the investment criteria. However, the Trustee may, from time to time, request the Bank to replace certain Reference Entities, if, in its judgment, such replacement is advisable. Any change in the Reference Portfolio is subject to the approval of the Bank but not of the Unitholders and is at the sole discretion of the Trustee.

Financial Derivative Instrument

Pursuant to the Swap Agreement, the Trust will pay the Bank if a credit event occurs in the Reference Entities comprised in the Reference Portfolio. The maximum loss that could be assumed by the Trust for a credit event with respect to a Reference Entity amounts to \$1,120,000, up to a cumulative net loss of \$11,200,000.

The notional amount of the Swap Agreement as at June 30, 2007 was \$10,782,206 (2006 - \$10,782,206) for the Reference Portfolio that consists of a pool of \$110,880,000 (2006 - \$110,880,000) in reference bonds of 99 (2006 - 99) equally weighted Reference Entities. The average Moody's rating of the Reference Entities on June 30, 2007 was Ba1 (December 31, 2006 - Baa3). The Swap Agreement terminates on September 24, 2007.

The net quarterly payments under the Swap Agreement are based on:

- (a) a quarterly payment by the Trust to the Bank based on a banker's acceptance three-month rate on the Collateral Amount outstanding on the immediately preceding quarterly payment date, pro-rated based on the number of days of the period; and
- (b) a quarterly release by the Bank to the Trust of the Collateral Amount outstanding calculated at an annual rate of 16.9% of the average Outstanding Amount over the period.

Credit quality of the Reference Portfolio

Risk in the Swap Agreement is a function of Reference Portfolio credit quality and time to maturity. As the Swap Agreement ages, the risk of default prior to the Maturity Date decreases for companies with a given rating. Balanced against that time benefit is the fact that credit ratings of higher rated entities have historically moved lower over time. Changes in credit quality as it is measured by the market can be seen through changes in the average credit spread of the Reference Portfolio since lower credit spread indicates that market participants perceive a lesser degree of risk. The average credit spread of the Reference Portfolio was 146 basis points at inception, 15 basis points as at December 31, 2006 and 22 basis points as at June 30, 2007. However, based on information provided by the Bank, among the 99 Reference Entities remaining in the Reference Portfolio, one Reference Entity, Visteon Corp., had, as at June 30, 2007, a credit spread of 253 basis points, which indicates that the risk of default on this name, as perceived by market participants, may be considered higher although not necessarily imminent.

Changes in the overall credit quality of the Reference Portfolio as measured by the credit ratings of its constituents may affect the Swap Agreement, which in turn may affect the trading price. The following table describes the Reference Portfolio's ratings characteristics at inception and as at December 31, 2004, December 31, 2005, December 31, 2006 and June 30, 2007 :

Moody's Rating	Inception	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006	June 30, 2007
Aaa	3%	3%	2%	2%	2%
Aa1	1%	1%	1%	1%	4%
Aa2	1%	2%	4%	4%	1%
Aa3	3%	1%	1%	2%	2%
A1	5%	2%	2%	2%	2%
A2	10%	9%	8%	8%	11%
A3	14%	13%	12%	16%	13%
Baa1	20%	16%	18%	16%	14%
Baa2	23%	23%	20%	18%	17%
Baa3	20%	19%	17%	12%	13%
Ba1	0%	7%	6%	6%	5%
Ba2	0%	2%	2%	2%	3%
Ba3	0%	2%	0%	2%	2%

Moody's Rating	Inception	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006	June 30, 2007
B1	0%	0%	5%	2%	2%
B2	0%	0%	0%	5%	2%
B3	0%	0%	1%	0%	3%
Caa1	0%	0%	0%	1%	2%
Caa2	0%	0%	0%	1%	1%
	100%	100%	100%	100%	100%

The Reference Portfolio

As at June 30, 2007, the Reference Portfolio was comprised of Reference Obligations of 99 equally weighted Reference Entities (for a list of the Reference Obligations, see Schedule B). The initial portfolio size was equal to 10 times the Initial Amount. One Reference Obligation was removed from the Reference Portfolio as a result of a credit event and one Reference Obligation was substituted further to a decision of the Trustee. The Reference Entities included in the Portfolio all have the same credit positions and were originally selected by National Bank Financial Inc., as promoter, and approved by the Trustee based on the following investment criteria:

- (i) Reference Entities with a reference obligation having an investment grade rating by Moody's or by S&P or any successor thereof; and
- (ii) no more than 8% of the Reference Portfolio having been invested in any one industry sector.

The table attached hereto as Schedule B sets forth the name of each Reference Entity comprised in the Reference Portfolio, its Moody's industry sector, its Moody's credit rating and its S&P's credit rating.

Substitutions in the Reference Portfolio

The Reference Portfolio is not actively managed and is not expected to change, even if the Reference Entities may no longer meet the investment criteria described above. However, the Trustee may, from time to time, request the Bank to replace certain Reference Entities if, in its judgement, such replacement is advisable. Such replacement is subject to the prior approval of the Bank and may result in a loss for the Trust, which will be applied against the Outstanding Amount, and in an adjustment on the quarterly payments. Changes in the Reference Portfolio are not subject to the approval of the Unitholders. So far, the only change in the Reference Portfolio requested by the Trustee was the replacement as of May 23, 2003 of Altria Group Inc. (formerly Philip Morris Companies) by Telus Corporation.

Credit Event

On October 17, 2005, the Trust received from the Bank, as swap counterparty, a credit event notice advising that a credit event had occurred with regards to Delphi Corporation, one of the Reference Entities. Delphi Corporation had previously filed on October 8, 2005 a petition for Chapter 11 proceedings under the *United States Bankruptcy Code* for itself and many of its U.S. subsidiaries.

The Bank conducted a valuation on October 24, 2005 and a final price was established at 67.68% of par, representing a net loss of \$0.31 per unit, thereby reducing the price at which all outstanding

units will be redeemed on the Maturity Date, assuming no further credit event, to approximately \$8.99 per unit from \$9.30. The net loss has also reduced the quarterly distributions to \$0.34 from \$0.36. Following this credit event, Delphi Corporation was removed from the Reference Portfolio which includes, since then, 99 Reference Entities.

Although there was several downgrades of Reference Entities included in the Portfolio, there were no credit events during the interim period.

Value of the Swap Agreement

The Swap Agreement is valued on the last business day of each month and reflects among other things its estimated replacement cost based on assumptions concerning current and future market conditions and events. Factors affecting the value of the swap include indicative values provided by the Bank to the Trustees which may reflect factors, such as correlation, that are proprietary to the Bank, the market's assessment of overall credit quality of the Reference Portfolio as measured by the trading price of the debt (and derivatives thereof) of Reference Entities and other factors, such as correlation estimates that are proprietary to the Bank. As at June 30, 2007, the swap value was -\$325,903 (representing -\$0.27 per unit), down from -\$386,838 (representing -\$0.32 per unit) on December 31, 2006. The swap value reflects an unmaterialized gain of \$0.08 per unit as at June 30, 2007 reduced by losses of \$0.35 as a result of one credit event and one Reference Obligation substitution since inception.

Other investments of the Trust

The Trust held \$86,125 in cash on June 30, 2007 compared to \$73,241 on December 31, 2006.

Net Asset Value of the Units

The net asset value (the "NAV") of the Trust is calculated by National Bank of Canada (the "**Administrative Agent**") as of the last business day of each month and approved by the Trustee.

The NAV of the Trust on a particular date is equal to the aggregate value of the assets of the Trust, less the aggregate value of the liabilities of the Trust (including any operating expenses payable) and the underlying income taxes on income earned. The "NAV per unit" on any day is obtained by dividing the NAV of the Trust on such day by the number of units outstanding on that day. The NAV is posted on the Web site of National Bank Financial Inc. at www.nbfinc.com, on SEDAR at www.sedar.com and published monthly by the Trust.

In calculating the NAV, the Administrative Agent uses the following rules:

- (i) the value of the Swap Agreement is based on updated credit information pertaining to the Reference Entities included in the Reference Portfolio, current interest rates, the remaining term of the Swap Agreement and information provided by the Bank;
- (ii) money market instruments plus accrued interest, if any, are valued at cost at the time of calculation;
- (iii) the value of any Permitted Investments is established by reference to prevailing interest rates, general market conditions and other relevant criteria;

- (iv) the value of any bonds, debentures and other debt obligations are valued by taking the average bid and ask prices; and
- (v) the value of any cash on hand or on deposit, prepaid expenses and interest accrued and not yet received, is deemed to be the face amount thereof unless it is determined that any such asset is not worth its face amount, in which event the value is determined by the Administrative Agent.

If any of these rules cannot be used or are at any time considered inappropriate under the circumstances or inconsistent with Generally Accepted Accounting Principles (“GAAP”), then notwithstanding the above rules, such valuation is established in a fair and reasonable manner and in accordance with GAAP. As of June 30, 2007, no investment has been valued other than in accordance with the above rules.

The process of valuing investments for which no published market exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.

The net asset value per unit was \$9.07 on June 30, 2007 compared to \$9.22 as at June 30, 2006. The decrease in net asset value over the period is mostly attributable to the drift toward the expected redemption value of \$8.99 at the Maturity Date. The expected redemption price is lower than the original issue price due to the \$0.66 issue cost per unit and the \$0.35 cumulative cost per unit of one credit event and one Reference Obligation substitution since inception.

Liquidity and Capital Resources

The obligations of the Trust include operating expenses and declared distributions to Unitholders. The funding of these obligations is satisfied primarily through partial redemption of the short-term investments described above and the payments under the Swap Agreement. As at June 30, 2007, the Trust had current assets of \$11,740,573 and current liabilities of \$862,101 taking into account the distributions payable of \$408,000 on July 10, 2007.

Distributions

The units paid regular quarterly distributions of \$0.36 per unit up to September 30, 2005 and \$0.34 since December 31, 2005. In fiscal 2007, the Trust paid \$0.68 per unit, representing a yield of 13.6% on a yearly basis on the \$10.00 issue price.

4. Transactions with the Promoter and its affiliates

Administrative Agreement

Pursuant to an Administrative Agent Agreement, the Trustee has delegated its administrative duties relating to the Trust to the Administrative Agent. Under this agreement, the Administrative Agent is responsible for providing without limitation, the following services to the Trust:

- (i) making the payment of operating expenses incurred on behalf of the Trust;

- (ii) preparing financial statements, financial and accounting information as required by the Trust and making distributions to Unitholders;
- (iii) ensuring that Unitholders are provided with financial statements (including interim and quarterly financial statements) and other reports as are from time to time required by applicable laws;
- (iv) ensuring that the Trust complies with regulatory requirements and applicable stock exchange listing requirements;
- (v) preparing the Trust's reports to Unitholders and the Canadian securities regulatory authorities;
- (vi) providing the Trustee with information and reports necessary for it to fulfill its fiduciary responsibilities and negotiating contractual agreements with third-party providers of services.

In 2006, the initial administrative agent, National Bank Trust Inc., transferred its appointment as administrative agent to National Bank of Canada effective as at October 16th, 2006. For the interim period, the Administrative Agent earned fees and reimbursement of expenses incurred in relation with this function totalled \$14,993 (\$15,699 for the corresponding period in 2006).

Recirculation Agreement

Pursuant to a recirculation agreement, the Trustee retained the services of National Bank Financial Inc. ("NBF") to use commercially reasonable efforts to find purchasers for any units tendered for redemption. The Trust may, but is not obligated to, require NBF to seek such purchasers.

No fees are payable to NBF in connection with this agreement.

Custodial Agreement

Pursuant to a custodial agreement between the Trust and National Bank Trust Inc., National Bank Trust Inc. acts as a custodian of the Trust in respect of the assets of the Trust, except for the Permitted Investments which are held by the Bank as collateral to the Swap Agreement. In connection with this agreement, no fees were paid to National Bank Trust Inc. for the interim period (no fees for the corresponding period in 2006).

Registrar and Transfer Agent Agreement

Pursuant to a registrar and transfer agent agreement between the Trust and Natcan Trust Company, Natcan Trust Company, at its principal offices in Montreal and Toronto, was originally appointed registrar and transfer agent for the units. On April 28, 2006, another entity, Computershare Trust Company of Canada, was appointed registrar and transfer agent for the Units.

For the interim period, the registrar and transfer agent earned fees of \$4,013 (\$4,013 for the corresponding period in 2006.)

5. Financial Highlights

The following tables show selected key financial information about the Trust and are intended to help explain the Trust's financial performance since inception. This information is derived from the Trust's financial statements:

Net Asset Value per unit:

	June 30, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002 ⁽¹⁾
Net Asset Value, beginning of period	\$9.07	\$9.83	\$11.47	\$12.78	\$10.30	\$9.34⁽²⁾
Increase (decrease) from operations:						
Total revenues	\$0.76	\$1.52	\$1.56	\$1.57	\$1.57	\$0.42
Total expenses	(\$0.13)	(\$0.14)	(\$0.11)	(\$0.14)	(\$0.11)	(\$0.03)
Realized gains (losses) for year	-	-	(\$0.31)	-	(\$0.04)	-
Unrealized gains (losses) for year	\$0.05	(\$0.77)	(\$1.36)	(\$1.30)	\$2.50	\$0.96
Total increase (decrease) from operations	\$0.68	\$0.61	(\$0.22)	\$0.13	\$3.92	\$1.35
Distributions:						
From income (excluding dividends)	-	-	-	-	-	-
From dividends	-	-	-	-	-	-
From capital gains	-	-	-	-	-	-
Return of capital	(\$0.68)	(\$1.36)	(\$1.42)	(\$1.44)	(\$1.44)	(\$0.39)
Total Distributions⁽³⁾	(\$0.68)	(\$1.36)	(\$1.42)	(\$1.44)	(\$1.44)	(\$0.39)
Net Asset Value, end of period	\$9.07	\$9.07	\$9.83	\$11.47	\$12.78	\$10.30

(1) From September 16, 2002 (inception date) to December 31, 2002.

(2) Issue expense of \$786,394 incurred in connection with the initial public offering, principally consisting of agents' fees and other offering expenses, which has been charged to retained earnings prior to calculating the opening net asset value of \$9.34.

(3) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of units outstanding over the financial period.

Ratios and Supplemental Data:

	June 30, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003	Dec. 31, 2002 ⁽¹⁾
Net Asset (000's)	\$ 10,878	\$10,887	\$11,790	\$13,770	\$15,337	\$12,372
Number of units outstanding (000)	1,200	1,200	1,200	1,200	1,200	1,200
Portfolio turnover rate	0%	0%	0%	0%	1%	0%
Trading expenses ratio	0%	0%	0%	0%	0%	0%
Closing market price			\$7.95	\$11.11	\$11.65	\$10.00

(TSX) \$8.50 \$8.75

(1) From September 16, 2002 to December 31, 2002.

Accreted Value:

At the Maturity Date, there will be no unrealized gain or loss on the Trust investments. In the interim, the unrealized gains and losses reflect variations in the value of the Swap Agreement as calculated from time to time. If the “accreted value” of the units is defined as their NAV restated to exclude any unrealized gains or losses on the Swap Agreement, the accrued value is a good indication of the amount in the Trust assets at a given date which would eventually be contributed towards the redemption of the units, assuming no further credit event. Another way to look at the accreted value is to view it as the net asset of the Trust valued at cost less impairments.

	June 30, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2003	Dec. 31, 2002
Accreted Value, beginning of period	\$9.05	\$9.03	\$9.31	\$9.34	\$9.34⁽²⁾
Increase (decrease) from operations:					
Total revenues	\$0.76	\$1.52	\$1.56	\$1.57	\$0.42
Total expenses	(\$0.13)	(\$0.14)	(\$0.11)	(\$0.11)	(\$0.03)
Losses from credit event and portfolio adjustment for year	-	-	(\$0.31)	(\$0.04)	-
Distributions	(\$0.68)	(\$1.36)	(\$1.42)	(\$1.44)	(\$0.39)
Accreted Value, end of period	\$9.00	\$9.05	\$9.03	\$9.32	\$9.34
Reconciliation of the Accreted Value and the Net Asset Value:					
Accreted Value, end of period	\$9.00	\$9.05	\$9.03	\$9.32	\$9.34
Unmaterialized gains or losses on Swap Asset since inception	\$0.07	\$0.03	\$0.80	\$3.46	\$0.96
Net Asset Value, end of period	\$9.07	\$9.07	\$9.83	\$12.78	\$10.30

(1) Figures on the table may not add due to rounding.

(2) Issue expense of \$786,394 incurred in connection with the initial public offering, principally consisting of agents’ fees and other offering expenses, which has been charged to retained earnings prior to calculating the opening accreted value of \$ 9.34.

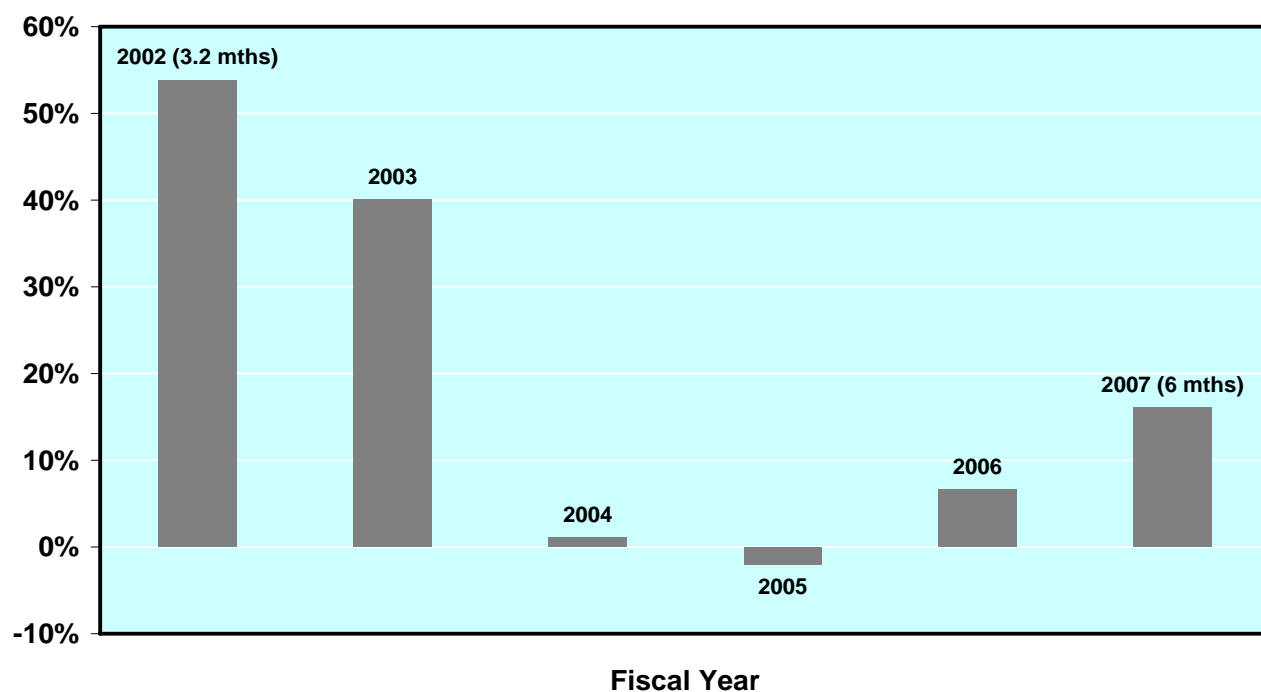
The accreted value of the Trust is \$0.01 higher than the amount expected to be repaid to Unitholders after the credit event of Delphi Corporation because cumulative distributions were slightly smaller than net revenues. Thus, the Trust has a \$0.01 reserve per unit to face unexpected expenses or to allocate, if available, to redemption at the Maturity Date.

Past Performance:

The following bar chart and table indicate the performance of the units by showing for the period, the return and compound returns from inception assuming all the distributions made by the Trust in the periods shown were reinvested at the NAV. Past performance is not necessarily indicative of future performance.

Year – by – Year Returns, based on NAVs

The following bar chart shows the Trust’s performance for the year and period shown. This bar chart shows, in percentage terms, how much an investment made on, the first day of the financial year would have grown or decreased by the last day of the financial year or period. The Trust’s objective is to provide a return on investment of 13.6% per annum to Unitholders on the issue price (\$10) over the remaining life of the Trust.



Interim Compound Returns

	<u>Past 12 months</u>	<u>Since Inception⁽¹⁾</u>
Based on NAV ⁽²⁾	14.0%	13.4%
Based on unit price ⁽³⁾	22.4%	11.4%

(1) Annualized for the period of September 16, 2002 to June 30, 2007.

(2) Calculated from initial net asset value of \$9.34 and June 30, 2007 net asset value of \$9.07 assuming all distributions reinvested.

(3) Calculated from issue price of \$10.00 and June 30, 2007 market price of \$8.50 assuming all distributions reinvested.

Schedule A

Risks and Uncertainties

The Trust is subject to various risks and uncertainties. The Trust's investment objectives could thus be adversely affected by each of the factors described below. Those are not the only ones faced by the Trust. Additional risks and uncertainties currently unknown to management of the Trustee or deemed rather unimportant could potentially have an impact on its business.

Credit Risk

As a result of entering into the Swap Agreement, the Trust is exposed to a levered credit exposure. Any Credit Event triggered by a Reference Entity would result in a net loss for the Trust. The first \$11,200,000 of net losses within the Portfolio of Reference Entities is the maximum loss that could be assumed by the Trust.

Counterparty Risk

The Trust is exposed to counterparty credit risk arising from any unrealized gain on the credit default swap plus any amount receivable from the counterparty. As the Maturity Date of the Trust approaches, the amount of exposure to the counterparty risk will gradually grow to approximately \$9,500,000 plus any unrealized gain or minus any unrealized loss on the Swap Agreement. The counterparty credit risk exposure on June 30, 2007 was \$8,515,964.

Valuation of the Swap Agreement

The Swap Agreement is presented at its estimated replacement cost with changes in the unrealized gain or loss of the period reported in the statement of operations. The replacement cost is calculated by using several assumptions, including the discounting of the expected contractual cash flows with a rate that reflects the credit quality of the Reference Entities. The replacement cost is strongly influenced by other assumptions such as the amount and timing of future estimated cash flows, discount rates, time value of money and yield curves. The calculated replacement cost reflects market conditions on a given date and for this reason cannot be representative of future fair values. Also, the replacement cost does not necessarily reflect the value at which the Swap Agreement could be liquidated.

Creditworthiness of the Reference Obligations

The credit ratings of the reference obligations in the Portfolio are those of Moody's, and the Trustee and NBF have relied on those credit ratings to initially select the Reference Entities without investigating each Reference Entity. Credit ratings are not a recommendation to buy, sell or hold investments, and may be subject to revision or withdrawal at any time by the relevant rating agency. Financial and other information with respect to each Reference Entity may be available from publicly available sources, but no representation is made with respect thereto by the Trust or the Trustee, as to the accuracy or completeness of any such information.

No Rebalancing of the Portfolio

There is no obligation on the Trustee to actively manage the Portfolio in order that it keeps its initial Moody's weighted average rating of Baa2 until the Credit Observation End Date. The Trustee does not seek to replace the Reference Entities to maintain the initial Moody's weighted average rating of the Portfolio.

Fluctuations in the NAV of the Units

The NAV of the Units may fluctuate due to a number of factors such as a reduction in the Quarterly Payments, interest rates, the creditworthiness of the Reference Entities and Cumulative Net Loss Amounts in the Portfolio.

An increase in the interest rates could reduce the NAV of the Units given that the Units are subject to a maximum distribution. Finally, a weakening of the creditworthiness of each of the Reference Entities comprised in the Portfolio will have a negative impact on the NAV of the Units.

No Recourse to Reference Obligations

The obligation to make quarterly distributions and to redeem the Units on the Maturity Date in accordance with the terms hereof is an obligation of the Trust. Unitholders will not have, and the Units will not represent any proprietary interest whatsoever in the reference obligations in the Portfolio. Accordingly, Unitholders will have no recourse whatsoever, directly or indirectly, to the reference obligations in the Portfolio to satisfy amounts owing to them under the Trust Agreement.

The Units do not represent obligations of, nor are they insured or guaranteed by, the Trustee, JPMorgan or any of their respective affiliates. None of the Trustee, the Reference Entities, JPMorgan or any of their respective affiliates, any Unitholders or any of their respective owners, beneficiaries, agents, officers, directors, employees, affiliates, successors or assigns will be personally liable for distributions in respect of the Units.

Disqualification as a Mutual Fund Trust

If the Trust does not qualify as a mutual fund trust within the meaning of the *Income Tax Act* (Canada) (the “Tax Act”), the amount received by the Unitholders from the distributions made by the Trust could be treated differently under the Tax Act and, accordingly, be considered taxable income. In addition, there could be other adverse material tax effect on the Unitholders.

Fluctuations in Quarterly Distributions

There can be no assurance that the Trust will be able to maintain the quarterly distributions to the Unitholders should Credit Events occur. The eventual occurrence of Credit Events will decrease the quarterly distributions to be paid to Unitholders.

Schedule B
REFERENCE PORTFOLIO
As at June 30, 2007

	Name	Moody's Industries	Moody's Rating		S&P Rating	
			Initial Sept. 23, 2002	June 30, 2007	Initial Sept. 23, 2002	June 30, 2007
1.	ABITIBI-CONSOLIDATED INC.	Printing and Publishing	Baa3	B3	BBB-	B
2.	ACE LIMITED	Insurance	A2	(P)A3	A-	A-
3.	AETNA INC	Insurance	Baa3	A3	BBB	A-
4.	AGRIUM INC	Farming and Agriculture	Baa2	Baa2	BBB	BBB
5.	AMBAC ASSURANCE CORP	Insurance	Aaa	Aaa	AAA	AAA
6.	AMERADA HESS CORP	Oil and Gas	Baa2	Baa3	BBB	BBB-
7.	AMERICAN ELECTRIC POWER COMPANY INC	Utilities	Baa1	Baa2	BBB+	BBB
8.	AMERICAN INTERNATIONAL GROUP INC	Insurance	Aaa	Aa2	AAA	AA
9.	AMGEN INC	Chemicals, Plastics and Rubber	A2	A2	A+	A+
10.	ANADARKO PETROLEUM CORP	Oil and Gas	Baa1	Baa3	BBB+	BBB-
11.	AOL TIME WARNER INC	Leisure, Amusement, Motion Pictures, Entertainment	Baa1	Baa2	BBB+	BBB+
12.	ARAMARK CORP	Personal, Food and Misc. Services	Baa3	(P)B3	BBB-	B+
13.	ARVINMERITOR INC	Automobile	Baa3	Ba3	BBB-	BB-
14.	AT&T CORP	Telecommunications	Baa2	A2	BBB+	A
15.	GOODRICH CORP	Aerospace and Defense	Baa1	Baa2	BBB+	BBB
16.	BANK OF AMERICA CORP	Banking	Aa2	Aa1	A+	AA
17.	BCE INC	Telecommunications	Baa1	Baa2	A	A-
18.	BELLSOUTH	Telecommunications	Aa3	A2	A+	A
19.	BOEING CAPITAL INC.	Finance	A3	A2	A+	A+
20.	BOWATER INC	Printing and Publishing	Baa3	B3	BBB	B
21.	BURLINGTON NORTHERN SANTA FE CORP	Cargo Transport	Baa2	Baa1	BBB+	BBB
22.	CARNIVAL CORP	Cargo Transport	A2	A3	A	A-
23.	CATERPILLAR INC	Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	A2	A2	A+	A
24.	CENDANT CORP	Diversified/Conglomerate Services	Baa1	Ba2	BBB	BB+
25.	CINERGY CORP	Utilities	Baa2	Baa2	BBB+	A-
26.	CINGULAR WIRELESS LLC (unlisted)	Telecommunications	A3	A3	A+	A
27.	CITIGROUP INC	Banking	Aa1	Aa1	AA-	AA
28.	CNA FINANCIAL CORP	Insurance	Baa2	Baa3	BBB-	BBB-
29.	CNF INC	Cargo Transport	Baa3	Baa3	BBB-	BBB
30.	COMCAST CORP	Broadcasting	Baa3	Baa2	BBB	BBB+
31.	CONAGRA INC	Beverage, Food and Tobacco	Baa1	Baa2	BBB+	BBB+
32.	CONSTELLATION ENERGY GROUP INC	Utilities	Baa1	Baa1	BBB+	BBB+
33.	COOPER INDUSTRIES INC	Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	A3	A3	A-	A
34.	COUNTRYWIDE HOME LOANS	Finance	A3	A3	A	A
35.	COX ENTERPRISES INC	Broadcasting	Baa1	Baa3	BBB	BBB-
36.	CSX CORP	Cargo Transport	Baa2	Baa3	BBB	BBB-
37.	DEERE AND COMPANY	Farming and Agriculture	A3	A2	A-	A
38.	DEVON ENERGY CORP	Oil and Gas	Baa2	Baa2	BBB	BBB
39.	DOMTAR INC	Printing and Publishing	Baa3	B2	BBB-	BB-
40.	EASTMAN KODAK COMPANY	Healthcare, Education and Childcare	Baa1	B2	BBB+	B+
41.	ELECTRONIC DATA SYSTEMS CORP	Electronics	A1	Ba1	A	BBB-
42.	ERAC USA FIN CO	Personal Transportation	Baa1	Baa2	A	BBB
43.	FEDEX CORP	Cargo Transport	Baa2	Baa2	BBB	BBB
44.	FEDERATED DEPARTMENT STORES INC	Retail Stores	Baa1	(P)Baa2	BBB+	BBB

Name	Moody's Industries	Moody's Rating		S&P Rating	
		Initial Sept. 23, 2002	June 30, 2007	Initial Sept. 23, 2002	June 30, 2007
45. FLEETBOSTON FINANCIAL CORP	Banking	A1	Aa1	A	AA
46. FORD MOTOR CREDIT COMPANY	Finance	A3	B1	BBB+	B
47. GENERAL ELECTRIC CAPITAL CORP	Finance	Aaa	Aaa	AAA	AAA
48. GENERAL MOTORS ACCEPTANCE CORP	Finance	A2	Ba1	BBB+	BB+
49. HARRAH'S ENTERTAINMENT INC	Hotels, Motels, Inns and Gaming	Baa3	Baa3	BBB-	BB
50. HEWLETT-PACKARD COMPANY	Electronics	A3	A2	A-	A
51. HOUSEHOLD INTERNATIONAL INC	Finance	A3	Aa3	A	AA-
52. INCO LTD	Mining, Steel, Iron and Nonprecious Metals	Baa3	Baa3	BBB-	BBB
53. INGERSOLL-RAND COMPANY	Machinery (Nonagriculture, Nonconstruction, Nonelectronic)	A3	A3	BBB+	BBB+
54. INTERNATIONAL BUSINESS MACHINES CORP	Electronics	A1	A1	A+	A+
55. INTERNATIONAL LEASE FINANCE CORP	Diversified/Conglomerate Services	A1	A1	AA-	AA-
56. INTERNATIONAL PAPER CO	Printing and Publishing	Baa2	Baa3	BBB	BBB
57. INTERPUBLIC GROUP OF COMPANIES INC	Diversified/Conglomerate Services	Baa1	Ba3	BBB+	B
58. JONES APPAREL GROUP INC	Textiles and Leather	Baa2	Baa3	BBB	BBB-
59. LOCKHEED MARTIN CORP	Aerospace and Defense	Baa2	Baa1	BBB	A-
60. MARRIOTT INTERNATIONAL INC	Hotels, Motels, Inns and Gaming	Baa2	Baa2	BBB+	BBB+
61. MBNA CORP	Banking	Baa2	Aa1	BBB	AA
62. MCKESSON HBOC INC	Healthcare, Education and Childcare	Baa2	Baa3	BBB	BBB
63. MERRILL LYNCH AND COMPANY INC	Finance	Aa3	Aa3	AA-	AA-
64. METLIFE INC	Insurance	A2	A2	A	A
65. MOTOROLA INC	Electronics	Baa2	Baa1	BBB	A-
66. NABORS INDUSTRIES INC	Oil and Gas	A3	A3	A-	A-
67. NATIONAL RURAL UTILITIES COOP. FINANCE CORP	Utilities	A2	A2	-	A
68. NEWMONT MINING CORP	Mining, Steel, Iron and Nonprecious Metals	Baa3	Baa1	BBB	BBB+
69. NEWS AMERICA INC	Broadcasting	Baa3	Baa2	BBB-	BBB
70. NORDSTROM INC	Retail Stores	Baa1	Baa1	A-	A
71. NORFOLK SOUTHERN CORP	Cargo Transport	Baa1	Baa1	BBB	BBB+
72. TELUS CORP	Telecommunications	Ba1	Baa1	BBB	BBB+
73. RAYTHEON CO	Aerospace and Defense	Baa3	Baa1	BBB-	BBB+
74. REEBOK INTERNATIONAL LTD	Textiles and Leather	Baa3	Baa2	BBB-	NR
75. RYDERSYSTEM INC	Personal Transportation	Baa1	Baa1	BBB	BBB+
76. SABRE HOLDINGS CORP	Electronics	Baa2	Caa1	BBB+	B+
77. SAFEWAY INC	Grocery	Baa2	Baa2	BBB	BBB-
78. SBC COMMUNICATIONS INC	Telecommunications	Aa3	A2	AA-	A
79. SEARS ROEBUCK ACCEPTANCE CORP	Finance	Baa1	Ba2	A-	BB+
80. SEMPRA ENERGY	Utilities	A2	Baa1	A-	BBB+
81. SHAW COMMUNICATIONS INC	Broadcasting	Baa3	Ba1	BBB	BB+
82. SIMON PROPERTY GROUP LP	Buildings and Real Estate	Baa1	A3	BBB+	A-
83. SOUTHWEST AIRLINES COMPANY	Personal Transportation	Baa1	Baa1	A	A
84. SUPERVALU INC	Grocery	Baa3	B1	BBB	BB-
85. TEMPLE-INLAND INC	Printing and Publishing	Baa3	Baa3	BBB	BBB
86. TEXTRON INC	Diversified/Conglomerate Services	A3	A3	A	A-

Name	Moody's Industries	Moody's Rating		S&P Rating	
		Initial Sept. 23, 2002	June 30, 2007	Initial Sept. 23, 2002	June 30, 2007
87. THE DOW CHEMICAL COMPANY	Chemicals, Plastics and Rubber	A3	A3	A	A-
88. THE HERTZ CORP	Personal Transportation	Baa2	Ba1	BBB	BB-
89. THE SHERWIN-WILLIAMS COMPANY	Chemicals, Plastics and Rubber	A2	A3	A	A-
90. TOYS R US INC	Retail Stores	Baa3	Caa1	BBB	B-
91. TRANSOCEAN SEDCO FOREX INC	Oil and Gas	Baa2	Baa1	A-	A-
92. TXU CORP	Utilities	Baa3	Ba1	BBB+	BB
93. TYSON FOODS INC	Beverage, Food and Tobacco	Baa3	Ba2	BBB	BBB-
94. VERIZON GLOBAL FUNDING CORP	Telecommunications	A1	A3	A+	A
95. VIACOM INC	Broadcasting	A3	Baa3	A-	BBB
96. VISTEON CORP	Automobile	Baa2	Caa2	BBB	B
97. WALT DISNEY COMPANY	Broadcasting	A3	A2	A-	A-
98. WEATHERFORD INTERNATIONAL INC	Oil and Gas	Baa1	Baa1	BBB+	BBB+
99. WEYERHAEUSER COMPANY	Diversified Natural Resources, Precious Metals, and Minerals	Baa2	Baa2	BBB	BBB