

**Diversified Investment
Grade Income Trust,
Series I**

Financial Statements
June 30, 2006
(unaudited)

Diversified Investment Grade Income Trust, Series I

Statements of Net Assets

As at

	June 30, 2006	December 31, 2005
	(unaudited)	(audited)
	\$	\$
Assets		
Current assets		
Cash	27,922	76,194
Short-term investments (note 3)	4,649,170	5,557,284
Credit derivative related asset (note 4)	(202,649)	535,906
Credit default swap receivable (note 5)	7,004,519	6,105,654
Other accounts receivable	16,278	11,827
	<u>11,495,240</u>	<u>12,286,865</u>
Liabilities		
Accounts payable and accrued liabilities	26,729	88,596
Distributions payable	408,000	408,000
	<u>434,729</u>	<u>496,596</u>
Net assets, represented by :	<u>11,060,511</u>	<u>11,790,269</u>
Unitholder's equity		
Unitholder's capital (note 7)	4,769,608	5,585,608
Retained earnings	6,290,903	6,204,661
	<u>11,060,511</u>	<u>11,790,269</u>
Number of units outstanding – End of period	<u>1,200,000</u>	<u>1,200,000</u>
Net assets per unit	<u>9.22</u>	<u>9.83</u>

Approved by the Trustee, Metcalfe & Mansfield Alternative Investments Corp.

Claude Dalphond Director

Benoit Deschamps Director

Diversified Investment Grade Income Trust, Series I

Statements of Operations and Retained Earnings

For the six month period ended June 30, 2006

	For the six months period ended June 30, 2006	For the six months period ended June 30, 2005
	(unaudited)	(unaudited)
	\$	\$
Revenue		
Interest on cash	719	76
Interest on short-term investments	89,999	85,477
Interest on credit default swap	(90,187)	(85,086)
Income from credit default swap	903,018	933,161
	<u>903,549</u>	<u>933,628</u>
Expenses		
Audit fees	16,817	19,005
Legal fees	21,403	15,770
Administrative agent fees	19,712	20,063
Regulatory and reporting expenses	8,348	13,375
Directors' fees	12,472	19,421
	<u>78,752</u>	<u>87,634</u>
Net investment income for the period	824,797	845,994
Change in value of credit derivative related asset	<u>(738,555)</u>	<u>(791,041)</u>
Increase in net assets from operations	86,242	54,953
Retained earnings - Beginning of period	<u>6,204,661</u>	<u>6,479,900</u>
Retained earnings - End of period	<u>6,290,903</u>	<u>6,534,853</u>
Increase in net asset from operations per unit	<u>0.07</u>	<u>0.05</u>

Diversified Investment Grade Income Trust, Series I

Statements of Change in Net Assets

For the six month period ended June 30, 2006

	For the six month period ended June 30, 2006	For the six month period ended June 30, 2005
	(unaudited)	(unaudited)
	\$	\$
Increase in net assets from operations	<u>86,242</u>	<u>54,953</u>
Distributions to unitholders	<u>(816,000)</u>	<u>(864,000)</u>
Capital unit transactions		
Sale of units	-	-
Unit issue costs	-	-
Unit redeemed	-	-
	<u>-</u>	<u>-</u>
Increase in net assets for the period	(729,758)	(809,047)
Net assets – Beginning of period	<u>11,790,269</u>	<u>13,769,508</u>
Net assets – End of period	<u>11,060,511</u>	<u>12,960,461</u>

Diversified Investment Grade Income Trust, Series I

Statements of Cash Flows

For the six month period ended June 30, 2006

	For the six month period ended June 30, 2006	For the six month period ended June 30, 2005
	(unaudited)	(unaudited)
	\$	\$
Operating activities		
Increase in net assets operations for the period	<u>86,242</u>	<u>54,953</u>
Adjustments for:		
Change in value of credit derivative related asset	738,555	791,041
Decrease (increase) in other accounts receivable	(4,451)	(1,082)
Increase (decrease) in accounts payable and accrued liabilities	<u>(61,867)</u>	<u>1,744</u>
	<u>672,237</u>	<u>791,703</u>
	<u>758,479</u>	<u>846,656</u>
Investing activities		
Increase in credit default swap receivable	<u>(898,865)</u>	<u>(938,060)</u>
Financing activities		
Distributions paid to unitholders	<u>(816,000)</u>	<u>(864,000)</u>
Decrease in cash and cash equivalents	(956,386)	(955,404)
Cash and cash equivalents - Beginning of period	<u>5,633,478</u>	<u>7,492,123</u>
Cash and cash equivalents - End of period	<u>4,677,092</u>	<u>6,536,719</u>
Cash and cash equivalents comprise:		
Cash	27,922	36,048
Short-term investments	<u>4,649,170</u>	<u>6,500,670</u>
	<u>4,677,092</u>	<u>6,536,719</u>

Diversified Investment Grade Income Trust, Series I

Notes to Financial Statements

June 30, 2006

1 Creation of Trust and nature of operations

The Diversified Investment Grade Income Trust (the “Trust”) is a closed-end income trust which was established under the laws of the Province of Ontario on September 16, 2002 by a trust agreement.

National Bank Trust Inc. acts as administrative agent and National Bank Financial Inc., the promoter of the Trust, holds no voting securities of the Trustee, Metcalfe & Mansfield Alternative Investments Corp.

In order to provide levered exposure to a portfolio containing 99 corporate credits (2005 -99) (“reference entities” as listed in Schedule 1), the objective of which is to provide unitholders with a stream of quarterly distributions and redeem all outstanding units on October 9, 2007.

The Trust provides a levered exposure to a portfolio of 99 corporate credits (“Reference Entities”), the objective of which is to provide unitholders with a stream of quarterly distributions and to redeem all outstanding units on October 9, 2007. In order to provide the Trust with the means to meet its investment objectives, on September 24, 2002, the Trust entered into a credit swap agreement with a creditworthy financial institution (the “Bank”).

Through to the maturity date, the redemption price and the net asset value will vary depending on a number of factors such as the quarterly distributions to be made on the units, interest rates, the creditworthiness of the Reference Entities and cumulative net loss amounts incurred upon the occurrence of credit events in the portfolio. Credit events include bankruptcy, failure to pay and restructuring of a Reference Entity. However, the Trust will not be exposed to losses greater than \$11,200,000.

2 Significant accounting policies

Generally accepted accounting principles

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are the following.

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the Trustee to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Trustee believes that the estimates used in preparing the financial statements are reasonable and prudent. Actual results could differ from those estimates.

Short-term investments

Short-term investments are carried at the lower of cost and net realizable value, increased by related accrued interest.

Diversified Investment Grade Income Trust, Series I

Notes to Financial Statements

June 30, 2006

Income recognition

Interest income, interest expense and income from the credit default swap are recorded on an accrual basis.

Valuation of the credit default swap

The credit default swap is presented on the statement of net assets at its estimated replacement cost with changes in the unrealized gain or loss for the year reported in the statement of operations. The replacement cost is calculated by using several assumptions, including the discounting of the expected contractual cash flows using a rate that reflects the credit quality of the Reference Entities of the swap. 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 credit default swap could be liquidated.

3 Short-term investments

Under the credit swap agreement, short-term investments are pledged to the Bank. They are issued or fully and unconditionally guaranteed as to principal and interest by the Government of Canada or a Canadian financial institution having a short-term or long-term rating from Standard & Poor's Rating Service of at least A-1 or AA- and a short-term or long-term rating from Moody's of at least P-1 or AA3 respectively. The amount outstanding at June 30, 2006 had a maturity date of July 7, 2006 and bears interest at 4.02%.

4 Financial derivative instrument

The Trust has entered into a credit swap agreement with the Bank pursuant to which the Trust will pay the Bank if a credit event occurs in the Reference Entities. 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 credit swap as at June 30, 2006 is \$10,782,206 (2005 -11,148,670) for a portfolio that consists of a pool of \$110,880,000 (2005- 112,000,000) in reference bonds of 99 equally weighted entities that had an average Moody's rating of Baa3 on June 30, 2006 and 2005. The credit swap will mature on September 24, 2007. The net quarterly payments under the swap 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 outstanding collateral amount calculated at an annual rate of 16.9% of the average outstanding amount over the period

Diversified Investment Grade Income Trust, Series I

Notes to Financial Statements

June 30, 2006

Credit risk

As a result of entering into the credit swap agreement, the Trust is exposed to a levered credit exposure. Any credit event (bankruptcy, failure to pay or restructuring of a Reference Entity) in relation to 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 can be assumed by the Trust.

In addition, 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 credit default swap. The counterparty to the swap is a creditworthy financial institution and management believes that the probability of default is low.

On October 8, 2005, Delphi, a reference entity included in the portfolio, filed for bankruptcy protection for its U.S. operations. The Bank, as swap counterparty, sent the Trust a credit event Notice and a Notice of Publicly Available Information advising that a credit event had occurred with regard to this reference entity. The Bank conducted a valuation on October 24, 2005 and the final price was established at 67.28%, resulting in a net loss amount of \$366,464 (\$0.31 per unit), thereby reducing the price at which all outstanding units will be redeemed at maturity on October 9, 2007 to \$10,782,206 (approximately \$8.99 per unit) from \$11,148,670 (approximately \$9.30 per unit). Following this credit event, the reference entity has been removed from the portfolio which now comprises 99 reference entities and the first loss tranche has been reduced to \$37,490,000.

Interest rate risk

There is an interest rate risk associated with the derivative instrument, which has several components, one of which is to compensate for a risk assumed with time. Market rates can vary and cause fluctuations on the fair value of the derivative instrument having a fixed rate at the signing of the contract.

5 Credit default swap receivable

The credit default swap receivable consists of the unpaid amount to the Trust with regard to the income on the credit default swap, which is calculated at the annual rate of 16.9%, and is reduced by the amount of interest paid on the credit default swap to the Bank at the Canadian banker's acceptance three-month rate.

The amount receivable, net of any excess net loss amounts incurred upon the occurrence of credit events over the short-term investments given as a collateral amount, will be received on October 9, 2007, the maturity date of the Trust.

Diversified Investment Grade Income Trust, Series I

Notes to Financial Statements

June 30, 2006

6 Income taxes

The Trust qualifies as a Unit Trust within the meaning of the *Income Tax Act* (Canada). The Trust is subject to income taxes under this Act on the amount of taxable income for the period and is permitted a deduction in computing its income tax for all amounts paid or payable to the Trust's unitholders in determining income for tax purposes.

Any amount payable under the credit default swap is considered to be an amount of income payable under the swap agreement and taxable as such. According to the terms of the swap agreement, the amount will be determinable only on the maturity date and therefore the swap payment to the Trust should only be taxable as income at the maturity date.

7 Unitholders' capital

Authorized units

The Trust is authorized to issue in series an unlimited number of transferable and redeemable units, each of which represents an equal undivided interest in the net assets of the Trust.

All units have equal rights and privileges. Each whole unit is entitled to one vote and to participate equally with respect to any and all distributions made by the Trust.

Units may be surrendered for redemption at any time but will be redeemed only on a quarterly basis on the last business day of each of the months of March, June, September and December (the "redemption date") for an amount equal to the redemption price of the units determined as of such redemption date.

The redemption price will be equal to the lesser of:

- a) 90% of the daily weighted average trading price per unit on the principal exchange on which the units are listed for the five trading days preceding the redemption date; and
- b) an amount equal to:
 - i) the closing price of the units on the principal exchange on which the units are listed; or
 - ii) the average of the highest and lowest prices of the units if the exchange or other market on which the units are listed provides only the highest and lowest trading prices; or
 - iii) the average of the latest bid and ask prices on the principal exchange on which the units are listed if there was no trading on such redemption date.

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Notes to Financial Statements

June 30, 2006

8 Comparative figures

To conform to the presentation adopted in the current year, certain amounts from the prior year have been reclassified.

Diversified Investment Grade Income Trust, Series I

Schedule 1

June 30, 2006

Name	Moody's Industries	Moody's Rating		S&P Rating	
		Initial		Initial	
		May 2, 2003	June 30, 2006	May 2, 2003	June 30, 2006
Abitibi-Consolidated Inc.	Printing and Publishing	Baa3	B1	BBB-	B+
ACE Limited	Insurance	A2	A3	A-	BBB+
Aetna Inc.	Insurance	Baa3	A3	BBB	A-
Agrium, Inc.	Farming and Agriculture	Baa2	Baa2	BBB	BBB
Ambac Assurance Corporation	Insurance	Aaa	Aaa	AAA	AAA
American Electric Power Company, Inc.	Utilities	Baa1	Baa2	BBB+	BBB
Amerada Hess Corporation	Oil and Gas	Baa2	Ba1	BBB	BBB-
American International Group, Inc.	Insurance	Aaa	Aa2	AAA	AA
Amgen Inc.	Healthcare, Education and Childcare	A2	A2	A+	A+
Anadarko Petroleum Corporation	Oil and Gas	Baa1	Baa1	BBB+	BBB+
AOL Time Warner Inc.	Leisure, Amusement, Motion Pictures, Entertainment	Baa1	Baa2	BBB+	BBB+
ARAMARK Corporation	Personal, Food and Misc. Services	Baa3	(P)Baa3	BBB-	BBB-
ArvinMeritor, Inc.	Automobile	Baa3	Ba2	BBB-	BB
AT&T Corp.	Telecommunications	Baa2	Baa2	BBB+	A
Bank of America Corporation	Banking	Aa2	Aa2	A+	AA-
BCE Inc.	Telecommunications	Baa1	Baa2	A	A-
BellSouth Corporation	Telecommunications	Aa3	A2	A+	A
Boeing Capital Corporation	Aerospace and Defense	A3	A2	A+	A
Bowater Incorporated	Printing and Publishing	Baa3	B1	BBB	B+
Burlington Northern Santa Fe Corporation	Cargo Transport	Baa2	Baa2	BBB+	BBB+
Carnival Corporation	Leisure, Amusement, Motion Pictures, Entertainment	A2	A3	A	A-
Caterpillar Inc.	Machinery (Non-agriculture, Non-construction, Non-electronic)	A2	A2	A+	A
Cendant Corporation	Diversified/Conglomerate Services	Baa1	Baa1	BBB	BBB+
Cinergy Corporation	Utilities	Baa2	Baa2	BBB+	BBB
Cingular Wireless LLC	Telecommunications	A3	Baa2	A+	A
Citigroup Inc.	Banking	Aa1	Aa1	AA-	AA-
CNA Financial Corporation	Insurance	Baa2	Baa3	BBB-	BBB-
Con-way Incorporated	Cargo Transport	Baa3	Baa3	BBB-	BBB
Comcast Corporation	Broadcasting	Baa3	Baa2	BBB	BBB+
ConAgra Foods, Inc.	Beverage, Food and Tobacco	Baa1	Baa2	BBB+	BBB+
Constellation Energy Group, Inc.	Utilities	Baa1	Baa1	BBB+	BBB+
Cooper Industries Ltd.	Machinery (Non-agriculture, Non-construction, Non-electronic)	A3	A3	A-	A-
Countrywide Home Loans, Inc.	Finance	A3	A3	A	A
Cox Enterprises, Inc.	Broadcasting	Baa1	Baa3	BBB	BBB-
CSX Corporation	Cargo Transport	Baa2	Baa2	BBB	BBB
Deere & Company	Farming and Agriculture	A3	A3	A-	A-
Delphi Corporation (out Oct 05)	Electronics	Baa2	NA	BBB	NA
Devon Energy Corporation	Oil and Gas	Baa2	Baa2	BBB	BBB
Domtar Inc.	Printing and Publishing	Baa3	B1	BBB-	BB-
Dow Chemical Company (The)	Chemicals, Plastics and Rubber	A3	A3	A	A-
Eastman Kodak Company	Healthcare, Education and Childcare	Baa1	B2	BBB+	B+
Electronic Data Systems Corporation	Electronics	A1	Ba1	A	BBB-
ERAC USA Finance Company	Personal Transportation	Baa1	Baa1	A	BBB+
Federated Department Stores, Inc.	Retail Stores	Baa2	(P)Baa1	BBB	BBB
FedEx Corporation	Cargo Transport	Baa1	Baa2	BBB+	BBB
FleetBoston Financial Corporation	Banking	A1	Aa2	A	AA-
Ford Motor Credit Company	Finance	A3	Ba2	BBB+	B+
General Electric Capital Corporation	Finance	Aaa	Aaa	AAA	AAA
General Motors Acceptance Corporation	Finance	A2	Ba1	BBB+	BB
Goodrich Corporation	Aerospace and Defense	Baa1	Baa3	BBB+	BBB
Harrah's Entertainment, Inc.	Hotels, Motels, Inns and Gaming	Baa3	Baa3	BBB-	BBB-
Hertz Corporation (The)	Personal Transportation	Baa2	Ba2	BBB	BB-
Hewlett-Packard Company	Electronics	A3	A3	A-	A-
Household Finance Corp.	Finance	A3	Aa3	A	AA-
Inco Limited	Mining, Steel, Iron and non precious metals	Baa3	Baa3	BBB-	BBB-
Ingersoll-Rand Company	Machinery (Non-agriculture, Non-construction, Non-electronic)	A3	A3	BBB+	A-
International Business Machines Corporation	Electronics	A1	A1	A+	A+
International Lease Finance Corporation	Diversified/Conglomerate Services	A1	A1	AA-	AA
International Paper Company	Printing and Publishing	Baa2	Baa3	BBB	BBB
Interpublic Group of Companies, Inc. (The)	Diversified/Conglomerate Services	Baa1	Ba3	BBB+	B
Jones Apparel Group, Inc.	Textiles and Leather	Baa2	Baa2	BBB	BBB
Lockheed Martin Corporation	Aerospace and Defense	Baa2	Baa1	BBB	BBB+
Marriott International, Inc.	Hotels, Motels, Inns and Gaming	Baa2	Baa2	BBB+	BBB+
MBNA Corporation	Banking	Baa2	Aa2	BBB	AA-
McKesson Corporation	Healthcare, Education and Childcare	Baa2	Baa3	BBB	BBB
Merrill Lynch & Co., Inc.	Finance	Aa3	Aa3	AA-	A+
MetLife, Inc.	Insurance	A2	A2	A	A
Motorola, Inc.	Electronics	Baa2	Baa2	BBB	A-
Nabors Industries Inc.	Oil and Gas	A3	A3	A-	A-
National Rural Utilities Coop. Finance Corp.	Utilities	A2	A2	NR	A

Diversified Investment Grade Income Trust, Series I

Schedule 1

June 30, 2006

Name	Moody's Industries	Moody's Rating		S&P Rating	
		Initial	June 30, 2006	Initial	June 30, 2006
		May 2, 2003	June 30, 2006	May 2, 2003	June 30, 2006
Newmont Mining Corporation	Mining, Steel, Iron and non precious metals	Baa3	Baa1	BBB	BBB+
News America Incorporated	Broadcasting	Baa3	Baa2	BBB-	BBB
Nordstrom, Inc.	Retail Stores	Baa1	Baa1	A-	A
Norfolk Southern Corporation	Cargo Transport	Baa1	Baa1	BBB	BBB+
Raytheon Company	Aerospace and Defense	Baa3	Baa2	BBB-	BBB
Reebok International Ltd.	Textiles and Leather	Baa3	NR	BBB-	NR
Ryder System, Inc.	Personal Transportation	Baa1	Baa1	BBB	BBB+
Sabre Holdings Corporation	Electronics	Baa2	Baa3	BBB+	BBB
Safeway Inc.	Grocery	Baa2	Baa2	BBB	BBB-
SBC Communications	Telecommunications	Aa3	A2	AA-	A
Sears Roebuck Acceptance Corp.	Finance	Baa1	Ba1	A-	BB+
Sempra Energy	Utilities	A2	Baa1	A-	BBB+
Shaw Communications Inc.	Broadcasting	Baa3	Ba2	BBB	BB+
Sherwin-Williams Company (The)	Chemicals, Plastics and Rubber	A2	A3	A	A-
Simon Property Group, L.P.	Buildings and Real Estate	Baa1	Baa1	BBB+	A-
Southwest Airlines Co.	Personal Transportation	Baa1	Baa1	A	A
SUPERVALU, INC.	Grocery	Baa3	B2	BBB	BB-
TELUS Corporation	Telecommunications	Ba1	Baa2	BBB	BBB+
Temple-Inland Inc.	Printing and Publishing	Baa3	Baa3	BBB	BBB
Textron Inc.	Diversified/Conglomerate Services	A3	A3	A	A-
Toys 'R' US, Inc.	Retail Stores	Baa3	Caa2	BBB	B-
Transocean Inc.	Oil and Gas	Baa2	Baa1	A-	A-
TXU Corp.	Utilities	Baa3	Ba1	BBB+	BBB-
Tyson Foods, Inc.	Beverage, Food and Tobacco	Baa3	Baa3	BBB	BBB
Verizon Global Funding Corp.	Telecommunications	A1	A3	A+	A-
Viacom Inc.	Broadcasting	A3	Baa3	A-	BBB
Visteon Corporation	Automobile	Baa2	B3	BBB	B+
Walt Disney Company (The)	Broadcasting	A3	A3	A-	A-
Weatherford International, Inc.	Oil and Gas	Baa1	Baa1	BBB+	BBB+
Weyerhaeuser Company	Diversified Natural Resources, Precious Metals, and Minerals	Baa2	Baa2	BBB	BBB