

# **Global Diversified Investment Grade Income Trust**

Financial Statements for the semester ended  
**June 30, 2010**  
(Unaudited)

The interim financial statements as at June 30, 2010 and 2009 have not been reviewed by our independent auditors.

# Global Diversified Investment Grade Income Trust

## Statements of Net Assets

---

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	\$	\$
	(unaudited)	
<b>Assets</b>		
Investment (note 7)	38,295,255	38,715,146
Credit default swaps receivable (note 8)	18,417,796	17,549,660
Short-term investments (note 9)	2,004,984	1,999,810
Cash	158,490	119,659
Interest receivable on investment and credit default swaps receivable	26,132	23,599
Other assets (note 10)	300,373	317,684
	<hr/>	<hr/>
	59,203,030	58,725,558
<b>Liabilities</b>		
Accounts payable and accrued liabilities	141,808	177,830
Credit default swaps payable	144,893	147,308
Distributions payable	136,175	123,795
Credit default swaps related liability (note 11)	38,173,080	34,413,610
	<hr/>	<hr/>
	38,595,956	34,862,543
<b>Net Assets representing Unitholders' Equity</b> (note 14)	<hr/>	<hr/>
	20,607,074	23,863,015
<b>Number of units outstanding</b> (note 14)	<hr/>	<hr/>
	6,189,750	6,189,750
<b>Net assets per unit</b>	<hr/>	<hr/>
	\$3.33	\$3.86

The accompanying notes form an integral part of these financial statements.

**Approved by the Trustees, Global DIGIT Management Inc. and GD-I Management Inc.**

*Claude Dalphond*

Claude Dalphond

Director

*Benoit Deschamps*

Benoît Deschamps

Director

# Global Diversified Investment Grade Income Trust

## Statements of Operations

For the six month period ended June 30

(Unaudited)

	2010 \$	2009 \$
<b>Investment income from trading activities</b>		
Interest on investment and credit default swaps receivable	182,395	1,933,855
Income from credit default swaps	1,973,310	4,843,431
Other income	65,741	18,567
	<u>2,221,446</u>	<u>6,795,853</u>
<b>Investment-related expenses</b>		
Expenses on credit default swaps	1,078,050	3,344,836
Servicing fees (note 12)	-	(142,465)
	<u>1,078,050</u>	<u>3,202,371</u>
<b>Net investment income before administrative expenses</b>	<u>1,143,396</u>	<u>3,593,482</u>
<b>Administrative expenses</b>		
Audit fees	55,177	35,557
Legal fees	109,848	151,596
Directors' fees of the trustees	62,179	81,482
Administrative agent fees	14,175	14,286
Register and transfer agent	3,952	3,938
Custodial fees	3,514	8,500
Unitholder reporting cost and listing fees	15,234	12,039
Insurance	44,933	21,034
Independent review committee fees and expenses	23,950	32,410
	<u>332,962</u>	<u>360,842</u>
<b>Net investment income for the period</b>	<u>810,434</u>	<u>3,232,640</u>
<b>Gains (losses) on investment and credit default swaps</b>		
Change in unrealized appreciation of fair value of investment and credit default swaps receivable	448,245	6,697,026
Change in unrealized appreciation (depreciation) of fair value of credit default swaps	(3,759,470)	20,045,520
	<u>(3,311,225)</u>	<u>26,742,546</u>
<b>Increase (decrease) in net assets from operations</b>	<u>(2,500,791)</u>	<u>29,975,186</u>
<b>Increase (decrease) in net assets from operations per unit</b>	<u>\$(0.40)</u>	<u>\$3.07</u>

The accompanying notes form an integral part of these financial statements.

# Global Diversified Investment Grade Income Trust

Statements of Changes in Net Assets

For the six month period ended June 30

(Unaudited)

---

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>Increase (decrease) in net assets from operations</b>	(2,500,791)	29,975,186
<b>Distributions to unitholders</b>		
Return of capital (note 14)	(755,150)	(15,864,965)
<b>Increase (decrease) in net assets during the period</b>	(3,255,941)	14,110,221
<b>Net assets – Beginning of period</b>	23,863,015	11,448,301
<b>Net assets – End of period</b>	20,607,074	25,558,522

The accompanying notes form an integral part of these financial statements.

# Global Diversified Investment Grade Income Trust

## Statements of Cash Flows

For the six month period ended June 30

(Unaudited)

	2010 \$	2009 \$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net investment income for the period	810,434	3,232,640
Adjustments for:		
Decrease in investment	742,770	10,111,843
Increase in credit default swaps receivable	(742,770)	(10,111,843)
Decrease (increase) in interest receivable on investment and credit default swaps receivable	(2,533)	10,685
Decrease in other assets	17,311	14,034,324
Decrease in accounts payable and accrued liabilities	(36,022)	(321,464)
Decrease in credit default swaps payable	(2,415)	(18,481)
	(23,659)	13,705,064
	786,775	16,937,704
<b>Financing activities</b>		
Distributions paid to unitholders	(742,770)	(15,864,965)
<b>Increase in cash and cash equivalents during the period</b>	44,005	1,072,739
<b>Cash and cash equivalents – Beginning of period</b>	2,119,469	83,545
<b>Cash and cash equivalents – End of period</b>	2,163,474	1,156,284
<b>Cash and cash equivalents</b>		
Cash	158,490	96,473
Short-term Investments	2,004,984	1,059,811
	2,163,474	1,156,284

The accompanying notes form an integral part of these financial statements.

# Global Diversified Investment Grade Income Trust

Statement of Investment Portfolio

As at June 30, 2010

(Unaudited)

Short-term investments	Description	Interest rate	Maturity	Cost	Fair value
Bank of Montreal	Term deposits	0.85%	March 15, 2013 <sup>note a)</sup>	2,000,000	2,004,984
				<u>2,000,000</u>	<u>2,004,984</u>
Investment and credit default swaps receivable	Description	Interest rate	Maturity	Cost	Fair value
National Bank of Canada <sup>note b)</sup>	Investment - term deposit	Note c)	September 2014	39,054,872	38,295,255
Deutsche Bank	Long-term receivable	Note c)	September 2014	18,783,128	18,417,796
				<u>57,838,000</u>	<u>56,713,051</u>
				<u>59,838,000</u>	<u>58,718,035</u>

Note a) – On March 15, 2010, the Trust purchased four term deposits from Bank of Montreal for a total amount of \$2,000,000. The Trust has an option to redeem these term deposits at par on a monthly basis until March 15, 2011. After this date, the term deposits will expire on March 15, 2013 with no other early redemption. The Trust intends to redeem such deposits on or before March 15, 2011 and has therefore recorded them as short-term investments.

Note b) - On a monthly basis, the Bank acquires from the Trust a contractually determined portion of the term deposit pledged as security as defined in the supplemental long form prospectus filed on September 1, 2004; this portion is equal to the monthly payment for the month in consideration (referred to in note 11).

Note c) - Bears interest at a rate of one-month banker's acceptances plus 20 basis points per year (4.28% before September 8, 2009 and prior years).

The accompanying notes form an integral part of these financial statements.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

## 1 Creation of Trust and nature of operations

Global Diversified Investment Grade Income Trust (the “**Trust**”) is a limited purpose closed-end income trust which was established under the laws of the Province of Ontario on August 30, 2004 by a trust agreement (TSX: DG.UN). Global DIGIT Management Inc. and GD-I Management Inc. are the co-trustees (together the “**Trustees**”) of the Trust. The Trustees are responsible for the management of the Trust. National Bank of Canada is the administrative agent and Natcan Trust Company acts as custodian of the assets of the Trust. Natcan Trust Company will also act as investment advisor of the Trust if so required by the Trustees. The promoter of the Trust is National Bank Financial Inc. The directors of the Trustees benefit from a liability coverage provided by National Bank of Canada.

The Trust provides its unitholders with a mezzanine exposure to three portfolios (collectively, the “**portfolio**”) containing 128 securities each (December 31, 2009 – 129 securities each) (the “**reference obligations**”), the objective being to provide unitholders with a stream of monthly distributions and to redeem all of the outstanding units on or following September 9, 2014 (the “**expected maturity date**”), but no later than September 9, 2016 (the “**legal maturity date**”). In order to meet its investment objectives, on September 9, 2004, the Trust entered into three credit default swap agreements with a counterparty, MMAI-I Trust (“**MMAI-I**”), which was replaced by Deutsche Bank (the “**Bank**”) on January 20, 2009, following the events described in note 2.

Through to the expected maturity date (or the legal maturity date, as applicable), the redemption price of the Trust’s units and the net asset value of the Trust will vary depending on a number of factors such as the monthly distributions to be made on the units, interest rates, the ratings of the reference obligations and the cumulative net losses incurred upon the occurrence of credit events in the portfolio. Credit events include bankruptcy, failure to pay and other specified loss events.

On October 30, 2007, the Trust entered into amendments for its three credit default swaps with its counterparty. As a result of these amendments, the Trust will not experience any loss under any credit default swaps pursuant to credit events under mortgage-backed securities or asset-backed securities (the “**Contingent Exposure**”) included in the portfolios of reference obligations related to such credit default swaps until the corporate debt exposures (the “**Primary Exposure**”) in such portfolios have all defaulted and their notional amounts have been reduced to zero.

## 2 Restructuring plan

Commencing August 13, 2007, the Canadian third party structured finance asset-backed commercial paper (“**Third Party ABCP**”) market experienced a disruption, in which Third Party ABCP conduits, such as MMAI-I, were unable to repay their commercial paper as they came due. On August 16, 2007, a group of major Canadian investors (the “**Investors Committee**” or “**Committee**”) and market participants reached an agreement aimed at re-establishing normal operations in the Third Party ABCP market. Under the terms of this agreement, holders of Third Party ABCP who were signatories agreed, notably, to continue to hold their Third Party ABCP for a period of 60 days (the “**Standstill Period**”) and, after this period to convert all outstanding Third Party ABCP into term floating rate notes maturing no earlier than the scheduled termination date of the corresponding underlying assets of each conduit. The Standstill Period was further extended until the filing under the Companies Creditors Arrangement Act (“**CCAA**”) on March 17, 2008 and since then, the Standstill

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

Period was extended periodically up to the closing date of the definitive CCAA restructuring plan on January 21, 2009.

On August 14, 2007, MMAI-I notified the Trust that its payments to the Trust were being withheld and that MMAI-I would not be providing the Trust with the necessary funding to pay the distribution of August 15, 2007. Accordingly, the Trust suspended the distribution of \$0.0495 per unit declared on July 18, 2007 and due on August 15, 2007 to the holders of record at the close of business on July 31, 2007. This followed an announcement of a market disruption in asset-backed commercial paper (“**ABCP**”) and the inability of MMAI-I to repay its maturing ABCP.

Further to this development, the Trust entered into a standstill agreement (the “**Standstill Agreement**”) with MMAI-I in order to formalize arrangements between them and preserve their respective rights and entitlements until finalization of a solution. Pursuant to this agreement, all amounts normally paid to the Trust since August were deposited in a segregated account with an escrow agent. The Standstill Agreement was signed on September 27, 2007 and was extended periodically.

On December 14, 2007, the Investors Committee announced a framework for a restructuring plan for the Third Party ABCP. This plan includes the replacement of Third Party ABCP with notes having maturities in line with the underlying assets.

On December 21, 2007, the Trust entered into an agreement in principle to negotiate in good faith a transaction pursuant to which MMAI-I would effectively be replaced by the Bank as counterparty to the three mirror credit default swaps that were in place between the Trust and MMAI-I (the “**Disengagement Transaction**”). Accordingly, the Trust would receive all amounts included in the segregated account and resume distribution payments to unitholders. The Disengagement Transaction would come into effect on a date prior to the date upon which the restructuring of the Third Party ABCP comes into effect or such other date as the parties of the Disengagement Transaction may agree upon.

On March 17, 2008, the Ontario Superior Court of Justice granted an application by the Committee for Third Party ABCP under the provision of the CCAA establishing a procedure for approval of a Plan of compromise and arrangement (the “**Plan**”) by holders of Third Party ABCP (collectively the “**Noteholders**”). A Plan information package was then sent by the Committee to all Noteholders of Third Party ABCP and on April 25, 2008, the Noteholders approved such Plan. Moreover, on June 5, 2008, the Ontario Superior Court of Justice issued a sanction order approving the Plan.

On January 12, 2009 the Committee announced that the Superior Court of Ontario had granted the Plan Implementation Order and on January 20, 2009, the Disengagement Transaction was completed, followed by the ABCP restructuring plan on January 21, 2009. The Trust issued a press release on January 21, 2009 confirming that MMAI-I as counterparty to the credit default swaps with the Trust was replaced by the Bank. As of the date of the Disengagement Transaction, the Bank was rated Aa1 by Moody’s, A+ by Standard and Poor’s Rating Service (“**S&P**”) and AA- with a negative outlook by Fitch.

Following the Disengagement Transaction, all amounts payable to the Trust under the swaps since August 13, 2007 were released to the Trust. As a result, the Trust paid the distribution of \$0.0495 per unit declared on July 18, 2007 on January 30, 2009 and declared two extraordinary cash distributions in January 2009 of \$0.74 and of \$0.57 per unit which were paid on February 13, 2009 and March 13, 2009 respectively.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

## 3 Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the Trustees to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Trustees believe that the estimates used in preparing the financial statements are reasonable. Actual results may differ from those estimates. The significant accounting policies are the following:

### Basis of recognition for income and expenses

Interest income, income other than interest income, as well as income and expenses from credit default swaps are recorded on an accrual basis.

## 4 Fair value of financial instruments

The financial instruments are accounted for at fair value and any transaction fees are included directly in the Statements of Operations. The Trust is an investment company as per *Accounting Guideline 18 – Investment Companies* (“AcG18”) and measures all of its investments at fair value and presents them on this basis in its financial statements. Realized and unrealized gains and losses on such financial instruments are recorded in gains and losses on investment and credit default swaps in the Statements of Operations. The fair value of the financial instruments is determined as follows:

### a) Establishing fair value

When a financial instrument is recognized, its fair value is the amount of consideration for which the financial instrument would be exchanged in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act. The best evidence of the fair value a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration received or given. In certain circumstances, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. At initial recognition, the difference between the transaction price and the initial estimated fair value is recognized in the Statements of Operations when based on observable inputs.

When the financial instruments are subsequently remeasured, quoted market prices in an active market are the best evidence of fair value and, when they exist, the Trust uses them to measure the financial instruments. A financial instrument is considered to be quoted in an active market when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices reflect actual and regularly occurring market transactions on an arm’s length basis. The fair value of a financial asset traded in an active market generally reflects the bid price and, that of a financial liability traded in an active market, the asking price. If the market for a financial instrument is not active, the Trust establishes the fair value by using valuation technique that makes use of observable market data. Such valuation techniques include using available information concerning recent market transactions, referencing to the current fair value of another comparable financial instrument,

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants where it has been demonstrated that the technique provides reliable estimates.

i) Valuation of credit default swaps

The credit default swaps are presented at their fair value with changes in the unrealized gain or loss for the period recorded in the Statements of Operations. As a market quotation is not readily available, the fair value of credit default swaps is established using valuation models. The Trust makes assumptions about the amount, the timing of estimated future cash flows and the discounted rates used. The main inputs are based on factors observable in external markets, such as interest rate yield curves and credit curves. Their fair value will also vary depending on a number of factors such as interest rates, the credit ratings and credit spreads of the reference obligations and the cumulative net losses incurred upon the occurrence of credit events in the portfolio of securities. Credit events include bankruptcy, failure to pay and other specified loss events.

ii) Investment and credit default swaps receivable

The fair value of the investment and the credit default swaps receivable is determined by discounting the estimated cash flows at the current market rate for similar instruments.

iii) Other financial instruments

The carrying value of a number of short-term financial instruments presented in the Statements of Net Assets approximates their fair value. These financial instruments include short-term investments, other assets, accounts payable and accrued liabilities, credit default swaps payable and distributions payable.

**b) Fair value hierarchy**

Financial instruments recorded at fair value on the Statements of Net Assets are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The following table presents the financial instruments recorded at fair value in the Statements of Net Assets on a recurring basis, classified using the fair value hierarchy described above:

## June 30, 2010

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Investment	-	38,295,255	-	38,295,255
Credit default swaps receivable	-	18,417,796	-	18,417,796
Short-term investments	-	2,004,984	-	2,004,984
Cash	158,490	-	-	158,490
<b>Total financial assets</b>	<u>158,490</u>	<u>58,718,035</u>	<u>-</u>	<u>58,876,525</u>
<b>Financial liabilities</b>				
Credit default swaps related liability	-	38,173,080	-	38,173,080
<b>Total financial liabilities</b>	<u>-</u>	<u>38,173,080</u>	<u>-</u>	<u>38,173,080</u>

No transfers were made between fair value measurement hierarchy levels during the period.

## 5 Management of risks associated with financial instruments

The Trust is exposed to various types of risks owing to the nature of the business activities it carries on, including those related to the use of financial instruments. In order to manage the risks associated with using financial instruments, whenever applicable, controls consistent with the Trust's strategy have been implemented, such as limited permitted financial instruments. The main risks to which the Trust is exposed are described below:

### *Market risk*

Market risk corresponds to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk associated with financial instruments comprises currency risk, interest rate risk, credit risk, liquidity risk and other price risks. More specifically, through to the expected maturity date of the credit default swaps, their fair value will vary depending on a number of factors such as interest rates, the credit ratings and credit spreads of the reference obligations and the cumulative net losses incurred upon the occurrence of credit events in the portfolio of securities. Credit events include bankruptcy, failure to pay and other specified loss events. Since the Trust's objective is to provide Unitholders with an economic interest in exposures relating to the performance of the underlying portfolio of securities, there is no principal protection. Market rates can vary and cause fluctuations in the fair value of the term deposit. As of June 30, 2010, the effect of an increase or a decrease of 100 basis points on the September 2005 CDX.NA.IG 3/7 index (a North America Corporate Investment Grade Index with an attachment point of 3% and a detachment point of 7%), on the Trust's credit default swaps would result respectively in a \$752,000 decrease or increase (December 31, 2009 - \$1,157,000 decrease or increase) in the fair value on the Trust's credit default swaps. In addition, there is a discount rate associated with the term deposit and long-term

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

receivable. The effect of an increase or a decrease of 100 basis points in the discount rate on the term deposit and the long-term receivable would result respectively in a \$2,317,000 decrease or \$2,441,000 increase (December 31, 2009 - 2,452,000 decrease or \$2,686,000 increase) in the fair value on the Trust's term deposit and the long-term receivable.

## *Credit risk*

The credit risk is the risk of financial loss arising from a counterparty's inability or failure to honour its contractual obligations. The amount that best represents the maximum exposure to credit risk of the Trust as at June 30, 2010 and December 31, 2009 is the sum of financial assets on the Statements on Net Assets. As described above, the credit default swap has also significant credit risk exposure with respect to the reference obligations included in the portfolios and counterparty credit risk. The Primary risk resides with static (no changes) corporate exposures while the Contingent risk is on asset backed securities managed by the Trust as per the criteria established in the credit default swaps (referred to in notes 8 and 11).

## *Liquidity risk*

The liquidity risk represents the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Trust's overall liquidity is managed in accordance with policies to ensure that the Trust has sufficient cash resources to meet its current and future obligations, both under normal and unusual conditions. The financial liabilities of the Trust mature on a monthly basis except for the credit default swaps related liability. The credit default swaps related liability pertains to the credit default swap agreements with the Bank and is expected to mature in September 2014 but no later than September 2016. Under the credit default swap agreements, the term deposit investment is pledged to the Bank. The amounts recoverable on the expected maturity date of the investment and of the long-term receivable (or the legal maturity date, as applicable) will be reduced by any loss incurred as a result of credit events. The maximum loss that could be borne by the Trust for credit events with respect to the reference obligations under swap agreements D, E and F amounts to \$57,838,000 (December 31, 2009 – \$57,838,000).

## **6 Carrying values of financial assets and liabilities by category**

Financial assets and liabilities are recognized in the Statements of Net Assets at fair value, cost or amortized cost which approximates their fair value according to the categories determined by the accounting framework for financial instruments. The carrying value for each category of financial asset and liability are presented in the table below:

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

June 30, 2010	Held for trading	Loans and receivables	Financial liabilities at cost or amortized cost
<b>Financial assets</b>			
Investment (a)	38,295,255	-	-
Credit default swaps receivable (a)	18,417,796	-	-
Short-term investments (a)	2,004,984	-	-
Cash	158,490	-	-
Interest receivable on investment and credit default swaps receivable	-	26,132	-
Other assets	-	300,373	-
<b>Total financial assets</b>	<b>58,876,525</b>	<b>326,505</b>	<b>-</b>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	-	-	141,808
Credit default swaps payable	-	-	144,893
Distributions payable	-	-	136,175
Credit default swaps related liability	38,173,080	-	-
<b>Total financial liabilities</b>	<b>38,173,080</b>	<b>-</b>	<b>422,876</b>

a) Measured at fair value as per AcG-18.

December 31, 2009	Held for trading	Loans and receivables	Financial liabilities at cost or amortized cost
<b>Financial assets</b>			
Investment (a)	38,715,146	-	-
Credit default swaps receivable (a)	17,549,660	-	-
Short-term investments (a)	1,999,810	-	-
Cash	119,659	-	-
Interest receivable on investment and credit default swaps receivable	-	23,599	-
Other assets	-	317,684	-
<b>Total financial assets</b>	<b>58,384,275</b>	<b>341,283</b>	<b>-</b>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	-	-	177,830
Credit default swaps payable	-	-	147,308
Distributions payable	-	-	123,795
Credit default swaps related liability	34,413,610	-	-
<b>Total financial liabilities</b>	<b>34,413,610</b>	<b>-</b>	<b>448,933</b>

a) Measured at fair value as per AcG-18.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

## 7 Investment

The investment consists of a term deposit note issued on an unsubordinated and non-guaranteed basis by National Bank of Canada having a long-term solvency rating of A from S&P.

The term deposit has a fair value of \$38,295,255 (December 31, 2009 – \$38,715,146), with a nominal amount of \$39,054,872 (December 31, 2009 – \$39,797,642), bears interest at a rate of one-month banker's acceptances plus 20 basis points per year (4.28% before September 8, 2009 and prior years), payable monthly until September 2014.

Under the credit default swap agreements and following the Disengagement Transaction described in note 2, the term deposit investment is pledged to the Bank since January 20, 2009. The amounts recoverable on the expected maturity date of the investment (or the legal maturity date, as applicable) will be reduced by any loss incurred as a result of credit events in excess of the subordination under the credit default swaps.

## 8 Credit default swaps receivable

The fair value of the total credit default swaps receivable of \$18,417,796 (December 31, 2009 – \$17,549,660) from the Bank represents the best possible estimate of the amount for which reasonable assurance of collection exists in light of current conditions and assuming the continuation of the business as a "going concern". On June 30, 2010, the nominal amount of the credit default swaps receivable is \$18,783,128 (December 31, 2009 – \$18,040,358). The credit default swaps receivable matures in September 2014 and bears interest at a rate of one-month banker's acceptances plus 20 basis points per year (4.28% before September 8, 2009 and prior years), payable monthly until September 2014.

## 9 Short-term investments

On March 15, 2010, the Trust purchased four term deposits from Bank of Montreal for a total amount of \$2,000,000. The Trust has an option to redeem these term deposits at par on a monthly basis until March 15, 2011. After this date, the term deposits will expire on March 15, 2013 with no other early redemption. The Trust intends to redeem such deposits on or before March 15, 2011 and has therefore recorded them as short-term investments. The term deposits bear interest at a yield of 0.85% and include accrued interest of \$4,984. On June 30, 2009, the Trust has invested cash in bankers' acceptances maturing in July 2009 at a weighted average yield of 0.23%.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

## 10 Other assets

The other assets of \$300,373 (December 31, 2009 – \$317,684) are composed of the short-term receivable corresponding to the amounts that were accrued monthly by the Bank (or MMAI-I before the Disengagement Transaction) for the benefit of the Trust, the financial contract fees receivable and of other account receivable. Following the Disengagement Transaction, all amounts payable to the Trust under the swaps since August 13, 2007 were released to the Trust by MMAI-I.

Other assets	2010	2009
	\$	\$
Short-term receivable (financial contract fees)	287,833	294,586
Other receivables	12,540	23,098
	<hr/>	<hr/>
Total	300,373	317,684

## 11 Derivative financial instruments and reference obligation portfolios

### Credit default swap agreements with the Bank

Following the Disengagement Transaction described in note 2, MMAI-I was replaced by the Bank effective January 20, 2009. The Trust has entered into three credit default swap agreements (“**swap agreements D, E and F**”) with the Bank, pursuant to which the Trust will pay the Bank if credit events occur in connection with the reference obligations until September 2014 at the earliest and September 2016 at the latest. The maximum loss that may be incurred for credit events with respect to swap agreements D, E and F amounts to \$57,838,000 (December 31, 2009 – \$57,838,000). Under swap agreements D, E and F, a monthly payment by the Trust to the Bank corresponding to a contractual rate of 3.08% is applied to the notional amount of the contracts and the contractual interest rate of one-month banker’s acceptances plus 20 basis points per year (4.28% before September 8, 2009 and prior years) is applied to the investments pledged as security. These amounts are exchanged between the Trust and the Bank with the net return being paid to the Trust. On a monthly basis, the Bank acquires from the Trust a contractually determined portion of the term deposit pledged as security as defined in the supplemental long form prospectus filed on August 31, 2004; this portion is equal to the monthly payment for the month in consideration.

The Bank will pay at term an amount equal to the excess of the notional amount of the contracts less the net losses incurred on those contracts over the residual amount of the investments pledged as security.

The aggregate notional amount of swap agreements D, E and F as at June 30, 2010 totalled \$57,838,000 (December 31, 2009 – \$57,838,000) for the reference obligation portfolios of \$22,184,112,250 (December 31, 2009 – \$22,184,112,250). The Trust estimated the cumulative unrealized loss of the swap agreements D, E and F and the credit default swaps related liability as at June 30, 2010 at \$38,173,080 (December 31, 2009 – cumulative unrealized loss of \$34,413,610) which amount is consistent with the valuation of the Bank.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

## Credit risk

As a result of entering into the credit default swap agreements with the Bank, the Trust is exposed to credit risk with respect to the reference obligations included in the portfolio. Credit events (bankruptcy, failure to pay or other loss event) in relation to the reference obligations could result in a loss for the Trust. The maximum loss that could be borne by the Trust for credit events with respect to the reference obligations under swap agreements D, E and F amounts to \$57,838,000 (December 31, 2009 – \$57,838,000).

Additionally, the Trust is exposed to counterparty credit risk arising from any unrealized gain on the credit default swaps, plus any amount receivable from the counterparty. The net counterparty credit risk exposure (credit default swaps receivable plus the total of the short-term receivable presented in the other assets minus credit default swaps payable) on June 30, 2010 was \$18,560,736 (December 31, 2009 – \$17,696,938).

## Credit events

During the period ended June 30, 2010, the Trust experienced one credit event with respect to Ambac Assurance Corporation and the recovery rate for such credit event was 20%. The following table summarizes the 11 credit events experienced so far:

<u>Entity</u>	<u>Date</u>	<u>Recovery Rate</u>
Delphi Corporation	October 2005	63.000%
Federal National Mortgage Association	October 2008	91.510%
Federal Home Loan Mortgage Corporation	October 2008	94.000%
Lehman Brothers Holdings Inc.	October 2008	8.625%
Controladora Comercial Mexicana SAB	October 2008	44.000%
Idearc Inc.	March 2009	1.750%
Syncora Guarantee Inc.	May 2009	15.000%
Chemtura Corporation	May 2009	18.250%
General Motors Corporation	June 2009	12.500%
CIT Group Inc.	November 2009	68.125%
Ambac Assurance Corporation	March 2010	20.000%

As described in note 1, the Trust will not experience any loss under the CDS pursuant to credit events under mortgage-backed securities or asset-backed securities (the “**Contingent Exposure**”) included in the portfolio of reference obligations in the CDS until the corporate debt exposures (the “**Primary Exposure**”) in such portfolio have all defaulted and their notional amount has been reduced to zero. The Primary Exposure consists of multiple tranching exposures within five corporate portfolios with attachment points (the point in the capital structure where the exposure to losses in the portfolio begins) at inception varying between 7.85% and 11.00% and detachment points (the point in the capital structure where the exposure to losses ends) at inception varying between 9.55% and 13.00%. Subsequent to the aforementioned credit events, the attachment points now vary between 2.90% and 7.50% and the detachment points, between 4.60% and 9.50%. Therefore the corporate debt exposures have less subordination but the Trust has not experienced any loss.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

## Reference obligation portfolios

The Trust has exposure to three portfolios within three separate swap agreements (D, E, and F) with an aggregate notional amount as at June 30, 2010 totalling \$57,838,000 (December 31, 2009 – \$57,838,000). Each of the three portfolios refers to five corporate debt exposures comprised of 93, 94, 93, 95 and 95 reference obligations, respectively (December 31, 2009 – 94, 94, 94, 96 and 96). The payments under the swaps are made on a monthly basis. Each portfolio has exposure to different tranches of the same five synthetic corporate CDOs (the Primary Exposure) and the same asset backed security portfolio (the Contingent Exposure).

The composition by asset class as at June 30, 2010 and December 31, 2009 in each portfolio was as follows:

Asset class	June 30, 2010		December 31, 2009	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Consumer asset-backed securities(i)	36	22.0	37	22.4
Residential mortgage-backed securities(i)	87	53.0	87	52.6
Corporate debt exposures(ii)	5	25.0	5	25.0
	128	100.0	129	100.0

i) Contingent Exposure since the October 2007 amendment

ii) Primary Exposure since the October 2007 amendment.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

## The Primary Exposure

The reference obligations underlying the static corporate debt exposures for the three portfolios had a S&P average weighted rating of BBB-/BB+ as of June 30, 2010 and December 31, 2009. The weighted average rating is calculated by adding the product of the notional amount of each reference obligation and its assigned S&P rating factor and dividing such sum by the total notional amount and by assigning such result to the corresponding S&P rating. The S&P equivalent ratings as of June 30, 2010 and December 31, 2009 in each portfolio were distributed as follows:

Rating	June 30, 2010	December 31, 2009
	(by equivalent S&P rating*)	(by equivalent S&P rating*)
	% of Assets	% of Assets
AAA	0.64	0.64
AA+	1.29	1.28
AA	2.36	2.34
AA-	3.23	3.20
A+	5.80	6.59
A	14.33	14.21
A-	12.13	10.96
BBB+	11.78	13.60
BBB	10.50	10.84
BBB-	12.21	10.82
BB+	4.27	2.74
BB	2.57	5.11
BB-	4.94	3.62
B+	2.37	3.20
B	3.42	1.70
B-	2.37	1.92
CCC+	0.64	0.64
CCC	-	1.48
CC	-	0.85
C	-	-
Not Rated	5.15	4.26
Total	100.00	100.00

\* S&P rating if available, if not then Moody's rating and if no S&P or Moody's ratings are available then the rating from Fitch is used.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

## The Contingent Exposure

The reference obligations underlying of the mortgage-backed securities and asset-backed securities for the three portfolios had a S&P average weighted rating of AAA/AA+ as of June 30, 2010 and December 31, 2009. As of June 30, 2010 and December 31, 2009, the S&P equivalent ratings of the mortgage-backed securities and asset-backed securities of the three reference portfolios were distributed as follows:

Rating	June 30, 2010	December 31, 2009
	(by equivalent S&P rating*)	(by equivalent S&P rating*)
	% of Assets	% of Assets
AAA	98.4	98.4
AA	-	-
A	1.6	1.6
Total	100.0	100.0

\* S&P rating if available, if not then Moody's rating and if no S&P or Moody's ratings are available then the rating from Fitch is used.

The three swap agreements are as follows:

### ***Swap Agreement D***

Swap Agreement D refers to the credit performance of 128 reference obligations as at June 30, 2010 (December 31, 2009 – 129). Within this Portfolio, there are five underlying corporate portfolios (the Primary Exposure) to which the Trust has tranching exposures with attachment points varying between 4.63% and 7.45% (December 31, 2009 – 5.43% and 7.45%) and detachment points varying between 6.33% and 9.45% (December 31, 2009 - 7.13% and 9.45%).

### ***Swap Agreement E***

Swap Agreement E refers to the credit performance of 128 reference obligations as at June 30, 2010 (December 31, 2009 – 129). Within this Portfolio, there are five underlying corporate portfolios (the Primary Exposure) to which the Trust has tranching exposures with attachment points varying between 2.90% and 7.50% (December 31, 2009 - 3.70% and 8.30%) and detachment points varying between 4.60% and 9.50% (December 31, 2009 - 5.40% and 10.30%).

### ***Swap Agreement F***

Swap Agreement F refers to the credit performance of 128 reference obligations as at June 30, 2010 (December 31, 2009 – 129). Within this Portfolio, there are five underlying corporate portfolios (the Primary Exposure) to which the Trust has tranching exposures with attachment points varying between 4.35% and 7.45% (December 31, 2009 - 5.15% and 7.45%) and detachment points varying between 6.05% and 9.45% (December 31, 2009 - 6.85% and 9.45%).

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

## 12 Servicing fees

The Trust previously incurred investment advisor servicing fees equal to 0.25% per annum of the outstanding amount (net proceeds of the offering less any losses) on a per-unit basis held by clients of such investment advisors.

On March 18, 2009, the Trust paid servicing fees for an amount of \$196,564 for the period from August 1, 2007 to February 28, 2009, based on the net assets value per-unit instead of the outstanding amount representing an amount of \$385,979. As a result of this decision, the Trust recorded on June 30, 2009, a reduction in servicing fees of \$189,415 and a related expense of \$46,950. In addition, since March 2009, the Trust is no longer paying any servicing fees to the investment advisors.

## 13 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 the Act on the amount of taxable income for the year and can make deductions in computing its income tax for all amounts paid or payable to the Trust's unitholders in determining its income for tax purposes.

Any amount payable under the credit default swaps is considered to be payable under the swap agreements and is taxable as such. According to the terms of the swap agreements, the amount will be determinable only on the expected maturity date (or the legal maturity date, as applicable) and therefore, the swap payment to the Trust should only be taxable as income at that date only.

## 14 Unitholders' equity

### 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 entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust.

### Quarterly Redemption

Units may be surrendered to the Administrative Agent for redemption at any time prior to the 20<sup>th</sup> business day preceding the last business day of each months of February, May, August and November (the "**Redemption Date**"). Subject to the right of the Trust to suspend redemptions in certain circumstances, units surrendered for redemption will be redeemed on such Redemption Date at the redemption price. The payment of the redemption price will be made on the 10<sup>th</sup> business day following the Redemption Date.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

The redemption price will be equal to the lesser of:

- a) 95% of the daily weighted average trading price per unit on the principal exchange on which the units are listed for the five trading days following 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 markets 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.

## Annual redemption

Units may also be surrendered to the Administrative Agent for redemption at any time prior to the 20<sup>th</sup> business day preceding the last business day of August (the “**Annual Redemption Date**”). Subject to the right of the Trust to suspend redemptions in certain circumstances, units surrendered for redemption will be redeemed on such Annual Redemption Date at the unwind price. The payment of the unwind price will be made on the 10<sup>th</sup> business day following the Annual Redemption Date. The unwind price will be an amount equal to the sum of (i) the bid price received by the Trust to terminate the applicable tranche of swap agreements D, E and F and (ii) the market value of the tranche of the Trust’s \$39,054,872 (December 31, 2009 – \$39,797,642) term deposit and long-term receivable of credit default swap of \$18,793,128 (December 31, 2009 – \$18,040,358), less applicable unwind costs.

No transactions took place during the six month period ended June 30:

<b>Number of units</b>	<b>2010</b>	<b>2009</b>
Balance – Beginning and end of period	<u>6,189,750</u>	<u>9,751,054</u>

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

Unitholders' equity is made up of capital issued, deficit, contributed surplus and reserve for on-going cost. The following transactions took place during the six month period ended June 30:

	2010 \$	2009 \$
<b>Capital issued</b>		
Balance – Beginning of period	35,470,597	73,487,272
Return of capital to unitholders	(755,150)	(15,864,965)
	<hr/>	<hr/>
Balance – End of period	34,715,447	57,622,307
<b>Deficit</b>		
Balance – Beginning of period	(22,841,144)	(62,320,109)
Transfer of on-going cost of the period	100,121	16,712
Increase (decrease) in net assets from operations	(2,500,791)	29,975,186
	<hr/>	<hr/>
Balance – End of period	(25,241,814)	(32,328,211)
<b>Contributed surplus (a)</b>	<hr/>	<hr/>
	9,915,472	-
<b>Reserve for on-going cost</b>		
Balance – Beginning of period	1,318,090	281,138
Transfer to deficit of the period	(100,121)	(16,712)
	<hr/>	<hr/>
Balance – End of period	1,217,969	264,426
<b>Net Assets representing Unitholders' Equity</b>	<hr/>	<hr/>
	20,607,074	25,558,522

- a) On August 31, 2009, a notice of redemption of 3,561,304 units from unitholders of the Trust was received. The Trust recorded an amount of \$9,915,472 in the contributed surplus corresponding to the reduction of capital of \$20,691,176 or \$5.81 per unit minus the amount paid to unitholders of \$9,651,134 or \$2.71 per unit and the reserve for on-going cost of \$1,124,570 or \$0.32 per unit.

From January 1, 2007 to August 13, 2007, there were no redemptions. Due to the events since August 13, 2007 described in note 2, all redemptions were suspended until the Plan has been successfully concluded. A total of 209,100 units had been surrendered for the annual August 31, 2007 redemption. Since all redemptions were suspended on August 28, 2007, these units were therefore not redeemed and returned to the unitholders. Following the Disengagement Transaction described in note 2, the quarterly and annual redemptions resumed.

As at June 30, 2010 and December 31, 2009, National Bank of Canada and its subsidiaries held 1.4% of the outstanding units of the Trust.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

## Distributions and management of Unitholders equity

The Trustees manage the capital of the Trust corresponding to the Unitholders' equity with the goal to ensure that it will be able to continue as a going concern while maximising the return to the Unitholders.

The objectives of the Trust are to provide Unitholders with a fixed rate stream of monthly distributions equal to \$0.0495 per unit (\$0.594 per annum) up to on or about September 7, 2009 and thereafter, a floating distribution rate equal to the rate of bankers acceptances plus 2% and to repay to Unitholders on or about September, 2014 (the "**Expected Maturity Date**"), but no later than on or about September 7, 2016 (the "**Legal Maturity Date**"), an amount equal to the residual value of the Trust. The distributions declared by the Trust are accounted for once declared but are payable on the tenth business day of the following month.

From August 13, 2007 to December 31, 2008, distributions have not been declared. Following the Disengagement Transaction, all amounts payable to the Trust under the swaps since August 13, 2007 were released to the Trust. As a result, the Trust resumed the monthly distribution of \$0.0495 per unit, paid the distribution declared on July 18, 2007 on January 30, 2009 and declared two extraordinary cash distributions in January 2009 of \$0.74 and of \$0.57 per unit which were paid on February 13, 2009 and March 13, 2009, respectively. In addition, on March 13, 2009, the Trust has declared a special distribution of \$0.02 per unit, paid on April 16, 2009 as a result of the reduction in the payment of the servicing fees (referred to in note 12).

## 15 Related party transactions

The Trustees are responsible for the management of the Trust. National Bank of Canada is the administrative agent. Natcan Trust Company, a subsidiary of National Bank of Canada, acts as custodian of the assets of the Trust. Natcan Trust Company will also act as investment advisor of the Trust if so required by the Trustees. The promoter, and therefore one of the investment advisor of the Trust, is National Bank Financial, a subsidiary of National Bank of Canada. The term deposit referred to in note 7 has been subscribed from National Bank of Canada. In addition to the transactions separately identified in these financial statements, the following transactions took place during the six month period ended June 30:

Expenses incurred during the period		2010	2009
		\$	\$
Global DIGIT Management Inc	Director fees of the trustees	31,090	40,741
GD-I Management Inc.	Director fees of the trustees	31,089	40,741
National Bank of Canada	Administration agent fees	14,175	14,286
National Bank Financial	Servicing fees	-	(40,075)
Natcan Trust	Custody fees	3,514	8,500
		<hr/>	<hr/>
		79,868	64,193

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements (Unaudited)

As at June 30, 2010

---

<b>Accounts payable and accrued liabilities</b>	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	\$	\$
Global DIGIT Management Inc	4,835	2,566
GD-I Management Inc.	4,835	2,566
National Bank of Canada	7,088	7,088
Natcan Trust	2,600	3,900
	<u>19,358</u>	<u>16,120</u>

These transactions occurred in the normal course of business and were measured at the exchange value, which is the amount established and agreed between the related parties.

## 16 Comparative figure

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