

# **Global Diversified Investment Grade Income Trust**

Financial Statements  
**December 31, 2007 and 2006**

April 11, 2008

## **Auditors' Report**

**To the Unitholders of  
Global Diversified Investment Grade Income Trust**

We have audited the statements of net assets of **Global Diversified Investment Grade Income Trust** as at December 31, 2007 and 2006 and the statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Trustees. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2007 and 2006 and the results of its operations, and the changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants**

**Montréal, Canada**

# Global Diversified Investment Grade Income Trust

Statements of Net Assets

As at December 31, 2007 and 2006

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	2007 \$	2006 \$ (Adjusted note 3a)ii)
<b>Assets</b>		
Investment (note 4)	68,846,053	78,219,542
Credit default swaps receivable (note 5)	22,580,355	15,689,103
Cash	122,828	423,000
Interest receivable on investment and credit default swaps receivable	288,476	288,476
Other	55,057	12,699
	<hr/> 91,892,769	<hr/> 94,632,820
<b>Liabilities</b>		
Accounts payable and accrued liabilities	366,204	514,324
Credit default swaps payable	498,954	498,954
Distributions payable	482,677	482,677
Credit default swaps related liability (note 6)	16,856,460	1,366,740
	<hr/> 18,204,295	<hr/> 2,862,695
<b>Net Assets representing Unitholders' Equity</b> (note 9)	<hr/> 73,688,474	<hr/> 91,770,125
<b>Number of units outstanding</b> (note 9)	<hr/> 9,751,054	<hr/> 9,751,054
<b>Net assets per unit</b>	<hr/> \$7.56	<hr/> \$9.41

**Going concern and contingencies** (note 2)

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

**Approved by the Trustees, Metcalfe & Mansfield Alternative Investments Corp. and  
4227298 Canada Inc.**

Claude Dalphond Director  
Claude Dalphond

Benoît Deschamps Director  
Benoît Deschamps

# Global Diversified Investment Grade Income Trust

## Statements of Operations

For the years ended December 31, 2007 and 2006

	2007 \$	2006 \$ (Adjusted note 3a)ii)
<b>Investment income</b>		
Interest on investment and credit default swaps receivable	3,899,765	4,157,076
Income from credit default swaps	11,773,084	10,503,721
Interest on cash	8,430	16,065
Change in unrealized depreciation in value of investment and credit default swaps receivable	(6,557,619)	-
Change in unrealized net depreciation in value of credit default swaps	(15,489,720)	(366,740)
Realized loss on partial settlement of credit default swaps	-	(257,636)
Realized loss on sale of investment and credit default swaps receivable	-	(79,956)
	<u>(6,366,060)</u>	<u>13,972,530</u>
<b>Investment-related expenses</b>		
Expenses on credit default swaps	6,745,114	7,190,166
Follow-up fees (note 7)	237,816	261,141
	<u>6,982,930</u>	<u>7,451,307</u>
<b>Net investment income (loss) before administrative expenses</b>	<u>(13,348,990)</u>	<u>6,521,223</u>
<b>Administrative expenses</b>		
Audit fees	97,159	103,062
Legal fees	264,480	165,560
Directors' fees	88,331	55,222
Administrative agent fees	31,931	60,634
Custodial fees	13,438	15,002
Regulatory fees	44,710	36,476
Insurance	12,000	8,785
Independent review committee fees	61,098	-
	<u>613,147</u>	<u>444,741</u>
<b>Net income (loss) for the year</b>	<u>(13,962,137)</u>	<u>6,076,482</u>
<b>Net income (loss) for the year per unit</b>	<u>\$(1.43)</u>	<u>\$0.62</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 years ended December 31, 2007 and 2006

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	2007 \$	2006 \$ (Adjusted note 3a)ii))
<b>Net income (loss) for the year</b>	(13,962,137)	6,076,482
<b>Distributions to unitholders</b>		
Return of capital (note 9)	(3,378,741)	(6,169,681)
<b>Impact of initial adoption of financial instrument standards</b> (note 3a)iii))	(740,773)	-
<b>Equity transactions</b> (note 9)	-	(8,830,879)
<b>Decrease in net assets during the year</b>	(18,081,651)	(8,924,078)
<b>Net assets – Beginning of year</b>	91,770,125	100,694,203
<b>Net assets – End of year</b>	73,688,474	91,770,125

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

# Global Diversified Investment Grade Income Trust

## Statements of Cash Flows

For the years ended December 31, 2007 and 2006

	2007 \$	2006 \$ (Adjusted note 3a)ii)
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net income (loss) for the year	(13,962,137)	6,076,482
Adjustments for		
Change in unrealized net depreciation in value of credit default swaps	15,489,720	366,740
Change in unrealized depreciation in value of investment and credit default swaps receivable	6,557,619	-
Decrease in interest receivable on investment and credit default swaps receivable	-	28,127
Increase in credit default swaps receivable	(8,194,896)	(5,539,530)
Decrease in investment	3,378,741	6,217,273
Decrease (increase) in other assets	(42,358)	6,169
Increase (decrease) in accounts payable and accrued liabilities	(148,120)	327,005
Decrease in credit default swaps payable	-	(48,649)
Realized loss on sale of investment and credit default swaps receivable	-	79,956
	<u>17,040,706</u>	<u>1,437,091</u>
	<u>3,078,569</u>	<u>7,513,573</u>
<b>Investing activities</b>		
Proceeds from sale of investment and credit default swaps receivable	-	7,687,743
<b>Financing activities</b>		
Redemption of units	-	(8,830,879)
Distributions paid to unitholders	(3,378,741)	(6,217,273)
	<u>(3,378,741)</u>	<u>(15,048,152)</u>
<b>Increase (decrease) in cash during the year</b>	(300,172)	153,164
<b>Cash – Beginning of year</b>	<u>423,000</u>	<u>269,836</u>
<b>Cash – End of year</b>	<u>122,828</u>	<u>423,000</u>

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

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

December 31, 2007 and 2006

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## 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. Metcalfe & Mansfield Alternative Investments Corp. and 4227298 Canada Inc. are the trustees (together the “Trustees”) of the Trust. National Bank of Canada acts as administrative agent since October 16, 2006. Natcan Trust Company acts as custodian of the assets of the Trust and transfer agent and registrar of its units. 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 an indemnity provided by National Bank of Canada.

The Trust provides its unitholders with an exposure to three portfolios (collectively, the “portfolio”) containing 151 securities each (2006 – 76, 91, 80) (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 itself entered into six credit default swap agreements with a counterparty, Deutsche Bank (the “Bank”). Three of the six credit default swap agreements MMAI-I entered into with the Bank are a mirror image of the three credit default swaps the Trust entered into with MMAI-I.

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 an amendment for its three credit default swaps with MMAI-I. 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 included in the portfolios of reference obligations related to such credit default swaps until the synthetic corporate exposures in such portfolios have all defaulted and their notional amounts have been reduced to zero.

## 2 Going concern and contingencies

Commencing August 13, 2007, the Canadian third party structured finance asset-backed commercial paper (“Third Party ABCP”) market experienced a disruption, in which the Third Party ABCP conduits, such as MMAI-I, were unable to place their paper and 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 are 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 to a filing under the Companies Creditors Arrangement Act (“CCAA”) on March 17, 2008.

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

December 31, 2007 and 2006

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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 roll its maturing ABCP.

Further to this development, the Trust entered into a 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 agreement was signed on September 27, 2007 and was extended to April 25, 2008.

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 are presently 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 should come into effect on 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"). An information package was then sent by the Committee to all Noteholders of Third Party ABCP and on April 25, 2008, the Noteholders will be asked to approve such Plan. Subject to obtaining the Noteholders' approval, final court approval and regulatory approval, it is anticipated that the Plan will be implemented on or about May 23, 2008. Approval of the Plan is one of the required conditions for implementation of the Disengagement Transaction.

If Noteholders vote in favour of the Plan, a further hearing will be held before the Court to secure its final sanction of the Plan.

There is no assurance that the Plan and the Disengagement Transaction will be implemented. Should there be no successful restructuring of MMAI-I's debt, it is unlikely that it will be possible to release to the Trust the collateral, or the proceeds from the sale of collateral, unless the swaps are terminated. Even in such a case, however, it has not yet been determined whether or not the Trust would be entitled to receive, in its entirety, the balance of the collateral if MMAI-I were unable to pay its debt holders. In any event, a termination of the swaps may result in a significant shortfall to the Trust and possibly an elimination of payments that the Trust would otherwise receive if the swaps were terminated in circumstances where MMAI-I was able to pay interest and principal on its debt. At the present time, it is not possible to determine either the likelihood or size of such shortfall. The Trust's continued existence is dependent on the successful completion of these agreements. These conditions cast significant doubt as to the Trust's ability to continue as a going concern.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

December 31, 2007 and 2006

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The Trust's administrative agent and the Trustees are confident that the Plan will be approved and that the Disengagement Transaction between MMAI-I and the Trust can then be implemented.

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Trust be unable to continue as a going concern and be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of operations and at amounts which may be materially different from those in the accompanying financial statements.

### 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.

#### a) Recent accounting standards adopted

##### i) Accounting changes

On January 1, 2007, the Trust adopted Section 1506 of the Canadian Institute of Chartered Accountants ("CICA") Handbook, "Accounting Changes" published in July 2006, which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This standard did not affect the Trust's results or financial position.

##### ii) Consolidation of variable interest entity

The Trust adopted amendments made by the CICA to the following accounting guidelines: "Consolidation of Variable Interest Entities" ("AcG-15") and "Investment Companies" ("AcG-18"). Under these guidelines, investment companies that are the principal beneficiaries of a variable interest entity ("VIE"), which itself is also an investment company, may no longer consolidate this entity, except under certain circumstances specified in AcG-18.

The application of these amended guidelines led to the deconsolidation of MMAI-I, an investment company which is a VIE of the Trust.

The accounting changes were applied retroactively and the comparative financial statements were adjusted to reflect the impact of the amended guidelines. As at December 31, 2006, these changes had the following impacts:

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

December 31, 2007 and 2006

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	\$
<b>Assets</b>	
Decrease in investment	(1,400,000,000)
Increase in credit default swaps receivable	1,117,165
Decrease in cash	(77,763)
Decrease in interest receivable on investment and credit default swaps receivable	(4,971,257)
Decrease in prepaid expenses	(11,309,939)
Decrease in interest rate swap related asset	(97,191)
	<u>(1,415,338,985)</u>
<b>Liabilities</b>	
Decrease in accounts payable and accrued liabilities	(2,729,418)
Decrease in brokers' commissions payable	(281,010)
Decrease in credit default swaps payable	(678,425)
Decrease in commercial paper	(1,074,654,813)
Decrease in floating rate notes	(325,000,000)
Decrease in placement and structuring fee note	(11,898,126)
	<u>(1,415,241,792)</u>
<b>Decrease in net assets</b>	(97,193)
<b>Decrease in net assets per unit</b>	(0.01)
<b>Decrease in net income for the year</b>	(482,655)
<b>Decrease in net income for the year per unit</b>	(0.05)

### iii) Financial instruments

In December 2006, the CICA published two new accounting standards entitled "Financial Instruments – Recognition and Measurement" (Section 3855); and "Financial Instruments – Disclosure and Presentation" (Section 3861). These standards were adopted by the Trust on January 1, 2007.

#### Recognition and measurement

The Section 3855 establishes standards of measurement for the fair valuation of financial instruments. The adoption of this Section resulted in the use of different valuation techniques for financial instruments.

The change in accounting policy is treated retrospectively without restatement. The opening balances of financial instruments and net assets as at January 1, 2007 have been decreased by an amount of \$740,773. However, the effect of the accounting policy changes on the net asset value per unit presented for 2006 after deconsolidation would have been a reduction of \$0.07 per unit to \$9.34 per unit.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

December 31, 2007 and 2006

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## Disclosure and presentation

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives, and identifies information that should be disclosed about them.

### **b) Fair value of financial instruments**

The financial instruments are accounted for at fair value. The fair value of the financial instruments is determined as follows.

#### Adoption of Section 3855

##### i) Valuation of credit default swaps

The credit default swaps are presented at their fair value with changes in the unrealized gain or loss of the period recorded in the statement of operations. The fair value represents the amount for which a financial instrument could be exchanged in an arm's-length transaction between willing parties under no compulsion to act. As a market quotation is not readily available, the fair values presented are estimated using available sources of information and commonly used valuation techniques. The fair value is established using valuation models, the Trust makes assumptions about the amount, the timing of estimated future cash flows and the discounted rates used. Whenever possible, these assumptions are based on factors observable in external markets, such as interest rate yield curves, volatility factors and credit curves.

##### ii) Investment and credit default swaps receivable

The fair value of the fixed-rate term deposit, floating-rate term deposit 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 statement of net assets approximates their fair value. These financial instruments include other accounts receivable, accounts payable and accrued liabilities, and distributions payable.

#### Prior to adoption of Section 3855

##### i) Valuation of credit default swaps

The credit default swaps are presented at their net estimated replacement cost. Replacement cost is valued based on the quotation provided by the Bank. The calculated replacement cost reflects market conditions on a given date and therefore may not be representative of future fair values. Also, the replacement cost does not necessarily reflect the value at which the credit default swaps could be liquidated.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

December 31, 2007 and 2006

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ii) Investment and credit defaults swaps receivable

Investment and credit default swap receivable are carried at cost which approximates their fair value.

iii) Other financial instruments

The carrying value of a number of short-term financial instruments presented in the statement of net assets approximates their fair value. These financial instruments include other accounts receivable, accounts payable and accrued liabilities, and distributions payable.

**c) Basis of recognition for income and expenses**

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

**d) Future changes in accounting standards**

i) Capital disclosures and financial instruments

In December 2006, the CICA published three new accounting standards: “Capital Disclosures” (Section 1535); “Financial Instruments – Disclosures” (Section 3862); and “Financial Instruments – Presentation” (Section 3863). These new standards will apply to the Trust effective January 1, 2008.

Section 1535 establishes disclosure requirements concerning:

- an entity’s objectives, policies and processes for managing capital;
- quantitative data about what the entity regards as capital;
- whether the entity has complied with any capital requirements; and
- the consequences of non-compliance with such capital requirements.

Sections 3862 and 3863 consist of a comprehensive series of disclosure requirements and presentation rules applicable to financial instruments. They revise and enhance the disclosure requirements set out in Section 3861, “Financial Instruments – Disclosure and Presentation”, and carry forward unchanged the presentation requirements of Section 3861.

ii) Going concern

Section 1400, “General Standards of Financial Statement Presentation”, was amended to include requirements for management to assess and disclose an entity’s ability to continue as a going concern. The new requirements are effective for annual financial statements relating to fiscal years beginning on or after January 1, 2008. These new requirements will not have any impact on the financial statements as the Trust is already assessing and disclosing its ability to continue as a going concern.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

December 31, 2007 and 2006

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## 4 Investment

The investment consists of a term deposit issued on an unsubordinated and unguaranteed basis by a financial institution. The investment matures in September 2014.

The term deposit with a fair value of \$68,846,053 (2006 – \$78,219,542) with National Bank of Canada, having a long-term solvency rating of A from Standard and Poor's Rating Service ("S&P") with a nominal amount of \$74,840,801 (2006 – \$78,219,542), bears interest at a rate of 4.28%, payable monthly until September 2009. After this date, interest will be at the rate of one-month banker's acceptances plus 20 basis points per year, payable monthly up to the date of maturity.

Under the credit default swap agreements, the term deposit investment is pledged to MMAI-I. 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.

On August 31, 2006, a notice of redemption from unitholders of the Trust was received. Consequently, the Trust sold, as at September 14, 2006, a part of the investment of a nominal amount of \$7,757,560 at a price of 99.10% plus interest.

There is an interest rate risk associated with the term deposit. Market rates can vary and cause fluctuations in the fair value of the term deposit with a fixed rate at the signing of the contract.

## 5 Credit default swaps receivable

The fair value of the total credit default swaps receivable from MMAI-I 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". The total credit default swaps receivable of \$22,580,355 (2006 – \$15,689,103) is composed of \$2,697,287 (2006 – nil) in the escrow account, a short-term receivable of \$4,911,513 (2006 – \$2,792,645) and a long-term receivable of \$14,971,555 (2006 – \$12,896,458). The nominal amount of the credit default swaps receivable is \$16,275,199 (2006 – \$12,896,458). The long-term receivable bears interest at a rate of 4.28%, payable monthly until September 2009. After this date, interest will be at the rate of one-month banker's acceptances plus 20 basis points per year, payable monthly up to the date of maturity. Both parties have signed the Disengagement Transaction (referred in note 2) which provides for full payment to the Trust of the amount held in escrow. The implementation of this Disengagement Transaction is a component of the Plan presented to Noteholders of MMAI-I to be voted upon, on April 25, 2008.

There is interest rate risk associated with the long-term receivable. Market rates can vary and cause fluctuations in the fair value of the long-term receivable with a fixed rate at the signing of the contract.

On August 31, 2006, a notice of redemption from some unitholders of the Trust was received. Consequently, the Trust sold, as at September 14, 2006, a part of the credit default swaps receivable for a nominal amount of \$1,126,440 at a price of 99.10% plus interest.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

December 31, 2007 and 2006

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## 6 Derivative financial instruments

### Credit default swap agreements with MMAI-I

The Trust has entered into three credit default swap agreements (“swap agreements D, E and F”) with MMAI-I, pursuant to which the Trust will pay MMAI-I 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 \$91,116,000 (2006 – \$91,116,000). Under swap agreements D, E and F, a monthly payment by the Trust to MMAI, corresponding to a contractual rate applied to the notional amount of the contracts and equal to the contractual interest rate applied to the investments pledged as security, is made and MMAI-I will pay at term an amount equal to the excess of the notional amount of the contracts less net losses incurred on those contracts over the residual amount of the investments pledged as security. On a monthly basis, MMAI-I will acquire from the Trust a contractually determined portion of the term deposit pledged as security; this portion is equal to the monthly payment for the month in consideration.

The aggregate notional amount of swap agreements D, E and F as at December 31, 2007 totalled \$91,116,000 (2006 – \$91,116,000) for the reference obligations portfolio of \$34,948,089,003 (2006 – \$34,948,089,003). The negative fair value as at December 31, 2007 was \$16,856,460 (2006 – \$1,366,740).

### Credit risk

As a result of entering into the credit default swap agreements with MMAI-I, 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 \$91,116,000 (2006 – \$91,116,000).

During the years ended December 31, 2007 and 2006, no credit event occurred in the portfolio of reference obligations.

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 minus credit default swaps payable) on December 31, 2007 was \$22,081,401 (2006 – \$15,190,149).

## 7 Operating expenses

The Trust incurs investment advisor follow-up fees equal to 0.25% (2006 – 0.25%) per annum of the outstanding amount on a per-unit basis held by clients of such investment advisors. Due to the events since August 13, 2007 described in note 2, the Trust stopped the follow-up fees payments as of August 16, 2007.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

December 31, 2007 and 2006

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## 8 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.

## 9 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.

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 February, May, August and November (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) 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.

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

December 31, 2007 and 2006

Units may be surrendered for redemption at any time but will be redeemed only on an annual basis on the last business day of each month of August (the “annual redemption date”) for an amount equal to the unwind price of swap agreements D, E and F determined as of such 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 \$91,116,000 (2006 – \$91,116,000) term deposit, less applicable unwind costs.

The following transactions took place during the years ended December 31, 2007 and 2006:

<b>Number of units</b>	<b>2007</b>	<b>2006</b>
Balance – Beginning of year	9,751,054	10,712,500
Repurchased by the Trust during the year	-	(10,700)
Redeemed during the year	-	(950,746)
	<hr/>	<hr/>
Balance – End of year	9,751,054	9,751,054

Unitholders’ equity is made up of capital issued and retained earnings. The following transactions took place during the years ended December 31, 2007 and 2006:

	<b>2007</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>
<b>Capital issued</b>		
Balance – Beginning of year	76,866,013	91,866,573
Return of capital to unitholders	(3,378,741)	(6,169,681)
Repurchased by the Trust during the year	-	(89,880)
Redeemed during the year	-	(8,740,999)
	<hr/>	<hr/>
Balance – End of year	73,487,272	76,866,013
<b>Retained earnings</b>		
Balance – Beginning of year	14,904,112	8,827,630
Impact of initial adoption of financial instrument standards (note 3a)iii)	(740,773)	-
Net income (loss) for the year	(13,962,137)	6,076,482
	<hr/>	<hr/>
Balance – End of year	201,202	14,904,112
	<hr/>	<hr/>
	73,688,474	91,770,125

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

December 31, 2007 and 2006

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The following redemptions were made in 2006 and 2007:

- a) On March 31, 2006, the Trust repurchased 10,700 units at a price of \$8.40 for a total amount of \$89,880.
- b) On August 31, 2006, a notice of redemption of 950,746 units from unitholders of the Trust was received. These units were redeemed on September 14, 2006 at a net unwind price of \$8.824 per unit, of which \$8,740,999 has been recorded as a reduction of capital.
- c) 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 are suspended until the Plan is 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.

As at December 31, 2007, National Bank of Canada and its subsidiaries held 0.9% of the outstanding units of the Trust (2006 – 5.4%).

### Monthly distributions

Prior to August 13, 2007, distributions to unitholders constituted partial capital reimbursement at the issue price of the units and may fluctuate from month to month depending on the occurrence of credit events in the portfolio. The Trust expected distributions in the form of return of capital to be made until September 2009 at an annual fixed rate of 5.95%, after which they would be made at a floating distribution rate corresponding to the rate of banker's acceptances plus 2%. The distributions declared by the Trust are accounted for once declared but are payable on the tenth business day of the following month.

Since August 13, 2007, distributions have not been declared. The distribution balance payable of \$482,677 as at December 31, 2007 represents the unpaid July 2007 distribution declared.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

As at December 31, 2007

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## 10 Derivative financial instruments and reference obligation portfolios

The portfolios of reference obligations, to which swap agreements D, E and F refer, are subject to asset eligibility and portfolio guidelines which may, over time, modify the overall economic exposure of the Trust to the credit performance of these portfolios. The information provided below is subject to such asset eligibility and portfolio guidelines. The portfolios of reference obligations, as disclosed in the prospectus, were structured between May 5, 2004 and May 24, 2004 (the “inception date”).

### *Swap Agreement D*

Swap Agreement D refers to the credit performance of the reference obligations in Portfolio 1 that comprised 151 reference obligations as at December 31, 2007 and 121 reference obligations as at the inception date.

Portfolio 1’s composition by asset class as at December 31, 2007 and the inception date was as follows:

Asset class	December 31, 2007		Inception date	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	-	-	9	7.6
Consumer asset-backed securities	59	30.3	5	4.0
Residential mortgage-backed securities	87	44.7	72	41.9
Commercial mortgage-backed securities	-	-	30	21.5
Synthetic corporate exposures	5	25.0	5	25.0
	151	100.0	121	100.0

- a. The S&P ratings of the mortgage-backed securities, asset-backed securities and other fixed-income securities (excluding the synthetic corporate exposures) comprised in Portfolio 1 were distributed as follows:

Rating	December 31, 2007	Inception date
	(by equivalent S&P rating)	(by notched S&P rating)
	% of Assets	% of Assets
AAA	100.0	59.8
AA	-	21.6
A	-	18.6

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

December 31, 2007

- b. Moody's ratings of the mortgage-backed securities, asset-backed securities and other fixed-income securities comprised in Portfolio 1 were distributed as follows:

Rating	December 31, 2007	Inception date
	(by equivalent Moody's rating)	(by notched Moody's rating)
	% of Assets	% of Assets
Aaa	100.0	55.5
Aa	-	21.6
A	-	22.9

- c. There are five underlying corporate CDO portfolios to which the Trust has multiple tranching exposures with various attachment points. The reference obligations underlying the static synthetic corporate CDOs had an average weighted rating of S&P BBB/BBB- as of December 31, 2007 and 2006.

## Swap Agreement E

Swap Agreement E refers to the credit performance of the reference obligations in Portfolio 2 that comprised 151 reference obligations as at December 31, 2007 and 85 reference obligations as at the inception date.

Portfolio 2's composition by asset class as at December 31, 2007 and the inception date was as follows:

Asset class	December 31, 2007		Inception date	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	-	-	3	2.6
Consumer asset-backed securities	59	30.3	8	11.2
Residential mortgage-backed securities	87	44.7	55	48.2
Commercial mortgage-backed securities	-	-	14	13.0
Synthetic corporate exposures	5	25.0	5	25.0
	151	100.0	85	100.0

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

December 31, 2007

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- a. The S&P ratings of the mortgage-backed securities, asset-backed securities and other fixed-income securities (excluding the synthetic corporate exposures) comprised in Portfolio 2 were distributed as follows:

<b>Rating</b>	<b>December 31, 2007</b>	<b>Inception date</b>
	<b>(by equivalent S&amp;P rating)</b>	<b>(by notched S&amp;P rating)</b>
	<b>% of Assets</b>	<b>% of Assets</b>
AAA	100.0	68.8
AA	-	23.4
A	-	7.8

- b. The Moody's ratings of the mortgage-backed securities, asset-backed securities and other fixed-income securities comprised in Portfolio 2 were distributed as follows:

<b>Rating</b>	<b>December 31, 2007</b>	<b>Inception date</b>
	<b>(by equivalent Moody's rating)</b>	<b>(by notched Moody's rating)</b>
	<b>% of Assets</b>	<b>% of Assets</b>
Aaa	100.0	68.1
Aa	-	22.9
A	-	9.0

- c. There are five underlying corporate CDO portfolios to which the Trust has multiple tranching exposures with various attachment points. The reference obligations underlying the static synthetic corporate CDOs had an average weighted rating of S&P BBB/BBB- as of December 31, 2007 and 2006.

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

December 31, 2007

## Swap Agreement F

Swap Agreement F refers to the credit performance of the reference obligations in Portfolio 3 that comprised 151 reference obligations as at December 31, 2007 and 82 reference obligations as at the inception date.

Portfolio 3's composition by asset class as at December 31, 2007 and the inception date was as follows:

Asset class	December 31, 2007		Inception date	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Consumer asset-backed securities	59	30.3	2	4.5
Residential mortgage-backed securities	87	44.7	54	49.0
Commercial mortgage-backed securities	-	-	21	21.5
Synthetic corporate exposures	5	25.0	5	25.0
	151	100.0	82	100.0

- a. The S&P ratings of the mortgage-backed securities, asset-backed securities and other fixed-income securities (excluding the synthetic corporate exposures) comprised in Portfolio 3 were distributed as follows:

Rating	December 31, 2007	Inception date
	(by equivalent S&P rating)	(by notched S&P rating)
	% of Assets	% of Assets
AAA	100.0	68.8
AA	-	23.4
A	-	7.8

- b. The Moody's ratings of the mortgage-backed securities, asset-backed securities and other fixed-income securities comprised in Portfolio 3 were distributed as follows:

Rating	December 31, 2007	Inception date
	(by equivalent Moody's rating)	(by notched Moody's rating)
	% of Assets	% of Assets
Aaa	100.0	68.1
Aa	-	22.9
A	-	9.0

# Global Diversified Investment Grade Income Trust

Notes to Financial Statements

**December 31, 2007**

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- c. There are five underlying corporate CDO portfolios to which the Trust has multiple tranching exposures with various attachment points. The reference obligations underlying the static synthetic corporate CDOs had an average weighted rating of S&P BBB/BBB- as of December 31, 2007 and 2006.