

# **Global Diversified Investment Grade Income Trust II**

Financial Statements for the semester ended  
**June 30, 2009**  
(Unaudited)

The interim financial statements as at June 30, 2009 and 2008 have not been reviewed by our independent auditors.

# Global Diversified Investment Grade Income Trust II

## Statement of Net Assets

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	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	\$	\$
	(unaudited)	
<b>Assets</b>		
Short-term investments (note 7)	1,189,772	-
Investment (note 8)	63,186,055	78,257,146
Credit default swaps receivable (note 9)	37,428,057	40,523,082
Cash	67,378	100,328
Interest receivable on investment and credit default swaps receivable	307,000	318,000
Other	19,233	58,645
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	102,197,495	119,257,201
<b>Liabilities</b>		
Accounts payable and accrued liabilities	178,393	776,450
Credit default swaps payable	809,000	837,000
Distributions payable	713,950	713,950
Credit default swaps related liability (note 10)	95,615,918	94,642,728
	<hr/>	<hr/>
	97,317,261	96,970,128
<b>Net Assets representing Unitholders' Equity</b> (note 13)	<hr/>	<hr/>
	4,880,234	22,287,073
<b>Number of units outstanding</b> (note 13)	<hr/>	<hr/>
	10,392,283	10,392,283
<b>Net assets per unit</b>	<hr/>	<hr/>
	\$0.47	\$2.14

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

**Approved by the Trustee, Global DIGIT II Management Inc.**

Claude Dalphond  
Claude Dalphond  
Director

Benoit Deschamps  
Benoit Deschamps  
Director

# Global Diversified Investment Grade Income Trust II

## Statement of Operations

For the six month period ended June 30

Unaudited

	2009 \$	2008 \$
<b>Investment income from trading activities</b>		
Interest on investment and credit default swaps receivable	1,898,000	1,908,000
Income from credit default swaps	8,193,300	8,533,928
Interest on cash, short-term investments and credit default swaps	24,819	474
	<u>10,116,119</u>	<u>10,442,402</u>
<b>Investment-related expenses</b>		
Expenses on credit default swaps	5,030,000	5,057,000
Servicing fees (note 11)	(499,078)	207,820
	<u>4,530,922</u>	<u>5,264,820</u>
<b>Net investment income before administrative expenses</b>	<u>5,585,197</u>	<u>5,177,582</u>
<b>Administrative expenses</b>		
Audit fees	33,490	141,552
Legal fees	109,463	141,252
Directors' fees of the trustee	81,619	84,761
Administrative agent fees	14,175	10,348
Register and transfer agent	3,938	3,975
Custodial fees	1,023	(180)
Unitholder reporting cost and listing fees	10,385	4,178
Insurance	17,935	14,750
Independent review committee fees and expenses	32,410	62,181
	<u>304,438</u>	<u>462,817</u>
<b>Net investment income for the period</b>	<u>5,280,759</u>	<u>4,714,765</u>
<b>Losses on investment and credit default swaps</b>		
Appreciation in unrealized fair value of investment and credit default swaps receivable	807,748	1,605,764
Depreciation in unrealized fair value of credit default swaps	(973,190)	(1,946,380)
	<u>(165,442)</u>	<u>(340,616)</u>
<b>Increase in net assets from operations</b>	<u>5,115,317</u>	<u>4,374,149</u>
<b>Increase in net assets from operations per unit</b>	<u>\$0.49</u>	<u>\$0.42</u>

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

# Global Diversified Investment Grade Income Trust II

Statement of Changes in Net Assets

For the six month period ended June 30

Unaudited

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	2009 \$	2008 \$
<b>Increase in net assets from operations</b>	5,115,317	4,374,149
<b>Distributions to unitholders</b>		
Return of capital (note 13)	(22,522,156)	-
<b>Increase (decrease) in net assets during the period</b>	(17,406,839)	4,374,149
<b>Net assets – Beginning of period</b>	22,287,073	10,725,858
<b>Net assets – End of period</b>	4,880,234	15,100,007

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

# Global Diversified Investment Grade Income Trust II

## Statement of Cash Flows

For the six month period ended June 30

Unaudited

	2009 \$	2008 \$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net investment income for the period	5,280,759	4,714,765
Adjustments for:		
Decrease in interest receivable on investment and credit default swaps receivable	11,000	-
Decrease (increase) in credit default swaps receivable	3,570,421	(5,009,928)
Decrease in investment	15,403,443	-
Decrease in other assets	39,412	327
Decrease (increase) in accounts payable and accrued liabilities	(598,057)	224,597
Decrease in credit default swaps payable	(28,000)	-
	<u>18,398,219</u>	<u>(4,785,004)</u>
	<u>23,678,978</u>	<u>(70,239)</u>
<b>Financing activities</b>		
Distributions paid to unitholders	<u>(22,522,156)</u>	-
<b>Increase (decrease) in cash and cash equivalents during the period</b>	1,156,822	(70,239)
<b>Cash and cash equivalents – Beginning of period</b>	<u>100,328</u>	<u>86,876</u>
<b>Cash and cash equivalents – End of period</b>	<u>1,257,150</u>	<u>16,637</u>
<b>Cash and cash equivalents</b>		
Cash	67,378	16,637
Short-term Investments	<u>1,189,772</u>	<u>-</u>
	<u>1,257,150</u>	<u>16,637</u>

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

# Global Diversified Investment Grade Income Trust II

Statement of Investment Portfolio

As at June 30, 2009

Unaudited

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	Description	Interest rate	Maturity	Cost and nominal amount	Fair value
<b>Short-term investments</b>					
National Bank of Canada	Banker's acceptances	0.23%	July 08, 2009	829,826	829,826
National Bank of Canada	Banker's acceptances	0.22%	July 13, 2009	359,946	359,946
				<hr/>	
				1,189,772	1,189,772
				<hr/>	
<b>Investment and credit default swaps receivable</b>					
National Bank of Canada	Investment - term deposit	3.922%	March 2010	61,941,040	63,186,055
Deutsche Bank	Long-term receivable	3.922%	March 2010	35,377,960	36,089,057
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				97,319,000	99,275,112
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The accompanying notes form an integral part of these financial statements.

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

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## 1 Creation of Trust and nature of operations

Global Diversified Investment Grade Income Trust II (the “**Trust**”) is a limited purpose closed-end income trust which was established under the laws of the Province of Ontario on February 28, 2005 by a trust agreement (TSX: GII.UN). Global DIGIT II Management Inc. is the trustee (the “**Trustee**”) of the Trust and is responsible for the management of the Trust. National Bank of Canada acts as 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 Trustee. The promoter of the Trust is National Bank Financial Inc. The directors of the Trustee benefit from a liability coverage provided by National Bank of Canada.

The Trust provides its unitholders with an equity exposure to three portfolios (collectively, the “**portfolio**”) containing respectively 205, 144 and 237 (December 31, 2008 – 207, 148 and 238) securities (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 March 2, 2010 (the “**reset date**”), or on any subsequent reset date on a multiple of five years. The maturity date will not be later than 40 years after initial execution. In order to meet its investment objectives, on March 2, 2005, the Trust entered into three credit default swap agreements with a counterparty, Silverstone Trust (“**Silverstone**”), that was replaced by Deutsche Bank (the “**Bank**”) on January 20, 2009 following the events described in note 2.

Through to the maturity date, 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.

## 2 Restructuring plan and subsequent events

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 Silverstone, 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 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 until the filing under the Companies Creditors Arrangement Act (“**CCAA**”) on March 17, 2008 and since then, the Standstill Period was extended periodically up to the closing date of the definitive CCAA restructuring plan on January 21, 2009.

On August 14, 2007, Silverstone notified the Trust that its payments to the Trust were being withheld and that Silverstone 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 \$0.0687 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 Silverstone to repay its maturing ABCP.

Further to this development, the Trust entered into a standstill agreement (the “**Standstill Agreement**”) with Silverstone 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.

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

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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 Silverstone 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 Silverstone (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 Silverstone 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 \$0.0687 per unit declared on July 18, 2007 on January 30, 2009 and declared two extraordinary cash distributions in January 2009 of \$1.07 and of \$0.635 per unit which were paid on February 13, 2009 and March 13, 2009 respectively.

### 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 Trustee to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Trustee believes that the estimates used in preparing the financial statements are reasonable. Actual results may differ from those estimates. The significant accounting policies are the following:

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

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## a) Recent accounting standards adopted

### *Credit risk and the fair value of financial assets and financial liabilities*

On January 20, 2009, the Emerging Issues Committee issued Abstract 173 (“**EIC-173**”), *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. EIC-173 stipulates that an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative financial instruments. EIC-173 applies to the Trust effective January 1, 2009 and must be applied retrospectively without restatement of prior periods. In accordance with EIC-173, certain financial assets and financial liabilities, including derivative financial instruments, must be remeasured as at January 1, 2009. Any adjustment to the fair value must be recorded as an adjustment to the balance of retained earnings as at that date. The new guidance does not have a material effect on the financial position or earnings of the Trust.

## b) Recent accounting standards pending adoption

### i) Disclosures on Financial Instruments

In June 2009, consistent with the Accounting Standards Board’s (“**AcSB**”) strategy to adopt IFRSs for publicly accountable enterprises and to ensure that the existing requirements in Section 3862 are converged to the maximum extent possible with International Financial Reporting Standard (“**IFRS**”) 7, "Financial Instruments: Disclosures," the AcSB has adopted amendments similar to those issued by the International Accounting Standards Board (“**IASB**”) to improve IFRS 7. As such, for all annual financial statements relating to fiscal years ending after September 30, 2009, an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) 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 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

### ii) Classification of Financial Instruments

In July 2009, consistent with the AcSB strategy to adopt IFRSs for publicly accountable enterprises and to ensure that the existing requirements in Section 3855 are converged to the maximum extent possible with International Standards for impairment of debt instruments, the AcSB changed the categories into which debt instruments are required and permitted to be classified. Under certain conditions, one of the proposed amendment permits debt securities that are not quoted in an active market and currently classified as available for sales to be classified as loans and receivables. The Trust does not expect that this new guidance will have a material effect on the financial position or earnings of the Trust.

## 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.

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

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## 4 Fair value of financial instruments

The financial instruments are accounted for at fair value and any transaction fees are included directly in the Statement of Income. The Trust is an investment company as per “AcG18” and measures all of its investments at fair value and present 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 Statement of Income. The fair value of the financial instruments is determined as follows:

### 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 Statement 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, 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.

#### a) 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. 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 assumptions are based on factors observable in external markets, such as interest rate yield curves, volatility factors 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.

#### b) Investment and credit default swaps receivable and payable

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

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

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c) 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 short-term investments, other accounts receivable, accounts payable and accrued liabilities, and distributions payable.

## 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 as set out 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 with a determined rate at the signing of the contract. For the period ended June 30, 2009, the effect of an increase or a decrease of 100 basis points of relevant credit indexes on the Trust's credit default swaps would result respectively in a \$48 thousand decrease or increase in the fair value on the Trust's credit default swaps. In addition, there is an interest rate risk associated with the term deposit and long-term receivable. The effect of an increase or a decrease of 100 basis points in the interest rate on the term deposit and the long-term receivable would result respectively in a \$660 thousand decrease or 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, 2009 and December 31, 2008 is the sum of financial assets on the statement 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. (referred to in notes 9 and 10).

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

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## 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 March 2010 or on any subsequent reset date on a multiple of five years. 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 investments (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 A, B and C amounts to \$97,319,000 (2007 – \$97,319,000).

## 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:

June 30, 2009	Held for trading	Loans and receivables	Financial liabilities at cost or amortized cost
<b>Financial assets</b>			
Short-term investments (a)	1,189,772	-	-
Investment (a)	63,186,055	-	-
Credit default swaps receivable (a)	37,428,057	-	-
Cash	67,378	-	-
Interest receivable on investment and credit default swaps receivable	-	307,000	-
Other	-	19,233	-
<b>Total financial assets</b>	<b>101,871,262</b>	<b>326,233</b>	<b>-</b>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	-	-	178,393
Credit default swaps payable	-	-	809,000
Distributions payable	-	-	713,950
Credit default swaps related liability	95,615,918	-	-
<b>Total financial liabilities</b>	<b>95,615,918</b>	<b>-</b>	<b>1,701,343</b>

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

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

December 31, 2008	Held for Trading	Loans and receivables	Financial liabilities at cost or amortized cost
<b>Financial assets</b>			
Investment (a)	78,257,146	-	-
Credit default swaps receivable (a)	40,523,082	-	-
Cash	100,328	-	-
Interest receivable on investment and credit default swaps receivable	-	318,000	-
Other assets	-	58,645	-
<b>Total financial assets</b>	<b>118,880,556</b>	<b>376,645</b>	-
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	-	-	776,450
Credit default swaps payable	-	-	837,000
Distributions payable	-	-	713,950
Credit default swaps related liability	94,642,728	-	-
<b>Total financial liabilities</b>	<b>94,642,728</b>	-	<b>2,327,400</b>

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

## 7 Short-term investments

The Trust has invested cash in bankers' acceptances maturing in July 2009. The short-term investments bear interest at a weighted average yield of 0.23% (December 31, 2008 – nil) and include accrued interest of \$159.

## 8 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 \$63,186,055 (December 31, 2008 – \$78,257,146) with a nominal amount of \$61,941,040 (December 31, 2008 – \$77,344,481), bears interest at a rate of 3.922%, payable monthly until March 2010, after which date their rate of return will be reset for five years as of each reset date until its maturity in March 2010.

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 investments (or the legal maturity date, as applicable) will be reduced by any loss incurred as a result of credit events.

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

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## 9 Credit default swaps receivable

The fair value of the total credit default swaps receivable 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”. The total credit default swap receivable of \$37,428,057 (December 31, 2008 - \$40,523,082) is composed of the long-term receivable of \$36,089,057 (December 31, 2008 – \$20,210,218) with a nominal amount of \$35,377,960 (December 31, 2008 – \$19,974,519) and of the short-term receivable of \$1,339,000 (December 31, 2008 – \$7,849,154). The short-term receivable is equal to the amounts that were accrued monthly by the Bank (or Silverstone before the Disengagement Transaction) for the benefit of the Trust and the financial contract fees receivable. On December 31, 2008, the short-term receivable also included the segregated account of \$12,463,710 equal to the amounts accrued monthly by Silverstone before the Disengagement Transaction. The long-term receivable matures in March 2010 and bears interest at a rate of 3.922%, payable monthly until March 2010, after which date their rate of return will be reset for five years as of each reset date until the maturity of the Trust. On January 20, 2009, Silverstone paid to the Trust an amount of \$6,605,195 representing substantially all of the initial public offering cost and released the segregated account for an amount of \$13,273,736.

Credit default swaps receivable	June 30, 2009	December 31, 2008
	\$	\$
Long-term receivable (redemption of collateral)	36,089,057	20,210,218
Short-term receivable (segregated account)	-	12,463,710
Short-term receivable (accrued amount and financial contract fees)	1,339,000	7,849,154
	<hr/>	<hr/>
Total	37,428,057	40,523,082

## 10 Derivative financial instruments and reference obligation portfolios

### Credit default swap agreements with the Bank

Following the Disengagement Transaction described in note 2, Silverstone was replaced by the Bank effective January 20, 2009. The Trust has entered into three credit default swap agreements (“**swap agreements A, B and C**”) with the Bank, pursuant to which the Trust will pay the Bank if credit events occur in connection with the reference obligations. The credit default swap agreements are expected to mature in March 2010 or on any subsequent reset date on a multiple of five years. The maximum loss that could be borne by the Trust for credit events with respect to the reference obligations under swap agreements A, B and C amounts to \$97,319,000 (December 31, 2008 – \$97,319,000). Under swap agreements A, B and C, a monthly payment by the Trust to the Bank corresponding to a contractual rate of 6.40% is applied to the notional amount of the contracts and the contractual interest rate of 3.92% is applied to the investments pledged as security. These amounts are exchanged between the Trust and the Bank with the net return of the Bank 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; 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 net losses incurred on those contracts over the residual amount of the investments pledged as security.

The aggregate notional amount of the three swap agreements (A,B,C) as at June 30, 2009 totalled \$97,319,000 (December 31, 2008 – \$97,319,000) for the references obligation portfolios of \$7,826,496,421 (December 31, 2008 – \$7,826,496,421). The Trust estimated the cumulative unrealized loss of the swap agreements A, B and C and the credit default swaps related liability as at June 30, 2009 at \$95,615,918 (December 31, 2008 – cumulative unrealized loss of \$94,642,728) which amount is consistent with the valuation of the Bank.

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

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## 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 A, B and C amounts to \$97,319,000 (December 31, 2008 – \$97,319,000).

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 minus credit default swaps payable) on June 30, 2009 was \$36,619,057 (December 31, 2008 – \$39,686,082).

## Credit event

There were no credit events in the portfolio of reference obligations during the six months periods ended June 30, 2009 and 2008

## Reference obligation portfolios

The portfolios of reference obligations, to which swap agreements A, B and C 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 aggregate notional amount as at June 30, 2009 totalled \$97,319,000 (December 31, 2008 – \$97,319,000). The payments under the swaps are made on a monthly basis. The weighted average ratings mentioned below are 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 information provided below is subject to such asset eligibility and portfolio guidelines. The portfolios of reference obligations were structured between December 13, 2004 and February 28, 2005 (the “inception date”).

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

## Swap Agreement A

Swap Agreement A refers to the credit performance of the reference obligations in Portfolio 1 that comprised 205 reference obligations as at June 30, 2009 (December 31, 2008 – 207).

Portfolio 1's composition by asset class as at June 30, 2009 and December 31, 2008 was as follows:

Asset class	June 30, 2009		December 31, 2008	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	7	3.4	7	3.4
Consumer asset-backed securities	5	2.2	5	2.2
Residential mortgage-backed securities	86	28.2	86	28.7
Commercial mortgage-backed securities	32	16.8	32	16.4
Structured exposure to mortgage-backed and corporate securities	75	49.4	77	49.3
	205	100.0	207	100.0

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

Rating	June 30, 2009	December 31, 2008
	(by equivalent S&P rating*)	(by equivalent S&P rating*)
	% of Assets	% of Assets
AAA	49.2	62.3
AA	9.7	9.9
A	11.1	13.4
BBB	5.3	2.6
BB	10.4	1.6
B	4.0	3.4
CCC	2.7	1.8
CC	5.8	4.9
C	1.6	0.1
D	0.2	-
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.

- b. The weighted average assigned S&P rating factor of the mortgage backed securities, asset backed securities, other structured finance securities and synthetic corporate exposures comprised in Portfolio 1 was BB+ /BB as at June 30, 2009 (December 31, 2008 BBB- and BB+).

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

## Swap Agreement B

Swap Agreement B refers to the credit performance of the reference obligations in Portfolio 2 that comprised 144 reference obligations as at June 30, 2009 (December 31, 2008 - 148).

Portfolio 2's composition by asset class as at June 30, 2009 and December 31, 2008 was as follows:

Asset class	June 30, 2009		December 31, 2008	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	6	6.6	7	8.4
Consumer asset-backed securities	3	2.4	3	2.3
Residential mortgage-backed securities	51	21.7	51	21.6
Commercial mortgage-backed securities	16	15.6	18	15.7
Structured exposure to mortgage-backed and corporate securities	68	53.7	69	52.0
	144	100.0	148	100.0

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

Rating	June 30, 2009	December 31, 2008
	(by equivalent S&P rating*) % of Assets	(by equivalent S&P rating*) % of Assets
AAA	38.7	49.4
AA	3.0	8.0
A	19.6	21.3
BBB	9.8	5.1
BB	11.9	0.9
B	1.6	3.2
CCC	1.2	4.2
CC	8.5	7.2
C	3.7	0.7
D	2.0	-
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.

- b. The weighted average assigned S&P rating factor of the mortgage backed securities, asset backed securities, other structured finance securities and synthetic corporate exposures comprised in Portfolio 2 was BB /BB- as at June 30, 2009 (December 31, 2008 BB+ and BB).

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

## Swap Agreement C

Swap Agreement C refers to the credit performance of the reference obligations in Portfolio 3 that comprised 237 reference obligations as at June 30, 2009 (December 31, 2008 - 238).

Portfolio 3's composition by asset class as at June 30, 2009 and December 31, 2008 was as follows:

Asset class	June 30, 2009		December 31, 2008	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	4	4.8	4	4.7
Consumer asset-backed securities	1	0.2	1	0.2
Residential mortgage-backed securities	82	19.8	82	20.7
Commercial mortgage-backed securities	49	23.3	50	23.5
Structured exposure to mortgage-backed and corporate securities	101	51.9	101	50.9
	<b>237</b>	<b>100.0</b>	<b>238</b>	<b>100.0</b>

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

Rating	June 30, 2009	December 31, 2008
	(by equivalent S&P rating*)	(by equivalent S&P rating*)
	% of Assets	% of Assets
AAA	17.8	35.5
AA	11.4	12.0
A	24.0	29.0
BBB	12.2	7.7
BB	13.5	2.3
B	3.1	0.6
CCC	2.0	3.4
CC	14.0	9.4
C	0.8	-
D	1.2	0.1
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.

- b. The weighted average assigned S&P rating factor of the mortgage backed securities, asset backed securities, other structured finance securities and synthetic corporate exposures comprised in Portfolio 3 was BB /BB- as at June 30, 2009 (December 31, 2008 BB+ and BB).

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

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## 11 Servicing fees

The Trust incurred investment advisor servicing fees equal to 0.40% (December 31, 2008 – 0.40%) 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.

Following the Disengagement Transaction described in note 2, the Trust paid servicing fees for the period from August 1, 2007 to February 28, 2009, based on the net assets value per-unit versus the outstanding amount. No payment will be made thereafter. As a result of this decision, the Trust recorded a reduction of \$499,078 in servicing fees.

## 12 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.

## 13 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 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.

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

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

- (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 February (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 A, B and C and (ii) the market value of the tranche of the Trust’s \$54,822,326 (December 31, 2008 – \$77,344,481) term deposit and long-term receivable of credit default swap of \$42,496,674 (December 31, 2008 – \$19,974,519), less applicable unwind costs.

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

	2009	2008
<b>Number of units</b>		
Balance – Beginning and end of period	10,392,283	10,392,283

Unitholders’ equity is made up of capital issued and retained earnings. The following transactions took place during the six months period ended June 30:

	2009 \$	2008 \$
<b>Capital issued</b>		
Balance – Beginning of period	77,333,792	77,333,792
Return of capital to unitholders	(22,522,156)	-
Balance – End of period	54,811,636	77,333,792
<b>Deficit</b>		
Balance – Beginning of period before reserve	(55,411,647)	(67,018,501)
Reserve for on-going cost*	364,928	410,567
Balance – Beginning of period after reserve	(55,046,719)	(66,607,934)
Increase in net assets from operations	5,115,317	4,374,149
Balance – End of period	(49,931,402)	(62,233,785)
<b>Net Assets representing Unitholders’ Equity</b>	4,880,234	15,100,007

\* As of February 28, 2007, the Trust retained an amount of \$464,769 on the amount paid to Unitholders for the repurchase of their units to cover the on-going cost up to the maturity of the Trust. The amortization of the reserve for on-going cost for the period ended on June 30, 2009 and 2008 were 23,387\$ and 21,172\$, respectively.

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

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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 16,900 units had been surrendered for the quarterly 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 were resumed.

As at December 31, 2008, National Bank of Canada and its subsidiaries held 0.5% of the outstanding units of the Trust (2007 – 0.5%).

## Distributions and management of Unitholders equity

The Trustee manages 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 \$0.0687 per unit (\$0.8244 per annum) up to on or about March 9, 2010 and thereafter, a fixed rate stream of monthly distribution reset every five calendar years intended to equal the five-year Government of Canada bond rate plus 4% to 4.5% and to repay to Unitholders on a reset date falling on or about March 9, 2010 but no later than March 9, 2045 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 \$0.0687 per unit, paid the distribution declared on July 18, 2007 on January 30, 2009 and declared two extraordinary cash distributions in January 2009 of \$1.07 and of \$0.635 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 \$0.05 per unit, payable on April 16, 2009, as a result of the reduction in the payment of the servicing fees (referred to in note 11).

## 14 Related party transactions

The Trustee is 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 Trustee. The promoter, and therefore one of the investment advisor of the Trust, is National Bank Financial, a subsidiary of National Bank of Canada. As described in note 8, the term deposit has been subscribed from the National Bank of Canada. In addition to the transactions separately identified in these financial statements, the following transactions took place during the six months period ended June 30:

Expenses incurred during the period		2009	2008
		\$	\$
Global DIGIT II Management Inc	Director's fees of the trustee	81,619	84,761
National Bank of Canada	Administration agent	14,175	10,348
National Bank Financial	Servicing fees	(83,886)	34,931
Natcan Trust	Custody fees	1,023	(180)
		<u>12,931</u>	<u>129,860</u>

# Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2009

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<b>Accounts payable and accrued liabilities</b>	<b>June 30, 2008</b>	<b>December31, 2008</b>
	<b>\$</b>	<b>\$</b>
Global DIGIT II Management Inc	36,000	2,596
National Bank of Canada	7,087	7,087
National Bank Financial	-	100,794
Natcan Trust	1,023	511
	<u>44,110</u>	<u>110,988</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.

## 15 Comparative figures

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