Global Diversified Investment Grade Income Trust II

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

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

Global Diversified Investment Grade Income Trust II

Statements of Net Assets

	June 30, 2010 $ (unaudited)	December 31, 2009 $
Assets		
Investment (note 8)	55,388,975	57,961,195
Credit default swaps receivable (note 9)	41,779,181	39,870,676
Short-term investments (note 10)	1,603,987	1,549,860
Cash	182,060	115,678
Interest receivable on investment and credit default swaps receivable	243,000	318,000
Other assets (note 11)	569,169	665,970
	99,766,372	100,481,379
Liabilities		
Accounts payable and accrued liabilities	139,732	165,509
Credit default swaps payable	393,000	472,000
Distributions payable	571,576	363,730
Credit default swaps related liability (note 12)	96,589,108	96,345,810
	97,693,416	97,347,049
Net Assets representing Unitholders' Equity (note 15)	2,072,956	3,134,330
Number of units outstanding (note 15)	10,392,283	10,392,283
Net assets per unit	$0.20	$0.30

Basis of presentation and going concern (note 2)

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

Approved by the Trustee, Global DIGIT II Management Inc.

Claude Dalphond *Benoit Deschamps*

Claude Dalphond
Director

Benoît Deschamps
Director

Global Diversified Investment Grade Income Trust II

Statements of Operations

For the six month period ended June 30

(Unaudited)

	2010 $	2009 $
Investment income from trading activities		
Interest on investment and credit default swaps receivable	1,632,000	1,898,000
Income from credit default swaps	3,491,000	8,193,300
Other income	37,376	24,819
	5,160,376	10,116,119
Investment-related expenses		
Expenses on credit default swaps	2,565,000	5,030,000
Servicing fees (note 13)	-	(499,078)
	2,565,000	4,530,922
Net investment income before administrative expenses	2,595,376	5,585,197
Administrative expenses		
Audit fees	59,587	33,490
Legal fees	114,996	109,463
Directors' fees of the trustee	64,999	81,619
Administrative agent fees	14,175	14,175
Register and transfer agent	3,938	3,938
Custodial fees	1,640	1,023
Unitholder reporting cost and listing fees	16,493	10,385
Insurance	59,770	17,935
Independent review committee fees and expenses	23,913	32,410
	359,511	304,438
Net investment income for the period	2,235,865	5,280,759
Gain (losses) on investment and credit default swaps		
Change in unrealized appreciation (depreciation) of fair value of investment and credit default swaps receivable	(663,716)	807,748
Change in unrealized depreciation of fair value of credit default swaps	(243,298)	(973,190)
	(907,014)	(165,442)
Increase in net assets from operations	1,328,851	5,115,317
Increase in net assets from operations per unit	$0.13	$0.49

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

Global Diversified Investment Grade Income Trust II

Statements of Changes in Net Assets

For the six month period ended June 30

(Unaudited)

	2010 $	2009 $
Increase in net assets from operations	1,328,851	5,115,317
Distributions to unitholders		
Return of capital (note 15)	(2,390,225)	(22,522,156)
Decrease in net assets during the period	(1,061,374)	(17,406,839)
Net assets – Beginning of period	3,134,330	22,287,073
Net assets – End of period	2,072,956	4,880,234

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

Global Diversified Investment Grade Income Trust II

Statements of Cash Flows

For the six month period ended June 30

(Unaudited)

	2010 $	2009 $
Cash flows from		
Operating activities		
Net investment income for the period	2,235,865	5,280,759
Adjustments for:		
Decrease in investment	2,182,380	15,403,443
Increase in credit default swaps receivable	(2,182,380)	(15,403,443)
Decrease in interest receivable on investment and credit default swaps receivable	75,000	11,000
Decrease in other assets	96,801	19,013,276
Decrease in accounts payable and accrued liabilities	(25,777)	(598,057)
Decrease in credit default swaps payable	(79,000)	(28,000)
	67,024	18,398,219
	2,302,889	23,678,978
Financing activities		
Distributions paid to unitholders	(2,182,380)	(22,522,156)
Increase in cash and cash equivalents during the period	120,509	1,156,822
Cash and cash equivalents – Beginning of period	1,665,538	100,328
Cash and cash equivalents – End of period	1,786,047	1,257,150
Cash and cash equivalents		
Cash	182,060	67,378
Short-term Investments	1,603,987	1,189,772
	1,786,047	1,257,150

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, 2010

(Unaudited)

Short-term investments	**Description**	**Interest rate**	**Maturity**	**Cost**	**Fair value**
Bank of Montreal	Term deposits	0.85%	March 15, 2013 [note a)]	1,600,000	1,603,987
				1,600,000	1,603,987

Investment and credit default swaps receivable	**Description**	**Interest rate**	**Maturity**	**Cost**	**Fair value**
National Bank of Canada [note b)]	Investment - term deposit	3.094%	March 2, 2015	55,474,961	55,388,975
Deutsche Bank	Long-term receivable	3.094%	March 2, 2015	41,844,039	41,779,181
				97,319,000	97,168,156
				98,919,000	98,772,143

Note a) – On March 15, 2010, the Trust purchased four term deposits from Bank of Montreal for a total amount of $1,600,000. The Trust has an option to redeem these term deposits at par on a monthly basis until March 15, 2011. After this date, the term deposits will expire on March 15, 2013 with no other early redemption. The Trust intends to redeem such deposits on or before March 15, 2011 and has therefore recorded them as short-term investments.

Note b) - On a monthly basis, the Bank acquires from the Trust a contractually determined portion of the term deposit pledged as security as defined in the supplemental long form prospectus filed on March 4, 2005; this portion is equal to the monthly payment for the month in consideration (referred to in note 12).

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

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 199, 140 and 236 (December 31, 2009 – 202, 143 and 237) 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, 2015 **(**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")**, which was replaced by Deutsche Bank **(**the **"Bank")** on January 20, 2009 following the events described in note 3.

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 Basis of presentation and going concern

These financial statements have been prepared on a going concern basis in accordance with Canadian GAAP. The going concern basis of presentation assumes that the Trust will continue its operations for the foreseeable future. However, the following facts raise substantial doubt about the Trust's ability to continue as a going concern:

1) as at June 30, 2010, the market value of the Financial Contracts was only 0.75% of the notional amount;

2) the Trust has already received seven credit event notices (referred to in note 12), which could result into losses of up to $6.57 per unit (final settlement amount has not been received); and

3) while waiting for the resolution of such credit event notices (a process that can take up to 720 days following the reception of a credit event notice), the Bank is withholding 70% of the premium and, consequently, the monthly distributions to unithoders have been reduced.

In the event that significant losses do materialize, the future revenues may not be sufficient to continue to cover the ongoing cost of the Trust, such that, it may be considered more economic for the Trust to liquidate the positions and cease the activities.

These financial statements do not reflect any adjustments that would be necessary if the going concern hypothesis was not appropriate.

3 Restructuring plan

Commencing August 13, 2007, the Canadian third party structured finance asset-backed commercial paper **("Third Party ABCP")** market experienced a disruption, in which Third Party ABCP conduits, such as 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 were signatories agreed, notably, to continue to hold their Third Party ABCP for a period of 60 days **(**the **"Standstill Period")** and, after this period to convert all outstanding Third Party ABCP into term floating rate notes maturing no earlier than the scheduled termination date of the corresponding underlying assets of each conduit. The Standstill Period was further extended until the filing under the Companies Creditors Arrangement Act **("CCAA")** on March 17, 2008 and since then, the Standstill 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.

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 were 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.

4 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:

Basis of recognition for income and expenses

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

5 Fair value of financial instruments

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

a) Establishing fair value

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

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

i) Valuation of credit default swaps

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

ii) Investment and credit default swaps receivable

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

iii) Other financial instruments

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

b) Fair value hierarchy

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

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

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

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

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

June 30, 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Investment	-	55,388,975	-	55,388,975
Credit default swaps receivable	-	41,779,181	-	41,779,181
Short-term investments	-	1,603,987	-	1,603,987
Cash	182,060	-	-	182,060
Total financial assets	182,060	98,772,143	-	98,954,203
Financial liabilities				
Credit default swaps related liability	-	96,589,108	-	96,589,108
Total financial liabilities	-	96,589,108	-	96,589,108

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

6 Management of risks associated with financial instruments

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

Market risk

Market risk corresponds to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk associated with financial instruments comprises currency risk, interest rate risk, credit risk, liquidity risk and other price risks. More specifically, through to the expected maturity date of the credit default swaps, their fair value will vary depending on a number of factors such as interest rates, the credit ratings and credit spreads of the reference obligations and the cumulative net losses incurred upon the occurrence of credit events in the portfolio of securities. Credit events include bankruptcy, failure to pay and other specified loss events. Since the Trust's objective is to provide Unitholders with an economic interest in exposures relating to the performance of the underlying portfolio of securities, there is no principal protection. Market rates can vary and cause fluctuations in the fair value of the term deposit. As at June 30, 2010, the effect of an increase or a decrease of 100 basis points of relevant credit spreads on the Trust's credit default swaps would result respectively in a $622 decrease or increase (December 31, 2009 - $536 decrease or increase) in the fair value on the Trust's credit default swaps. In addition, there is a discount rate associated with the term deposit and long-term receivable. The effect of an increase or a decrease of 100 basis points in the discount rate on the term deposit and the long-term receivable would result respectively in a $4,121,000 decrease or $4,317,000 increase (December 31, 2009 – $189,000 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, 2010 and December 31, 2009 is the sum of financial assets on the Statements on Net Assets. As described above, the credit default swap has also significant credit risk exposure with respect to the reference obligations included in the portfolios and counterparty credit risk (referred to in notes 9 and 12).

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 2015 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 (December 31, 2009 – $97,319,000).

7 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, 2010	**Held for trading**	**Loans and receivables**	**Financial liabilities at cost or amortized cost**
Financial assets			
Investment *(a)*	55,388,975	-	-
Credit default swaps receivable *(a)*	41,779,181	-	-
Short-term investments *(a)*	1,603,987	-	-
Cash	182,060	-	-
Interest receivable on investment and credit default swaps receivable	-	243,000	-
Other assets	-	569,169	-
Total financial assets	98,954,203	812,169	-
Financial liabilities			
Accounts payable and accrued liabilities	-	-	139,732
Credit default swaps payable	-	-	393,000
Distributions payable	-	-	571,576
Credit default swaps related liability	96,589,108	-	-
Total financial liabilities	96,589,108	-	1,104,308

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

December 31, 2009	**Held for Trading**	**Loans and receivables**	**Financial liabilities at cost or amortized cost**
Financial assets			
Investment *(a)*	57,961,195	-	-
Credit default swaps receivable *(a)*	39,870,676	-	-
Short-term investments *(a)*	1,549,860	-	-
Cash	115,678	-	-
Interest receivable on investment and credit default swaps receivable	-	318,000	-
Other assets	-	665,970	-
Total financial assets	99,497,409	983,970	-
Financial liabilities			
Accounts payable and accrued liabilities	-	-	165,509
Credit default swaps payable	-	-	472,000
Distributions payable	-	-	363,730
Credit default swaps related liability	96,345,810	-	-
Total financial liabilities	96,345,810	-	1,001,239

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

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 $55,388,975 (December 31, 2009 – $57,961,195) with a nominal amount of $55,474,961 (December 31, 2009 – $57,657,341), bears interest at a rate of 3.094%, payable monthly until March 2015, after which date their rate of return will be reset for five years as of each reset date until the maturity of the Trust.

Under the credit default swap agreements and following the Disengagement Transaction described in note 3, 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.

9 Credit default swaps receivable

The fair value of the total credit default swaps receivable of $41,779,181 (December 31, 2009 - $39,870,676) 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". Following the credit event notices as described in note 12, the Bank withheld a portion of the monthly premium payments corresponding approximately to a reduction of 70%, calculated on the aggregate maximum potential losses of the reference obligations. On June 30, 2010, the nominal amount of the credit default swaps receivable is $41,844,039 (December 31, 2009 – $39,661,659). The credit default swaps receivable matures in March 2015 and bears interest at a rate of 3.094%, payable monthly until March 2015, after which date their rate of return will be reset for five years as of each reset date until the maturity of the Trust.

10 Short-term investments

On March 15, 2010, the Trust purchased four term deposits from Bank of Montreal for a total amount of $1,600,000. The Trust has an option to redeem these term deposits at par on a monthly basis until March 15, 2011. After this date, the term deposits will expire on March 15, 2013 with no other early redemption. The Trust intends to redeem such deposits on or before March 15, 2011 and has therefore recorded them as short-term investments. The term deposits bear interest at a yield of 0.85% and include accrued interest of $3,987. On June 30, 2009, the Trust has invested cash in bankers' acceptances maturing in July 2009 at a weighted average yield of 0.23%.

11 Other assets

The other assets of $569,169 (December 31, 2009 – $665,970) are composed of the short-term receivable corresponding to the amounts that were accrued monthly by the Bank (or Silverstone before the Disengagement Transaction) for the benefit of the Trust, the financial contract fees receivable and of other account receivable. Following the Disengagement Transaction, all amounts payable to the Trust under the swaps since August 13, 2007 were released to the Trust by Silverstone.

Other assets	**2010**	**2009**
	$	**$**
Short-term receivable (financial contract fees)	556,000	647,000
Other receivables	13,169	18,970
Total	569,169	665,970

12 Derivative financial instruments and reference obligation portfolios

Credit default swap agreements with the Bank

Following the Disengagement Transaction described in note 3, 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 2015 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, 2009 – $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 3.094% is applied to the investments pledged as security. These amounts are exchanged between the Trust and the Bank with the net return being paid to the Trust. On a monthly basis, the Bank acquires from the Trust a contractually determined portion of the term deposit pledged as security as defined in the supplemental long form prospectus filed on March 4, 2005; 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, 2010 totaled $97,319,000 (December 31, 2009 – $97,319,000) for the references obligation portfolios of $7,826,496,421 (December 31, 2009 – $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, 2010 at $96,589,108 (December 31, 2009 – cumulative unrealized loss of $96,345,810) which amount is consistent with the valuation of the Bank.

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, 2009 – $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 plus the total of the short-term receivable presented in the other assets minus credit default swaps payable) on June 30, 2010 was $41,942,181 (December 31, 2009 – $40,045,676).

Credit events

As described in note 1, the net assets of the Trust vary depending on a number of factors, in particular by the cumulative net losses incurred upon the occurrence of credit events in the portfolio as described above. The Trust is exposed to credit risk with respect to the reference obligations included in the portfolio and 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 is $23,634,614 (0.95%), $31,976,243 (1.25%) and $41,708,143 (1.50%), respectively.

On November 26, 2009, the Trust received from the Bank a credit event notices for the reference obligations of the following issuers:

	Exposure ($)	Exposure per unit ($)
Swap agreement A		
Glacier Funding CDO	(3,822,205)	(0.37)
IXIS ABS CDO Ltd.	(4,959,073)	(0.48)
STATIC Residential CDO (Start) 2006-B Ltd.	(21,695,944)	(2.09)
Straits Global ABS CDO 2004-1	(23,634,614)	(2.27)
Maximum loss in respect to the reference obligation under swap agreement A	(23,634,614)	(2.27)
Swap agreement B		
Ivy Lane CDO 2006-1	(31,976,243)	(3.08)
STATIC Residential CDO (Start) 2006-B Ltd.	(16,278,126)	(1.57)
Maximum loss in respect to the reference obligation under swap agreement B	(31,976,243)	(3.08)
Swap agreement C		
Duke Funding VII Ltd.	(12,702,066)	(1.22)
Loss in respect to the reference obligation under swap agreement C (maximum is $41,708,143)	(12,702,066)	(1.22)
Aggregate maximum potential loss on above credit events	(68,312,923)	(6.57)
Notional	97,319,000	9.36
Notional after aggregate maximum potential loss	29,006,077	2.79

Further to these credit event notices, the aggregate maximum potential loss would be $6.57 per unit and in which case, the maximum redemption price would be $2.79 per unit.

Pursuant to the Financial Contracts, the valuation of the defaulted reference obligations could take up to 720 days after the credit event notices were provided by the Bank. Meanwhile, the Financial Contracts allow the Bank to withhold a portion of the premium payments corresponding to such defaulted reference obligations, until the final loss is determined. Again according to the Financial Contracts, the Bank as calculating agent shall, acting in good faith and a commercially reasonable manner, determine the amount of premium payments to withhold based on the expected final prices of such defaulted obligations. On all payment dates since the reception of such credit event notices, the portion of the premium payments withheld by the Bank correspond to a total loss on such defaulted reference obligations and therefore represented a reduction of 70% (note that there is no withholding of interest payments on investment and credit default swap receivable). Consequently, distributions to Unitholders are reduced starting with the distribution declared on December 2009 (referred to in note 14).

Further to the 720 days process, an amount of investment and credit default swap receivable corresponding to losses incurred on such defaulted reference obligations, will have to be transferred by the Trust to the Bank out of its assets thus affecting the interest revenues. This could reduce the income of the Trust available to fund the distributions even further.

The Trust has not been notified of any credit event in the portfolio of reference obligations during the six month period ended June 30, 2010.

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, 2010 totaled $97,319,000 (December 31, 2009 – $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")**.

Swap Agreement A

Swap Agreement A refers to the credit performance of the reference obligations in Portfolio 1 that comprised 199 reference obligations as at June 30, 2010 (December 31, 2009 – 202).

Portfolio 1's composition by asset class as at June 30, 2010 and December 31, 2009 was as follows:

	June 30, 2010		**December 31, 2009**	
Asset class	**Number of reference obligations**	**% of Assets**	**Number of reference obligations**	**% of Assets**
Commercial asset-backed securities	6	3.6	7	3.5
Consumer asset-backed securities	4	2.3	4	2.2
Residential mortgage-backed securities	85	27.7	85	27.7
Commercial mortgage-backed securities	31	17.6	32	17.4
Structured exposure to mortgage-backed and corporate securities	73	48.8	74	49.2
	199	100.0	202	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:

	June 30, 2010 (by equivalent S&P rating*)	December 31, 2009 (by equivalent S&P rating*)
Rating	**% of Assets**	**% of Assets**
AAA	18.5	35.5
AA	16.6	13.7
A	13.4	10.1
BBB	9.1	6.3
BB	11.5	9.3
B	4.9	2.5
CCC	7.4	9.5
CC	6.2	4.8
C	1.5	1.4
D	10.9	6.9
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 between B+ and B as at June 30, 2010 (December 31, 2009, BB- and B+).

Swap Agreement B

Swap Agreement B refers to the credit performance of the reference obligations in Portfolio 2 that comprised 140 reference obligations as at June 30, 2010 (December 31, 2009 - 143).

Portfolio 2's composition by asset class as at June 30, 2010 and December 31, 2009 was as follows:

	June 30, 2010		December 31, 2009	
Asset class	**Number of reference obligations**	**% of Assets**	**Number of reference obligations**	**% of Assets**
Commercial asset-backed securities	5	6.0	6	6.2
Consumer asset-backed securities	3	2.4	3	2.6
Residential mortgage-backed securities	51	21.5	51	21.2
Commercial mortgage-backed securities	14	15.7	15	15.1
Structured exposure to mortgage-backed and corporate securities	67	54.4	68	54.9
	140	100.0	143	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:

	June 30, 2010 (by equivalent S&P rating*)	December 31, 2009 (by equivalent S&P rating*)
Rating	**% of Assets**	**% of Assets**
AAA	13.5	30.1
AA	14.8	7.1
A	14.1	14.0
BBB	18.9	14.5
BB	18.0	15.3
B	0.4	1.1
CCC	1.2	1.6
CC	8.6	7.1
C	3.1	3.9
D	7.4	5.3
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 between BB- and B+ as at June 30, 2010 (December 31, 2009, BB and BB-).

Swap Agreement C

Swap Agreement C refers to the credit performance of the reference obligations in Portfolio 3 that comprised 236 reference obligations as at June 30, 2010 (December 31, 2009 - 237).

Portfolio 3's composition by asset class as at June 30, 2010 and December 31, 2009 was as follows:

	June 30, 2010		**December 31, 2009**	
Asset class	**Number of reference obligations**	**% of Assets**	**Number of reference obligations**	**% of Assets**
Commercial asset-backed securities	4	4.9	4	4.8
Consumer asset-backed securities	1	0.2	1	0.2
Residential mortgage-backed securities	82	18.4	82	18.9
Commercial mortgage-backed securities	49	24.0	49	23.5
Structured exposure to mortgage-backed and corporate securities	100	52.5	101	52.6
	236	100.0	237	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 3 were distributed as follows:

	June 30, 2010 (by equivalent S&P rating*)	December 31, 2009 (by equivalent S&P rating*)
Rating	**% of Assets**	**% of Assets**
AAA	6.9	10.7
AA	11.0	15.3
A	14.2	16.1
BBB	16.7	14.0
BB	16.4	17.0
B	4.1	5.9
CCC	7.2	3.8
CC	17.9	13.5
C	0.9	0.9
D	4.7	2.8
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 between B and B- as at June 30, 2010 (December 31, 2009, BB- and B+).

13 Servicing fees

The Trust previously incurred investment advisor servicing fees equal to 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.

On March 18, 2009, the Trust paid servicing fees for an amount of $83,498 for the period from August 1, 2007 to February 28, 2009, based on the net assets value per-unit instead of the outstanding amount representing an amount of $658,095. As a result of this decision, the Trust recorded on December 31, 2009, a reduction in servicing fees of $574,597 and a related expense of $75,519. In addition, since March 2009, the Trust is no longer paying any servicing fees to the investment advisors

14 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.

15 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 20th 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 10th 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

(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.

Pursuant to the quarterly redemption of May 31, 2010, 50,000 units were submitted for redemption and were recirculated by National Bank Financial.

Annual redemption

Units may also be surrendered to the Administrative Agent for redemption at any time prior to the 20th 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 10th 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 $55,474,961 (December 31, 2009 – $57,657,341) term deposit and long-term receivable of credit default swap of $41,844,039 (December 31, 2009 – $39,661,659), less applicable unwind costs.

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

	2010	2009
Number of units		
Balance – Beginning and end of period	10,392,283	10,392,283

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

	2010 $	2009 $
Capital issued		
Balance – Beginning of period	50,413,388	76,869,023
Return of capital to unitholders	(2,390,225)	(22,522,156)
Balance – End of period	48,023,163	54,346,867
Deficit		
Balance – Beginning of period	(47,619,407)	(54,970,265)
Transfer of on-going cost of the period	25,833	23,387
Increase in net assets from operations	1,328,851	5,115,317
Balance – End of period	(46,264,723)	(49,831,561)
Reserve for on-going cost		
Balance – Beginning of period	340,349	388,315
Transfer to deficit of the period	(25,833)	(23,387)
Balance – End of period	314,516	364,928
Net Assets representing Unitholders' Equity	2,072,956	4,880,234

From January 1, 2007 to August 13, 2007, there were no redemptions. Due to the events since August 13, 2007 described in note 3, 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 3, the quarterly and annual redemptions resumed.

As at June 30, 2010 and December 31, 2009, National Bank of Canada and its subsidiaries held 0.5% of the outstanding units of the Trust.

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 original objectives of the Trust were 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, 2015 but no later than March 9, 2045 an amount equal to the residual value of the Trust. However, such objectives are no longer achievable given the credit events announced in November 2009 (referred to in note 12). 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 13). Following the credit event notices described in note 12, monthly distributions to Unitholders have been reduced starting with the distributions declared in June 30, 2010 ($363,730 or $0.035 per unit instead of $713,950 or $0.0687 per unit). Also, the Trust declared in June 30, 2010 an extraordinary cash distribution of $207,846 or $0.02 per unit for a total distribution of $571,576 or $0.055 per unit paid on July 16, 2010.

16 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. The term deposit referred to in note 8 has been subscribed from National Bank of Canada. In addition to the transactions separately identified in these financial statements, the following transactions took place during the six month period ended June 30:

Expenses incurred during the period		**2010**	**2009**
		$	**$**
Global DIGIT II Management Inc	Director fees of the trustee	64,999	81,619
National Bank of Canada	Administration agent	14,175	14,175
National Bank Financial	Servicing fees	-	(83,886)
Natcan Trust	Custody fees	1,640	1,023
		80,814	12,931

Accounts payable and accrued liabilities	**June 30, 2010**	**December 31, 2009**
	$	**$**
Global DIGIT II Management Inc	9,651	5,133
National Bank of Canada	7,087	7,087
Natcan Trust	1,000	1,000
	17,738	13,220

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.

17 Comparative figures

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