

Global Diversified Investment Grade Income Trust II

Financial Statements
December 31, 2008 and 2007

March 27, 2009

Auditors' Report

To the Unitholders of Global Diversified Investment Grade Income Trust II

We have audited the statement of investment portfolio of **Global Diversified Investment Grade Income Trust II** as at December 31, 2008, the statements of net assets as at December 31, 2008 and 2007 and the statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Trustee. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and 2007 and the results of its operations, and the changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP¹

Montréal, Canada

¹ Chartered accountant license number 14043

Global Diversified Investment Grade Income Trust II

Statements of Net Assets

As at December 31, 2008 and 2007

	2008 \$	2007 \$
Assets		
Investment (note 7)	78,257,146	75,178,836
Credit default swaps receivable (note 8)	40,523,082	29,489,110
Cash	100,328	86,876
Interest receivable on investment and credit default swaps receivable	318,000	307,500
Other	58,645	64,223
	<u>119,257,201</u>	<u>105,126,545</u>
Liabilities		
Accounts payable and accrued liabilities	776,450	424,687
Credit default swaps payable	837,000	809,000
Distributions payable	713,950	713,950
Credit default swaps related liability (note 9)	94,642,728	92,453,050
	<u>96,970,128</u>	<u>94,400,687</u>
Net Assets representing Unitholders' Equity (note 12)	<u>22,287,073</u>	<u>10,725,858</u>
Number of units outstanding (note 12)	<u>10,392,283</u>	<u>10,392,283</u>
Net assets per unit	<u>\$2.14</u>	<u>\$1.03</u>

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

Benoît Deschamps
Benoît Deschamps
Director

Global Diversified Investment Grade Income Trust II

Statements of Operations

For the years ended December 31, 2008 and 2007

	2008 \$	2007 \$
Investment income from trading activities		
Interest on investment and credit default swaps receivable	3,827,000	4,288,129
Income from credit default swaps	17,087,773	19,826,887
Interest on cash and credit default swaps receivable	242,547	425
	<u>21,157,320</u>	<u>24,115,441</u>
Investment-related expenses		
Expenses on credit default swaps	10,160,000	11,350,000
Servicing fees (note 10)	412,229	453,612
	<u>10,572,229</u>	<u>11,803,612</u>
Net investment income before administrative expenses	<u>10,585,091</u>	<u>12,311,829</u>
Administrative expenses		
Audit fees	162,635	118,833
Legal fees	189,283	454,617
Directors' fees of the trustee	150,735	103,894
Administrative agent fees	26,093	28,029
Register and transfer agent	7,950	7,950
Custodial fees	794	6,517
Unitholder reporting cost and listing fees	39,744	82,597
Insurance	14,750	13,248
Independent review committee fees and expenses	115,510	61,098
	<u>707,494</u>	<u>876,783</u>
Net investment income for the year	<u>9,877,597</u>	<u>11,435,046</u>
Losses on investment and credit default swaps		
Change in unrealized appreciation (depreciation) in value of investment and credit default swaps receivable	3,873,296	(909,162)
Change in unrealized net depreciation in value of credit default swaps	(2,189,678)	(80,034,175)
Realized loss on the partial settlement of credit default swaps	-	(7,326,315)
Realized loss on sale of investment and credit default swaps receivable	-	(589,744)
	<u>1,683,618</u>	<u>(88,859,396)</u>
Increase (decrease) in net assets from operations	<u>11,561,215</u>	<u>(77,424,350)</u>
Increase (decrease) in net assets from operations per unit	<u>\$1.11</u>	<u>\$(6.73)</u>

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 years ended December 31, 2008 and 2007

	2008 \$	2007 \$
Increase (decrease) in net assets from operations	11,561,215	(77,424,350)
Distributions to unitholders		
Return of capital (note 12)	-	(5,918,785)
Impact of initial adoption of financial instrument standards (note 4)	-	(1,815,770)
Equity transactions (note 12)	-	(25,983,416)
Increase (decrease) in net assets during the year	11,561,215	(111,142,321)
Net assets – Beginning of year	10,725,858	121,868,179
Net assets – End of year	22,287,073	10,725,858

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

Global Diversified Investment Grade Income Trust II

Statements of Cash Flows

For the years ended December 31, 2008 and 2007

	2008 \$	2007 \$
Cash flows from		
Operating activities		
Net investment income for the year	9,877,597	11,435,046
Adjustments for		
Realized loss on the partial settlement of credit default swaps	-	(7,326,315)
Decrease (increase) in interest receivable on investment and credit default swaps receivable	(10,500)	91,269
Increase in credit default swaps receivable	(10,238,986)	(5,057,809)
Decrease in investment	-	6,163,858
Decrease (increase) in other assets	5,578	(47,873)
Increase in accounts payable and accrued liabilities	351,763	246,179
Increase (decrease) in credit default swaps payable	28,000	(240,000)
	<u>(9,864,145)</u>	<u>(6,170,691)</u>
	13,452	5,264,355
Investing activities		
Proceeds from sale of investment and credit default swaps receivable	-	26,815,457
Financing activities		
Redemption of units	-	(25,983,416)
Distributions paid to unitholders	-	(6,163,858)
	-	<u>(32,147,274)</u>
Increase (decrease) in cash during the year	13,452	(67,462)
Cash – Beginning of year	86,876	154,338
Cash – End of year	<u>100,328</u>	<u>86,876</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 December 31, 2008

	Description	Interest rate	Maturity	Cost and nominal amount	Fair value
National Bank of Canada	Investment - term deposit	3.922%	March 2010	77,344,481	78,257,146
Silverstone Trust	Long-term receivable	3.922%	March 2010	19,974,519	20,210,218
				<hr/>	<hr/>
				97,319,000	98,467,364

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

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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 a leverage exposure to three portfolios (collectively, the “portfolio”) containing respectively 207, 148 and 238 (December 31, 2007 – 218, 152 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 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 itself entered into four credit default swap agreements with a counterparty, Deutsche Bank (the “Bank”). Three of the four credit default swap agreements Silverstone entered into with the Bank are a mirror image of the three credit default swaps the Trust entered into with Silverstone.

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 place their paper and to repay their commercial paper as they came due. On August 16, 2007, a group of major Canadian investors (the “Investors Committee” or “Committee”) and market participants reached an agreement aimed at re-establishing normal operations in the Third Party ABCP market. Under the terms of this agreement, holders of Third Party ABCP who are signatories agreed, notably, to continue to hold their Third Party ABCP for a period of 60 days (the “Standstill Period”) and, after this period to convert all outstanding Third Party ABCP into term floating rate notes maturing no earlier than the scheduled termination date of the corresponding underlying assets of each conduit. The Standstill Period was further extended 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 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 roll its maturing ABCP.

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

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 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 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 & Poor’s and AA- with a negative watch by Fitch.

Following the Disengagement Transaction, all amounts owed 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

As at December 31, 2008

a) Recent accounting standards adopted

i) Capital disclosures and financial instruments – Disclosures and presentation

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

Section 1535 establishes disclosure requirements concerning:

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

The information related to this new standard is included in the note 12.

Sections 3862 and 3863 consist of a comprehensive series of disclosure requirements and presentation rules applicable to financial instruments. They revise and enhance the disclosure requirements set out in Section 3861, “Financial Instruments – Disclosure and Presentation”, and carry forward unchanged the presentation requirements of Section 3861. The information related to these new standards is included in the notes 5 and 6. These new standards were applied to the Trust effective January 1, 2008.

ii) Going concern

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

b) 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.

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:

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

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.

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 other accounts receivable, accounts payable and accrued liabilities, and distributions payable.

Impact of initial adoption of financial instrument standards

The Trust adopted the new accounting standard "Financial Instruments – Recognition and Measurement" (Section 3855) on January 1, 2007 and the change in accounting policy was treated retrospectively without restatement. The opening balances of financial instruments and net assets as at January 1, 2007 have been decreased by an amount of \$1,815,770.

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

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 year ended December 31, 2008, 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 \$97,319 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 decrease of \$1,116,249 or an increase of \$1,131,820 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 December 31, 2008 and 2007 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 in notes 7, 8 and 9).

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 Silverstone and is expected to mature until March 2010 or subsequent reset date on a multiple of five years. Under the credit default swap agreements, the term deposit investment is pledged to Silverstone. 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).

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

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:

December 31, 2008	Held for trading	Loan and receivables	Financial liabilities at cost or amortized cost
Financial assets			
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	-	58,645	-
Total financial assets	118,880,556	376,645	-
Financial liabilities			
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	-	-
Total financial liabilities	94,642,728	-	2,327,400

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

December 31, 2007	Held for Trading	Loan and receivables	Financial liabilities at cost or amortized cost
Financial assets			
Investment (a)	75,178,836	-	-
Credit default swaps receivable (a)	29,489,110	-	-
Cash	86,876	-	-
Interest receivable on investment and credit default swaps receivable	-	307,500	-
Other assets	-	64,223	-
Total financial assets	104,754,822	371,723	-
Financial liabilities			
Accounts payable and accrued liabilities	-	-	424,687
Credit default swaps payable	-	-	809,000
Distributions payable	-	-	713,950
Credit default swaps related liability	92,453,050	-	-
Total financial liabilities	92,453,050	-	1,947,637

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

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

7 Investment

The investment consists of a term deposit issued on an unsubordinated and unguaranteed basis by a financial institution. The investment matures in March 2010.

The term deposit with National Bank of Canada has a fair value of \$78,257,146 (2007 – \$75,178,836), having a long-term solvency rating of A from Standard and Poor's Rating Service ("S&P") with a nominal amount of \$77,344,481 (2007 – \$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 the maturity of the Trust.

Under the credit default swap agreements, the term deposit investment is pledged to Silverstone. 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. After year end, following the Disengagement Transaction described in note 2, the term deposit investment was pledged to the Bank.

On February 28, 2007, a notice of redemption from some unitholders of the Trust was received and consequently, the Trust sold, as at March 14, 2007, a part of the investment for a nominal amount of \$11,525,300 at a price of 98.822% plus interest.

On May 31, 2007, a notice of redemption from some unitholders of the Trust was received and consequently, the Trust sold, as at June 14, 2007, a part of the investment for a nominal amount of \$15,879,900 at a price of 97.82% plus interest.

8 Credit default swaps receivable

The fair value of the total credit default swaps receivable from Silverstone 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 \$40,523,082 (2007 - \$29,489,110) is composed of \$12,463,710 (2007 – \$3,646,457) in a short-term receivable corresponding to the amounts accrued monthly and paid by Silverstone that were accumulated in a segregated account, of \$7,849,154 (2007 – \$6,427,421) in a short-term receivable corresponding to the amounts that were accreted monthly by Silverstone for the benefit of the Trust (amount accruing to recover the initial public offering cost) and of the financial contract fees receivable. Also, the total credit default swaps receivable included a long-term receivable of \$20,210,218 (2007 – \$19,415,232) with a nominal amount of the credit default swaps receivable is \$19,974,519 (2007 – 19,974,519) and matures in March 2010. The long-term receivable 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. After year end, both parties signed the Disengagement Transaction effective January 20, 2009 as described in note 2, which provides for full payment to the Trust of the amount held in the segregated account.

Credit default swaps receivable	2008	2007
	\$	\$
Short-term receivable (segregated account)	12,463,710	3,646,457
Short-term receivable (accreted amount and financial contract fees)	7,849,154	6,427,421
Long-term receivable (redemption of collateral)	20,210,218	19,415,232
Total	40,523,082	29,489,110

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

On February 28, 2007, a notice of redemption from some unitholders of the Trust was received and consequently, the Trust sold, as at March 14, 2007, a part of the credit default swaps receivable for a nominal amount of \$2,297,700 at a price of 98.822% plus interest.

On May 31, 2007, a notice of redemption from some unitholders of the Trust was received and consequently, the Trust sold, as at June 14, 2007, a part of the credit default swaps receivable for a nominal amount of \$3,703,100 at a price of 97.82% plus interest.

9 Derivative financial instruments and reference obligation portfolios

Credit default swap agreements with Silverstone

The Trust has entered into three credit default swap agreements (“swap agreements A, B and C”) with Silverstone, pursuant to which the Trust will pay Silverstone if credit events occur in connection with the reference obligations until March 2010 or 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 (2007 – \$97,319,000). Under swap agreements A, B and C, a monthly payment by the Trust to Silverstone 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 Silverstone with the net return of Silverstone being paid to the Trust. On a monthly basis, Silverstone 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. Silverstone 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. After year end, following the Disengagement Transaction described in note 2, Silverstone was replaced by the Bank effective January 20, 2009.

The aggregate notional amount of the three swap agreements (A,B,C) as at December 31, 2008 totalled \$97,319,000 (2007 – \$97,319,000) for the references obligation portfolios of \$7,826,496,421 (2007 – \$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 December 31, 2008 at \$94,642,728 (2007 – cumulative unrealized loss of \$92,453,050) which amount is consistent with the valuation of the Bank. The increase in the cumulative unrealized loss during the year is mainly caused by a worldwide and severe deterioration of the financial markets which decreased liquidity and increased spreads significantly.

Credit risk

As a result of entering into the credit default swap agreements with Silverstone, 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 (2007 – \$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 December 31, 2008 was \$39,686,082 (2007 – \$28,680,110). After year end, following the Disengagement Transaction described in note 2, Silverstone was replaced by the Bank effective as of January 20, 2009.

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

Credit event

There were no credit events in the portfolio of reference obligations during the years ended December 31, 2008 and 2007.

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 December 31, 2008 totalled \$97,319,000 (2007 – \$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 207 reference obligations as at December 31, 2008 (2007 – 218).

Portfolio 1’s composition by asset class as at December 31, 2008 and 2007 was as follows:

Asset class	December 31, 2008		December 31, 2007	
	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	6	2.1
Residential mortgage-backed securities	86	28.7	90	32.6
Commercial mortgage-backed securities	32	16.4	32	15.7
Structured exposure to mortgage-backed and corporate securities	77	49.3	83	46.2
	207	100.0	218	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:

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

Rating	December 31, 2008		December 31, 2007	
	(by equivalent S&P rating*)		(by equivalent S&P rating*)	
	% of Assets		% of Assets	
AAA	62.3		76.0	
AA	9.9		11.2	
A	13.4		12.6	
BBB	2.6		0.1	
BB	1.6		0.1	
B	3.4		-	
CCC	1.8		-	
CC	4.9		-	
C	0.1		-	

* 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 BBB- /BB+ as at December 31, 2008 (2007 AA+ and AA).

Swap Agreement B

Swap Agreement B refers to the credit performance of the reference obligations in Portfolio 2 that comprised 148 reference obligations as at December 31, 2008 (2007 - 152).

Portfolio 2's composition by asset class as at December 31, 2008 and 2007 was as follows:

Asset class	December 31, 2008		December 31, 2007	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	7	8.4	8	9.4
Consumer asset-backed securities	3	2.3	3	2.1
Residential mortgage-backed securities	51	21.6	52	23.0
Commercial mortgage-backed securities	18	15.7	18	15.4
Structured exposure to mortgage-backed and corporate securities	69	52.0	71	50.1
	148	100.0	152	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:

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

Rating	December 31, 2008		December 31, 2007	
	(by equivalent S&P rating*)		(by equivalent S&P rating*)	
	% of Assets		% of Assets	
AAA	49.4		73.0	
AA	8.0		3.1	
A	21.3		22.2	
BBB	5.1		1.7	
BB	0.9		-	
B	3.2		-	
CCC	4.2		-	
CC	7.2		-	
C	0.7		-	

* 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 December 31, 2008 (2007 AA and AA-).

Swap Agreement C

Swap Agreement C refers to the credit performance of the reference obligations in Portfolio 3 that comprised 238 reference obligations as at December 31, 2008 and 2007.

Portfolio 3's composition by asset class as at December 31, 2008 and 2007 was as follows:

Asset class	December 31, 2008		December 31, 2007	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	4	4.7	4	4.7
Consumer asset-backed securities	1	0.2	1	0.2
Residential mortgage-backed securities	82	20.7	82	22.6
Commercial mortgage-backed securities	50	23.5	50	22.9
Structured exposure to mortgage-backed and corporate securities	101	50.9	101	49.6
	238	100.0	238	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:

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

Rating	December 31, 2008	December 31, 2007
	(by equivalent S&P rating*)	(by equivalent S&P rating*)
	% of Assets	% of Assets
AAA	35.5	46.6
AA	12.0	13.4
A	29.0	34.7
BBB	7.7	3.2
BB	2.3	2.1
B	0.6	-
CCC	3.4	-
CC	9.4	-
C	-	-
D	0.1	-

* 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 December 31, 2008 (2007 A+ and A).

10 Servicing fees

The Trust incurs investment advisor servicing fees equal to 0.40% (2007 – 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. Due to the events described in note 2, no servicing fees have been paid from August 1, 2007 to December 31, 2008.

Following the Disengagement Transaction, the Trustee of the Trust decided to pay 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 and that no payment will be made thereafter. As at December 31, 2008, an amount of \$588,896 is included in accounts payable and accrued liabilities and was calculated based on the outstanding amount. A reduction of \$508,141 has been recorded in 2009.

11 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.

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

12 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 February, May, August and November (the "Redemption Date"). Subject to the right of the Trust to suspend redemptions in certain circumstances, units surrendered for redemption will be redeemed on such Redemption Date at the redemption price. The payment of the redemption price will be made on the 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.

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 \$77,344,481 (2007 – \$77,344,481) term deposit and long-term receivable of credit default swap of \$19,974,519 (2007 – \$19,974,519), less applicable unwind costs.

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

The following transactions took place during the years ended December 31, 2008 and 2007:

	2008	2007
Number of units		
Balance – Beginning of year	10,392,283	13,959,575
Redeemed during the year	-	(3,567,292)
	<hr/>	<hr/>
Balance – End of year	<u>10,392,283</u>	<u>10,392,283</u>

Unitholders' equity is made up of capital issued and retained earnings. The following transactions took place during the years ended December 31, 2008 and 2007:

	2008 \$	2007 \$
Capital issued		
Balance – Beginning of year	77,333,792	109,235,993
Return of capital to unitholders	-	(5,918,785)
Redeemed during the year	-	(25,983,416)
	<hr/>	<hr/>
Balance – End of year	<u>77,333,792</u>	<u>77,333,792</u>
Retained earnings (deficit)		
Balance – Beginning of year	(66,607,934)	12,632,186
Impact of initial adoption of financial instrument standards (note 4)	-	(1,815,770)
Increase (decrease) in net assets from operations	11,561,215	(77,424,350)
	<hr/>	<hr/>
Balance – End of year	<u>(55,046,719)</u>	<u>(66,607,934)</u>
	<hr/>	<hr/>
	<u>22,287,073</u>	<u>10,725,858</u>

- a) On February 28, 2007, a notice of redemption of 1,476,120 units from unitholders of the Trust was received. These units were redeemed on March 14, 2007 at an unwind price of \$8.21 per unit for a total amount of \$12,118,946 has been recorded as a reduction of capital.
- b) On May 31, 2007, pursuant to the special redemption, the Trust received a notice of redemption for 2,091,172 units from unitholders of the Trust. These units were redeemed on June 14, 2007 at an unwind price of \$6.63 per unit for a total amount of \$13,864,470 has been recorded as a reduction of capital.
- c) From January 1, 2007 to August 13, 2007, there were no redemptions. Due to the events since August 13, 2007 described in note 2, all redemptions 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. After year end, 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%).

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

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. The distribution balance payable of \$713,950 as at December 31, 2008 and 2007 represents the distribution declared in July 2007. Following the Disengagement Transaction, all amounts owed 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. 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 in note 10).

13 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. In order to meet its investment objectives, the Trust entered into three credit default swap agreements with a counterpart, Silverstone. The trustee of Silverstone is Metcalfe & Mansfield Alternative Investments II Corp. and has the same board of directors as the Trustee of the Trust. All operations and amounts between the Trust and Silverstone are described in the note 8 and 9 of these financial statements. As described in the note 7, the term deposit has been contracted with National Bank of Canada. In addition to the transactions separately identified in these financial statements, the following transactions took place during the years ended December 31, 2008 and 2007:

Expenses incurred during the year		2008	2007
		\$	\$
Global DIGIT II Management Inc	Director's fees of the trustee	150,735	103,894
National Bank of Canada	Administration agent	26,093	28,029
National Bank Financial	Servicing fees	69,288	96,786
Natcan Trust	Custody fees	794	6,517
		<u>246,910</u>	<u>235,226</u>

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements

As at December 31, 2008

Accounts payable and accrued liabilities at the end of the year	2008	2007
	\$	\$
Global DIGIT II Management Inc	2,596	32,607
National Bank of Canada	7,087	7,168
National Bank Financial	100,794	31,505
Natcan Trust	511	1,500
	<u>110,988</u>	<u>72,780</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.

14 Comparative figures

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