

Global Diversified Investment Grade Income Trust

Consolidated Financial Statements
June 30, 2006
(unaudited)

Global Diversified Investment Grade Income Trust

Consolidated Statements of Net Assets

As at

	As at June 30, 2006 (unaudited) \$	As at December 31, 2005 (audited) \$
Assets		
Cash	514,206	354,349
Interest receivable on investments	5,424,365	4,408,170
Credit default swap receivable	12,804,477	9,571,237
Other accounts receivable	18,789	18,869
Prepaid expenses	12,297,776	13,451,121
Investments, at cost (note 3)	1,489,024,490	1,492,204,514
Credit default swap asset, at replacement cost (note 4)	-	-
Interest rate swap asset (note 4)	7,707	35,284
	<u>1,520,091,810</u>	<u>1,520,043,544</u>
Liabilities		
Accounts payable and accrued liabilities	2,095,476	1,279,050
Brokers' commissions payable	92,155	55,374
Credit default swap payable	1,309,945	1,226,018
Commercial paper (note 5)	1,075,904,277	1,116,574,172
Floating rate notes (note 6)	325,000,000	285,000,000
Placement and structuring fee note (note 7)	12,995,194	14,067,920
Distributions payable	529,739	530,269
Credit default swap liability, at replacement cost (note 4)	1,000,000	1,000,000
	<u>1,418,926,786</u>	<u>1,419,732,803</u>
Net Assets representing Unitholder's Equity (note 9)	<u>101,165,024</u>	<u>100,310,741</u>
Number of units outstanding	<u>10,701,800</u>	<u>10,712,500</u>
Net assets per unit	<u>9.45</u>	<u>9.36</u>

Global Diversified Investment Grade Income Trust

Consolidated Statements of Operations

For the six month period ended June 30, 2006

	Six-month period ended June 30, 2006 (unaudited) \$	Six-month period ended June 30, 2005 (unaudited) \$
Investment income		
Interest on investments	30,803,292	22,044,266
Income from credit default swap	11,905,811	10,121,328
Interest on cash	4,558	9,596
Change in unrealized appreciation (depreciation) in value of Credit default swap and interest rate swap asset (liability)	(27,577)	(2,400,000)
	<u>42,686,084</u>	<u>29,775,190</u>
Investment-related expenses		
Expense on credit default swaps	8,356,611	6,581,750
Interest on interest rate swaps	113,123	(17,834)
Interest on commercial paper	20,848,735	14,753,276
Interest on floating rate notes	5,783,461	3,343,747
Interest on placement and structuring fee note	322,866	372,891
Brokers' commissions	384,721	574,486
Liquidity premiums	555,463	575,478
Financial service fees (note 8 (a))	1,573,612	2,657,266
Follow-up fees (note 8 (b))	133,817	133,907
	<u>38,072,409</u>	<u>28,974,967</u>
Net investment income before administrative expenses	<u>4,613,675</u>	<u>800,223</u>
Administrative expenses		
Audit fees	135,598	79,300
Legal fees	170,302	103,026
Directors fees	35,178	73,359
Administrative agent	32,690	58,165
Custodial fees	63,268	63,702
Communications	3,025	14,920
Regulatory fees	27,687	24,649
Insurance	17,891	14,694
Information technology fees	-	18,350
Bank fees	3,849	3,263
	<u>489,488</u>	<u>453,427</u>
Net income for the period	<u>4,124,187</u>	<u>346,796</u>
Net income per unit	<u>0.39</u>	<u>0.03</u>

Global Diversified Investment Grade Income Trust

Consolidated Statements of Changes in Net Assets

For the six month period ended June 30, 2006

	Six-month period ended June 30, 2006 (unaudited) \$	Six-month period ended June 30, 2005 (unaudited) \$
Net income for the period	4,124,187	346,796
Distributions to unitholders		
Return of capital	(3,180,024)	(3,181,613)
Equity transactions	<u>(89,880)</u>	<u>-</u>
Increase (decrease) in net assets for the period	854,283	(2,834,817)
Net assets – Beginning of period	<u>100,310,741</u>	<u>101,013,352</u>
Net assets – End of period	<u>101,165,024</u>	<u>98,178,535</u>

Global Diversified Investment Grade Income Trust

Consolidated Statements of Cash Flows

For the six month period ended June 30, 2006

	Six-month period ended June 30, 2006 (unaudited) \$	Six-month period ended June 30, 2005 (unaudited) \$
Cash flows from Operating activities		
Net income for the period	4,124,187	346,796
Adjustments for		
Change in unrealized appreciation (depreciation) in value of credit default swap and interest swap (asset) liability	27,577	2,400,000
Decrease (increase) in interest receivable on investments	(1,016,195)	162,450
Decrease (increase) in credit default swap receivable	(3,233,240)	(2,125,686)
Decrease in prepaid expenses	1,153,345	1,495,762
Decrease (increase) in other accounts receivable	80	(4,603)
Increase (decrease) in accounts payable and accrued liabilities	816,426	(243,063)
Decrease in distributions payable	(530)	-
Increase (decrease) in brokers' commission payable	36,781	(61,176)
Increase (decrease) in credit default swap payable	83,927	(1,268,728)
Interest on placement and structuring fee note	327,272	377,830
Amortization of discount on commercial paper	20,848,735	14,753,276
	19,044,178	15,486,062
	23,168,365	15,832,858
Investing activities		
Proceeds from sales of investments	3,180,024	3,181,613
Financing activities		
Proceeds from issuance of commercial paper	5,910,517,217	6,197,338,852
Maturity of commercial paper	(5,972,035,847)	(6,271,740,771)
Proceeds from issuance of floating rate notes	100,000,000	60,000,000
Maturity of floating rate notes	(60,000,000)	-
Payments on placement and structuring fee note	(1,399,998)	(1,399,998)
Issue of units	-	-
Unit issue expense	-	-
Unit redeemed	(89,880)	-
Distributions paid to unitholders	(3,180,024)	(3,181,613)
	(26,188,532)	(18,983,530)
Increase in cash for the period	159,857	30,941
Cash – Beginning of period	354,349	225,520
Cash – End of period	514,206	256,461

Global Diversified Investment Grade Income Trust

Notes to Consolidated Financial Statements

June 30, 2006

1 Creation of Trust and nature of operations

Global Diversified Investment Grade Income Trust (the “Trust”) is a closed-end income trust which was established under the laws of the Province of Ontario on August 30, 2004 by a trust agreement.

Metcalf & Mansfield Alternative Investments Corp. and 4227298 Canada Inc. are the issuing co-trustees (together the “Trustees”) of the Trust. Natcan Trust Company was engaged by the Trustees to act as administrative agent of the Trust, custodian of its assets and transfer agent and registrar of its units. Natcan Trust Company will also act as investment advisor of the Trust if so required by the Trustees. The promoter of the Trust is National Bank Financial Inc. and Natcan Trust Company, do not hold any voting securities in the Trustees and do not have a representative on their boards.

The Trust provides its unitholders with an exposure to three portfolios (collectively, the “portfolio”) containing 276 securities (2005 – 276) (the “reference obligations”), the objective being to provide unitholders with a stream of monthly distributions and to redeem all of the outstanding units on or following September 9, 2014 (the “expected maturity date”), but no later than September 9, 2016 (the “legal maturity date”). In order to meet its investment objectives, on September 9, 2004, the Trust entered into credit default swap agreements with a creditworthy financial institution (the “Bank”).

Through to the expected maturity date (or the legal maturity date, as applicable), the redemption price of the Trust’s units and the net asset value of the Trust will vary depending on a number of factors such as the monthly distributions to be made on the units, interest rates, the rating 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. However, the Trust will not be exposed to losses greater than the unitholders’ equity.

2 Significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are the following.

Consolidation

The consolidated financial statements include the assets and liabilities and the results of operations of the Trust and of MMAI-I Trust, a variable interest entity of which the Trust is the main beneficiary, after elimination of intercompany transactions and balances.

Investments

Investments are carried at cost.

Global Diversified Investment Grade Income Trust

Notes to Consolidated Financial Statements

June 30, 2006

Prepaid expenses

Prepaid expenses consist of the placement and structuring fees paid in advance to National Bank Financial Inc. They are amortized on a straight-line basis over approximately seven years.

Revenue recognition

Interest income, interest expense and income and expenses from the credit default swaps are recorded on an accrual basis.

Accounting estimates

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

Fair value of financial instruments

The fair value of the financial instruments is determined as follows.

Valuation of credit default swaps and interest rate swaps

The credit default swaps are presented at their net estimated replacement cost and the interest rate swaps are presented at their estimated fair value with changes in the unrealized gain or loss of the period recorded in the consolidated statement of operations. Replacement cost is evaluated based on the quotation provided by the Bank. The calculated replacement cost reflects market conditions on a given date and for this reason may not be representative of future fair values. Also, the replacement cost does not necessarily reflect the value at which the credit default swaps could be liquidated.

Financial instruments valued at book value

The book value of a number of short-term financial instruments presented in the consolidated statement of net assets approximates their fair value. These financial instruments include cash, interest receivable on investments, credit default swap receivable and payable, other accounts receivable, accounts payable and accrued liabilities, commercial paper and distributions payable.

Investments and credit default swap receivable

The fair value of the floating rate term note approximates its book value. The estimated fair value of the fixed rate term note and the credit default swap receivable is determined by discounting the contractual cash flows at the interest rate on the term deposit and swaps.

Global Diversified Investment Grade Income Trust

Notes to Consolidated Financial Statements

June 30, 2006

Floating rate notes

The fair value of the floating rate notes approximates their book value.

3 Investments

Under the credit default swap agreements, the term note investments are pledged to the Bank. These investments are issued on an unsubordinated and unguaranteed basis by financial institutions. The investments mature in September 2014.

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.

A \$89,024,490 (2005- \$92,204,514) term note with a financial institution, having a long-term solvency rating of A from Standards & Poor's Rating Service ("S&P") as of the date of issuance, together with a credit default swap receivable of \$ 12,804,477 (2005- \$9,571,237) bear interest at a rate of 4.28%, payable monthly until September 2009. After this date, the interest rate will be the rate of one-month bankers' acceptances plus a fixed margin per year, payable monthly up to the date of maturity.

A \$1,400,000,000 term note with a financial institution, having an S&P long-term solvency rating of AAA as of the date of issuance, bears interest at the rate of one-month bankers' acceptances plus a fixed margin, payable monthly until end of term.

4 Derivative instrument

The Trust has entered into three credit default swap agreements ("swap agreements D, E and F") with the Bank pursuant to which the Trust will pay the Bank if credit events occur in connection with the reference obligations until September 2014 at the earliest and September 2016 at the latest. The maximum loss that may be incurred for credit events with respect to swap agreements D, E and F amounts to \$140,000,000. Under swap agreements D, E and F, a monthly payment, made by the Trust to the Bank corresponding to a contractual rate applied to the notional amount of the contracts and equal to the contractual interest rate applied to the investment pledged as security, is made, and 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. On a monthly basis, the Bank will acquire from the Trust a portion contractually determined of the note pledged as security; this portion is equal to the monthly payment for the month in consideration.

Global Diversified Investment Grade Income Trust

Notes to Consolidated Financial Statements

June 30, 2006

Moreover, through MMAI-I Trust, the Trust has also entered into credit default swap agreements (“swap agreements D, E and F”) with the Bank pursuant to which the Trust will pay the Bank if credit events occur in connection with the reference obligations until September 2014, at the earliest, and September 2016, at the latest. The maximum loss that may be incurred for credit events with respect to swap agreements A, B and C amounts to \$1,400,000,000. The income from those contracts received by the Trust is equal to a contractual rate applied to the contract notional amount.

The aggregate notional amount of the six swap agreements (A, B, C, D, E and F) as at June 30, 2006 and 2005 totalled \$1,540,000,000 for the reference obligations portfolio of \$36,802,454,762, which had an average S&P rating of AA/AA- on June 30, 2006.

The Trust also entered into similar back-to-back D, E and F credit default swap agreements with Global Diversified Investment Grade Private Trust (“Private Trust”) pursuant to which Private Trust will pay the Trust if credit events occur in connection with the reference obligations until September 2014 at the earliest and September 2016 at the latest up to a maximum loss of \$40,000,000.

The amounts exchanged under the swap agreements with Private Trust are as follows:

- a) A monthly payment made by Private Trust to the Trust, based on an amount corresponding to the contractual interest rate applied to the nominal value of the investment in term deposits pledged as security by Private Trust and to a contractual rate applied to the swap notional amount between Private Trust and the Trust.
- b) On a monthly basis, the Trust will acquire from Private Trust, for resale to the Bank, a portion contractually determined of the term deposit investment pledged as security by Private Trust to the Trust under the swap agreements; this portion is equal to the monthly release for the month in consideration. This monthly release by the Trust to Private Trust will be of an amount sufficient to provide a distribution calculated at an annual rate of 6.81% on the notional amount as at June 30, 2006 and 2005 of \$40,000,000 (less any net losses from credit events on the reference obligations underlying the credit default swaps) until September 2009; thereafter, the expected distribution will be equal to the bank acceptance rate plus a margin, payable monthly.

From time to time, the Trust enters into interest rate swap agreements with the National Bank of Canada in order to manage interest rate spread risks relating to the commercial paper and the investments. These contracts have not been designated for hedge accounting. They had a total notional amount of \$7,850,360 as at June 30, 2006 and a fair value of \$7,707 (2005 – nil).

Global Diversified Investment Grade Income Trust

Notes to Consolidated Financial Statements

June 30, 2006

Credit risk

As a result of entering into the credit default swap agreements with the Bank, the Trust is exposed to credit risk with respect to the reference obligations included in the portfolio. Credit events (bankruptcy, failure to pay or other loss event) in relation to the reference obligations could result in a loss for the Trust. The maximum loss that could be borne by the Trust for credit events with respect to the reference obligations under swap agreements D, E and F amounts to \$100,000,000, after the swap agreements with Private Trust come into effect. Any loss from swap agreements A, B and C will be borne by the holders of the commercial paper and floating rate notes.

Additionally, the Trust is exposed to counterparty credit risk arising from any unrealized gain on the credit default swaps and interest rate swaps, plus any amount receivable from the counterparty. Management believes that the probability of default is low.

Interest rate risk

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

5 Commercial paper

Outstanding commercial paper as at June 30, 2006, including accrued interest of \$4,130,918 is \$1,075,904,277 (2005-\$1,116,574,172), mature between July and December 2006, as shown in the table below:

Maturity date	Interest rate	Amount \$
July 2006	4.06% to 4.35%	632, 275, 434
July 2006	3.79% to 4.44%	413, 128, 293
August 2006	3.98% to 4.47%	203, 402, 316
September 2006	4.35% to 4.52%	185, 288, 087
December 2006	4.47 to 4.53%	54, 938, 440
		<hr/>
		1, 075, 904, 277
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Global Diversified Investment Grade Income Trust

Notes to Consolidated Financial Statements

June 30, 2006

6 Floating rate notes

Maturity date	Interest rate	Amount \$
December 2006	CDOR – 1 month + 0.17%	125,000,000
December 2006	CDOR – 3 months + 0.17%	40,000,000
April 2007	CDOR – 1 month + 0.16%	50,000,000
April 2007	CDOR – 3 months + 0.16%	10,000,000
June 2008	CDOR – 3 months + 0.15%	<u>100,000,000</u>
		<u>325,000,000</u>

7 Placement and structured fee note (PSF Note)

The Trust issued a PSF Note, having a face value of \$ 19,366,667 in consideration of \$ 16,442,460 pursuant to a Financial Services Agreement dated February 23, 2005 between National Bank Financial Inc. and the Trust. The principal sum of \$ 19,366,667 will be paid by the Trust in equal monthly instalments of \$ 233,333 consisting of capital and interest of 4.8%.

The maturity date of the PSF Note is September 15, 2011.

8 Operating expenses

- The Trust pays financial service fees of up to 0.35% per annum of the funded initial amount of the swap contract entered into by the Trust. These fees include the placement and structuring fee and the performance fee.
- The Trust pays investment advisors follow-up fees equal to 0.25% per annum of the outstanding amount on a per unit basis held by clients of such investment advisors.

9 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 this Act on the amount of taxable income for the period and can deduct 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

Notes to Consolidated Financial Statements

June 30, 2006

10 Unitholders' equity

Authorized units

The Trust is authorized to issue in series an unlimited number of transferable and redeemable units, each of which represents an equal, undivided interest in the net assets of the Trust.

All units have equal rights and privileges. Each whole unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Trust.

Units may also be surrendered for redemption at any time but will be redeemed only on a quarterly basis on the last business day of each of the months of February, May, August and November (the "redemption date") for an amount equal to the redemption price of the units determined as of such redemption date.

The redemption price will be equal to the lesser of:

- (a) 95% of the daily weighted average trading price per unit on the principal exchange on which the units are listed for the five trading days following the redemption date; and
- (b) an amount equal to:
 - (i) the closing price of the units on the principal exchange on which the units are listed; or
 - (ii) the average of the highest and lowest prices of the units if the exchange or other markets on which the units are listed provides only the highest and lowest trading prices; or
 - (iii) the average of the latest bid and ask prices on the principal exchange on which the units are listed if there was no trading on such redemption date.

Units may be surrendered for redemption at any time but will be redeemed only on an annual basis on the last business day of each month of August (the "annual redemption date") for an amount equal to the unwind price of swap agreements D, E and F determined as of such annual redemption date. The unwind price will be an amount equal to the sum of (i) the bid price received by the Trust to terminate the applicable tranche of swaps agreements D, E and F and (ii) the market value of the tranche of the Trust's \$100,000,000 term deposit, less applicable unwind costs.

On March 10, 2006; 10,700 units were redeemed at \$ 8.40 for a total consideration of \$ 89,880.

Global Diversified Investment Grade Income Trust

Notes to Consolidated Financial Statements

June 30, 2006

Monthly distributions

Distributions to unitholders constitute partial capital reimbursement at the issue price of the units and may fluctuate from month to month depending on the occurrence of credit events in the portfolio. In the event that no credit default occurs, the Trust expects distributions to be made until September 2009 at an annual fixed rate of 5.95%, after which they will be made at a floating distribution rate corresponding to the rate of bankers' acceptances plus 2%.

The distributions declared by the Trust are accounted for once declared but are payable on the 10th business day of the following month.

11 Comparative figures

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