Global Diversified Investment Grade Income Trust II

Financial Statements
December 31, 2007 and 2006

April 15, 2008

Auditors' Report

To the Unitholders of
Global Diversified Investment Grade Income Trust II

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants

Montreal, Canada

Global Diversified Investment Grade Income Trust II

Statements of Net Assets

As at December 31, 2007 and 2006

	2007 $	2006 $ (Adjusted note 3a)ii))
Assets		
Investment (note 4)	75,178,836	110,913,540
Credit default swaps receivable (note 5)	29,489,110	24,990,588
Cash	86,876	154,338
Interest receivable on investment and credit default swaps receivable	307,500	398,769
Other	64,223	16,350
	105,126,545	136,473,585
Liabilities		
Accounts payable and accrued liabilities	424,687	178,508
Credit default swaps payable	809,000	1,049,000
Distributions payable	713,950	959,023
Credit default swaps related liability (note 6)	92,453,050	12,418,875
	94,400,687	14,605,406
Net Assets representing Unitholders' Equity (note 9)	10,725,858	121,868,179
Number of units outstanding (note 9)	10,392,283	13,959,575
Net assets per unit	$1.03	$8.73

Going concern and contingencies (note 2)

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

Approved by the Trustee, Global DIGIT II Management Inc.

Claude Dalphond Director *Benoît Deschamps* Director

Claude Dalphond Benoît Deschamps

Global Diversified Investment Grade Income Trust II

Statements of Operations

For the years ended December 31, 2007 and 2006

	2007 $	2006 $ (Adjusted note 3a)ii))
Investment income		
Interest on investment and credit default swaps receivable	4,288,129	5,189,494
Income from credit default swaps	19,826,887	23,031,256
Interest on cash	425	15,335
Change in unrealized depreciation in value of investment and credit default swaps receivable	(909,162)	-
Change in unrealized net depreciation in value of credit default swaps	(80,034,175)	(12,418,875)
Realized loss on the partial settlement of credit default swaps	(7,326,315)	(695,616)
Realized gain (loss) on sale of investment and credit default swaps receivable	(589,744)	102,953
	(64,743,955)	15,224,547
Investment-related expenses		
Expenses on credit default swaps	11,350,000	13,822,767
Follow-up fees (note 7)	453,612	565,277
	11,803,612	14,388,044
Net investment income (loss) before administrative expenses	(76,547,567)	836,503
Administrative expenses		
Audit fees	118,833	98,204
Legal fees	454,617	294,329
Directors' fees	103,894	70,121
Administrative agent fees	35,979	52,285
Custodial fees	6,517	8,824
Regulatory fees	82,597	22,614
Insurance	13,248	12,000
Independent review committee fees and expenses	61,098	-
	876,783	558,377
Net income (loss) for the year	(77,424,350)	278,126
Net income (loss) for the year per unit	$(6.73)	$0.02

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, 2007 and 2006

	2007 $	2006 $ (Adjusted note 3a)ii))
Net income (loss) for the year	(77,424,350)	278,126
Distributions to unitholders		
Return of capital (note 9)	(5,918,785)	(11,644,358)
Impact of initial adoption of financial instrument standards (note 3a)iii))	(1,815,770)	-
Equity transactions (note 9)	(25,983,416)	(8,913,825)
Decrease in net assets during the year	(111,142,321)	(20,280,057)
Net assets – Beginning of year	121,868,179	142,148,236
Net assets – End of year	10,725,858	121,868,179

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, 2007 and 2006

	2007 $	2006 $ (Adjusted note 3a)ii))
Cash flows from		
Operating activities		
Net income (loss) for the year	(77,424,350)	278,126
Adjustments for		
Change in unrealized net depreciation in value of credit default swaps	80,034,175	12,418,875
Change in unrealized depreciation in value of investment and credit default swaps receivable	909,162	-
Decrease in interest receivable on investment and credit default swaps receivable	91,269	58,798
Increase in credit default swaps receivable	(5,057,809)	(11,817,754)
Decrease in investment	6,163,858	11,712,400
Decrease (increase) in other assets	(47,873)	39,759
Increase (decrease) in accounts payable and accrued liabilities	246,179	(437,248)
Decrease in credit default swaps payable	(240,000)	(155,233)
Realized loss (gain) on sale of investment and credit default swaps receivable	589,744	(102,953)
	82,688,705	11,716,644
	5,264,355	11,994,770
Investing activities		
Proceeds from sale of investment and credit default swaps receivable	26,815,457	8,584,753
Financing activities		
Redemption of units	(25,983,416)	(8,913,825)
Distributions paid to unitholders	(6,163,858)	(11,712,400)
	(32,147,274)	(20,626,225)
Decrease in cash during the year	(67,462)	(46,702)
Cash – Beginning of year	154,338	201,040
Cash – End of year	86,876	154,338

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. Global DIGIT II Management Inc. is the trustee (the "Trustee") of the Trust. National Bank of Canada acts as administrative agent since October 16, 2006. Natcan Trust Company acts as custodian of the assets of the Trust and transfer agent and registrar of its units. Natcan Trust Company will also act as investment advisor of the Trust if so required by the Trustee. The promoter of the Trust is National Bank Financial Inc. The directors of the Trustee benefit from an indemnity provided by National Bank of Canada.

The Trust provides its unitholders with a leverage exposure to three portfolios (collectively, the "portfolio") containing respectively 218, 152 and 238 (2006 – 205, 137 and 233) 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 Going concern and contingencies

Commencing August 13, 2007, the Canadian third party structured finance asset-backed commercial paper ("Third Party ABCP") market experienced a disruption, in which the Third Party ABCP conduits, such as 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 to a filing under the Companies Creditors Arrangement Act ("CCAA") on March 17, 2008.

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.

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

On December 14, 2007, the Investors Committee announced a framework for a restructuring plan for the Third Party ABCP. This plan includes the replacement of Third Party ABCP with notes having maturities in line with the underlying assets.

On December 21, 2007, the Trust entered into an agreement in principle to negotiate in good faith a transaction pursuant to which 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 should come into effect on the date upon which the restructuring of the Third Party ABCP comes into effect or such other date as the parties of the Disengagement Transaction may agree upon.

On March 17, 2008, the Ontario Superior Court of Justice granted an application by the Committee for Third Party ABCP under the provision of the CCAA establishing a procedure for approval of a plan of compromise and arrangement (“the Plan”) by holders of Third Party ABCP (collectively the “Noteholders”). An information package was then sent by the Committee to all Noteholders of Third Party ABCP and on April 25, 2008, the Noteholders will be asked to approve such Plan. Subject to obtaining the Noteholders’ approval, final court approval and regulatory approval, it is anticipated that the Plan will be implemented on or about May 23, 2008. Approval of the Plan is one of the required conditions for implementation of the Disengagement Transaction.

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

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

The Trust’s administrative agent and the Trustee are confident that the Plan will be approved and that the Disengagement Transaction between Silverstone and the Trust can then be implemented.

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

3 Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the Trustee to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Trustee believe that the estimates used in preparing the financial statements are reasonable. Actual results may differ from those estimates. The significant accounting policies are the following.

a) Recent accounting standards adopted

i) Accounting changes

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

ii) Consolidation of variable interest entity

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

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

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

	$
Assets	
Decrease in investment	(2,000,000,000)
Increase in credit default swaps receivable	2,775,519
Decrease in cash	(93,396)
Decrease in interest receivable on investment and credit default swaps receivable	(6,831,233)
Decrease in prepaid expenses	(12,889,363)
Decrease in interest rate swap related asset	(14,288)
	(2,017,052,761)
Liabilities	
Decrease in accounts payable and accrued liabilities	(4,006,337)
Decrease in brokers' commissions payable	(172,639)
Decrease in commercial paper	(1,824,392,870)
Decrease in floating rate notes	(175,000,000)
Decrease in placement and structuring fee note	(13,466,627)
	(2,017,038,473)
Decrease in net assets	(14,288)
Decrease in net assets per unit	(0.00)
Decrease in net income for the year	(95,346)
Decrease in net income for the year per unit	(0.01)

iii) Financial instruments

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

Recognition and measurement

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

The change in accounting policy is treated retrospectively without restatement. The opening balances of financial instruments and net assets as at January 1, 2007 have been decreased by an amount of $1,815,770. However, the effect of the accounting policy changes on the net asset value per unit presented for 2006 after deconsolidation would have been a reduction of $0.13 per unit to $8.60 per unit.

Disclosure and presentation

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

b) Fair value of financial instruments

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

a) Adoption of Section 3855

i) Valuation of credit default swaps

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

ii) Investment and credit default swaps receivable

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

iii) Other financial instruments

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

b) Prior to adoption of Section 3855

i) Valuation of credit default swaps

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

ii) Investment and credit defaults swaps receivable

Investment and credit defaults swaps receivable are carried at cost which approximates their fair value.

iii) Other financial instruments

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

c) Basis of recognition for income and expenses

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

d) Future changes in accounting standards

i) Capital disclosures and financial instruments

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

Section 1535 establishes disclosure requirements concerning:

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

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

ii) Going concern

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

4 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 a fair value of $75,178,836 (2006 – $110,913,540) with National Bank of Canada, having a long-term solvency rating of A from Standard and Poor’s Rating Service (“S&P”) with a nominal amount of $77,344,481 (2006–$110,913,540), 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.

On February 28, 2006, a notice of redemption from some unitholders of the Trust was received and consequently, the Trust sold, as at March 14, 2006, a part of the investment for a nominal amount of $8,490,510 at a price of 101.11% plus interest.

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.

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

5 Credit default swaps receivable

The fair value of the total credit default swaps receivable from 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 $29,489,110 (2006 - $24,990,588) is composed of $3,646,457 (2006 – nil) in the escrow account, a short-term receivable of $6,427,421 (2006 - $5,179,128) and a long-term receivable of $19,415,232 (2006 – 19,811,460). The nominal amount of the credit default swaps receivable is $19,974,519 (2006 – 19,811,460). 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. Both parties have signed the Disengagement Transaction (referred in note 2) which provides for full payment to the Trust of the amount held in escrow. The implementation of this Disengagement Transaction is a component of the Plan presented to Noteholders of Silverstone to be voted upon, on April 25, 2008.

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

On February 28, 2006, a notice of redemption from some unitholders of the Trust was received and consequently, the Trust sold, as at March 14, 2006, a part of the credit default swaps receivable for a nominal amount of $784,490 at a price of 101.11% plus interest.

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.

6 Financial derivative instruments

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 may be incurred for credit events with respect to swap agreements A, B and C amounts to $97,319,000 (2006 – $130,725,000). During the year, the Trust terminated $33,406,000 of the swap agreements A, B, and C (2006 - $9,275,000). The Trust paid an unwind amount of $7,326,315 (2006 - $695,616) to terminate this portion of the swap. Under swap agreements A, B and C, a monthly payment by the Trust to Silverstone, corresponding to a contractual rate applied to the notional amount of the contracts and equal to the contractual interest rate applied to the investments pledged as security, is made and 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.

On a monthly basis, Silverstone will acquire from the Trust a contractually determined portion of the term deposit pledged as security; this portion is equal to the monthly payment for the month in consideration.

The aggregate notional amount of the three swap agreements (A,B,C) as at December 31, 2007 totalled $97,319,000 (2006 – $130,725,000) for the reference obligations portfolio of $7,826,496,421 (2006 – $10,513,042,105. The negative fair value as at December 31, 2007 was $92,453,050 (2006 – $12,418,875).

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 (2006 – $130,725,000).

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

Additionally, the Trust is exposed to counterparty credit risk arising from any unrealized gain on the credit default swaps plus any amount receivable from the counterparty. The net counterparty credit risk exposure (credit default swaps receivable minus credit default swaps payable) on December 31, 2007 was $28,680,110 (2006 – $23,941,588).

7 Operating expenses

The Trust incurs investment advisor follow-up fees equal to 0.40% (2006 – 0.40%) per annum of the outstanding amount on a per-unit basis held by clients of such investment advisors. Due to the events since August 13, 2007 described in note 2, the Trust stopped the follow-up fees payments as of August 16, 2007.

8 Income taxes

The Trust qualifies as a unit trust within the meaning of the Income Tax Act (Canada). The Trust is subject to income taxes under the Act on the amount of taxable income for the year and can make deductions in computing its income tax for all amounts paid or payable to the Trust's unitholders in determining its income for tax purposes.

Any amount payable under the credit default swaps is considered to be payable under the swap agreements and is taxable as such. According to the terms of the swap agreements, the amount will be determinable only on the expected maturity date (or the legal maturity date, as applicable), and therefore the swap payment to the Trust should only be taxable as income at that date only.

9 Unitholders' equity

Authorized units

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

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

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

The redemption price will be equal to the lesser of:

(a) 95% of the daily weighted average trading price per unit on the principal exchange on which the units are listed for the five trading days following the redemption date; and

(b) an amount equal to:

   (i) the closing price of the units on the principal exchange on which the units are listed; or

   (ii) the average of the highest and lowest prices of the units if the exchange or other markets on which the units are listed provides only the highest and lowest trading prices; or

   (iii) the average of the latest bid and ask prices on the principal exchange on which the units are listed if there was no trading on such redemption date.

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 A, B and C determined as of such annual redemption date. The unwind price will be an amount equal to the sum of (i) the bid price received by the Trust to terminate the applicable tranche of swap agreements A, B and C and (ii) the market value of the tranche of the Trust's $97,319,000 (2006 – $130,725,000) term deposit, less applicable unwind costs.

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

	2007	**2006**
Number of units		
Balance – Beginning of year	13,959,575	14,950,000
Redeemed during the year	(3,567,292)	(990,425)
Balance – End of year	10,392,283	13,959,575

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

	2007 $	**2006 $**
Capital issued		
Balance – Beginning of year	109,235,993	129,794,176
Return of capital to unitholders	(5,918,785)	(11,644,358)
Redeemed during the year	(25,983,416)	(8,913,825)
Balance – End of year	77,333,792	109,235,993
Retained earnings (deficit)		
Retained earnings – Beginning of year	12,632,186	12,354,060
Impact of initial adoption of financial instrument standards (note 3a)iii))	(1,815,770)	-
Net income (loss) for the year	(77,424,350)	278,126
Retained earnings (deficit) – End of year	(66,607,934)	12,632,186
	10,725,858	121,868,179

a) On February 28, 2006, a notice of redemption of 990,425 units from unitholders of the Trust was received. These units were redeemed on March 14, 2006 at an unwind price of $9.00 per unit for a total amount of $8,913,825 has been recorded as a reduction of capital.

b) 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.

c) 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.

d) Due to the events since August 13, 2007 described in note 2, all redemptions are suspended until the Plan is successfully concluded. A total of 16,900 units had been surrendered for the annual August 31, 2007 redemption. Since all redemptions were suspended on August 28, 2007, these units were therefore not redeemed.

As at December 31, 2007, National Bank of Canada and its subsidiaries held 0.5% of the outstanding units of the Trust (2006 – 0.5%).

Monthly distributions

Prior to August 13, 2007, distributions to unitholders constituted partial capital reimbursement at the issue price of the units and may fluctuate from month to month depending on the occurrence of credit events in the portfolio. The Trust expected distributions in the form of return of capital to be made until March 2010 at an annual fixed rate of 8.25%, after which they would be equal to the applicable five-year Government of Canada bond rate plus 4.0% to 4.5%. The distributions declared by the Trust are accounted for once declared but are payable on the tenth business day of the following month.

Since August 13, 2007, distributions have not been declared. The distribution balance payable of $713,950 as at December 31, 2007 represents the unpaid July distribution declared.

10 Derivative financial instruments and 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 information provided below is subject to such asset eligibility and portfolio guidelines. The portfolios of reference obligations, as disclosed in the prospectus, have been 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 218 reference obligations as at December 31, 2007 and 249 reference obligations as at the inception date.

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

	December 31, 2007		Inception date	
Asset class	**Number of reference obligations**	**% of Assets**	**Number of reference obligations**	**% of Assets**
Commercial asset-backed securities	7	3.4	8	3.4
Consumer asset-backed securities	6	2.1	22	8.1
Residential mortgage-backed securities	90	32.6	102	31.7
Commercial mortgage-backed securities	32	15.7	47	15.5
Structured exposure to mortgage-backed and corporate securities	83	46.2	70	41.3
	218	100.0	249	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:

	December 31, 2007 (by equivalent S&P rating)	Inception date (by notched S&P rating)
Rating	**% of Assets**	**% of Assets**
AAA	76.0	75.8
AA	11.2	13.5
A	12.6	10.7
BBB	0.1	-
BB	0.1	-

b. The weighted average assigned Moody's rating factor of the mortgage-backed securities, asset-backed securities, other fixed-income securities and synthetic corporate exposures comprised in Portfolio 1 was 27 as at December 31, 2007 (between Aa2 and Aa3) and 18 as at the inception date (between Aa1 and Aa2). The reference obligations comprised in Portfolio 1 had a weighted average default probability equivalent to a rating of between AA+ and AA as at December 31, 2007 and of AA by S&P as at the inception date.

Swap Agreement B

Swap Agreement B refers to the credit performance of the reference obligations in Portfolio 2 that comprised 152 reference obligations as at December 31, 2007 and 161 reference obligations as at the inception date.

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

	December 31, 2007		Inception date	
Asset class	**Number of reference obligations**	**% of Assets**	**Number of reference obligations**	**% of Assets**
Commercial asset-backed securities	8	9.4	8	5.0
Consumer asset-backed securities	3	2.1	3	0.5
Residential mortgage-backed securities	52	23.0	77	38.8
Commercial mortgage-backed securities	18	15.4	17	10.2
Structured exposure to mortgage-backed and corporate securities	71	50.1	56	45.5
	152	100.0	161	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:

	December 31, 2007 (by equivalent S&P rating)	**Inception date** (by notched S&P rating)
Rating	**% of Assets**	**% of Assets**
AAA	73.0	72.9
AA	3.1	16.2
A	22.2	10.9
BBB	1.7	-

b. The weighted average assigned Moody's rating factor of the mortgage-backed securities, asset-backed securities, other structured finance and fixed-income securities and synthetic corporate exposures comprised in Portfolio 2 was 40 as at December 31, 2007 (between Aa2 and Aa3) and 21 as at the inception date (between Aa2 and Aa3). The reference obligations comprised in Portfolio 2 had a weighted average default probability equivalent to a rating of between AA and AA-as at December 31, 2007 and of AA by S&P as at the inception date.

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, 2007 and 208 reference obligations as at the inception date.

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

	December 31, 2007		Inception date	
Asset class	**Number of reference obligations**	**% of Assets**	**Number of reference obligations**	**% of Assets**
Commercial asset-backed securities	4	4.7	2	0.9
Consumer asset-backed securities	1	0.2	1	0.5
Residential mortgage-backed securities	82	22.6	122	41.4
Commercial mortgage-backed securities	50	22.9	9	7.9
Structured exposure to mortgage-backed and corporate securities	101	49.6	74	49.3
	238	100.0	208	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:

	December 31, 2007 (by equivalent S&P rating)	**Inception date** (by notched S&P rating)
Rating	**% of Assets**	**% of Assets**
AAA	46.6	66.1
AA	13.4	9.7
A	34.7	24.2
BBB	3.2	-
BB	2.1	-

b. The weighted average assigned Moody's rating factor of the mortgage-backed securities, asset-backed securities, other structured finance and fixed-income securities and synthetic corporate exposures comprised in Portfolio 3 was 75 as at December 31, 2007 (between A1 and A2) and 39 as at the inception date (between Aa2 and Aa3). The reference obligations comprised in Portfolio 3 had a weighted average default probability equivalent to a rating of between A+ and A as at December 31, 2007 and of AA- by S&P as at the inception date.