

# **Global Diversified Investment Grade Income Trust**

Financial Statements  
**December 31, 2008 and 2007**

March 27, 2009

## Auditors' Report

### To the Unitholders of Global Diversified Investment Grade Income Trust

We have audited the statement of investment portfolio of **Global Diversified Investment Grade Income Trust** 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 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, 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 LLP<sup>1</sup>*

Montréal, Canada

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<sup>1</sup> Chartered accountant license number 14043

# Global Diversified Investment Grade Income Trust

Statements of Net Assets

As at December 31, 2008 and 2007

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	2008 \$	2007 \$
<b>Assets</b>		
Investment (note 7)	65,171,370	68,846,053
Credit default swaps receivable (note 8)	28,943,399	22,580,355
Cash	83,545	122,828
Interest receivable on investment and credit default swaps receivable	288,476	288,476
Other	59,935	55,057
	<hr/> 94,546,725	<hr/> 91,892,769
<b>Liabilities</b>		
Accounts payable and accrued liabilities	567,973	366,204
Credit default swaps payable	498,954	498,954
Distributions payable	482,677	482,677
Credit default swaps related liability (note 9)	81,548,820	16,856,460
	<hr/> 83,098,424	<hr/> 18,204,295
<b>Net Assets representing Unitholders' Equity</b> (note 12)	<hr/> 11,448,301	<hr/> 73,688,474
<b>Number of units outstanding</b> (note 12)	<hr/> 9,751,054	<hr/> 9,751,054
<b>Net assets per unit</b>	<hr/> \$1.17	<hr/> \$7.56

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

**Approved by the Trustees, Metcalfe & Mansfield Alternative Investments Corp. and  
4227298 Canada Inc.**

*Claude Dalphond*

Claude Dalphond  
Director

*Benoit Deschamps*

Benoît Deschamps  
Director

# Global Diversified Investment Grade Income Trust

## Statements of Operations

For the years ended December 31, 2008 and 2007

	2008 \$	2007 \$
<b>Investment income from trading activities</b>		
Interest on investment and credit default swaps receivable	3,910,450	3,899,765
Income from credit default swaps	10,614,897	11,773,084
Interest on cash and credit default swaps receivable	171,456	8,430
	<u>14,696,803</u>	<u>15,681,279</u>
<b>Investment-related expenses</b>		
Expenses on credit default swaps	6,763,594	6,745,114
Servicing fees (note 10)	240,543	237,816
	<u>7,004,137</u>	<u>6,982,930</u>
<b>Net investment income before administrative expenses</b>	<u>7,692,666</u>	<u>8,698,349</u>
<b>Administrative expenses</b>		
Audit fees	170,811	97,159
Legal fees	218,454	264,480
Directors' fees of the trustees	150,708	88,331
Administrative agent fees	25,178	23,981
Register and transfer agent	7,950	7,950
Custodial fees	11,822	13,438
Unitholder reporting cost and listing fees	49,080	44,710
Insurance	17,171	12,000
Independent review committee fees and expenses	115,510	61,098
	<u>766,684</u>	<u>613,147</u>
<b>Net investment income for the year</b>	<u>6,925,982</u>	<u>8,085,202</u>
<b>Losses on investment and credit default swaps</b>		
Change in unrealized depreciation in value of investment and credit default swaps receivable	(4,473,795)	(6,557,619)
Change in unrealized net depreciation in value of credit default swaps	(64,692,360)	(15,489,720)
	<u>(69,166,155)</u>	<u>(22,047,339)</u>
<b>Decrease in net assets from operations</b>	<u>(62,240,173)</u>	<u>(13,962,137)</u>
<b>Decrease in net assets from operations per unit</b>	<u>\$(6.38)</u>	<u>\$(1.43)</u>

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

# Global Diversified Investment Grade Income Trust

Statements of Changes in Net Assets

For the years ended December 31, 2008 and 2007

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	2008 \$	2007 \$
<b>Decrease in net assets from operations</b>	(62,240,173)	(13,962,137)
<b>Distributions to unitholders</b>		
Return of capital (note 12)	-	(3,378,741)
<b>Impact of initial adoption of financial instrument standards</b> (note 4)	-	(740,773)
<b>Decrease in net assets during the year</b>	(62,240,173)	(18,081,651)
<b>Net assets – Beginning of year</b>	73,688,474	91,770,125
<b>Net assets – End of year</b>	11,448,301	73,688,474

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

# Global Diversified Investment Grade Income Trust

## Statements of Cash Flows

For the years ended December 31, 2008 and 2007

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	2008 \$	2007 \$
<b>Cash flows from</b>		
<b>Operating activities</b>		
Net investment income for the year	6,925,982	8,085,202
Adjustments for		
Increase in credit default swaps receivable	(7,162,156)	(8,194,896)
Decrease in investment	-	3,378,741
Increase in other assets	(4,878)	(42,358)
Increase (decrease) in accounts payable and accrued liabilities	201,769	(148,120)
	<u>(6,965,265)</u>	<u>(5,006,633)</u>
	<u>(39,283)</u>	<u>3,078,569</u>
<b>Financing activities</b>		
Distributions paid to unitholders	-	(3,378,741)
		<u>(3,378,741)</u>
<b>Decrease in cash during the year</b>	(39,283)	(300,172)
<b>Cash – Beginning of year</b>	<u>122,828</u>	<u>423,000</u>
<b>Cash – End of year</b>	<u>83,545</u>	<u>122,828</u>

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

# Global Diversified Investment Grade Income Trust

Statement of Investment Portfolio

As at December 31, 2008

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	Description	Interest rate	Maturity	Cost and nominal amount	Fair value
National Bank of Canada	Investment - term deposit	4.28%	September 2014	74,840,801	65,171,370
MMAI-I Trust	Long-term receivable	4.28%	September 2014	16,275,199	14,172,443
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				91,116,000	79,343,813

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

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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### 1 Creation of Trust and nature of operations

Global Diversified Investment Grade Income Trust (the “Trust”) is a limited purpose closed-end income trust which was established under the laws of the Province of Ontario on August 30, 2004 by a trust agreement (TSX: DG.UN). Metcalfe & Mansfield Alternative Investments Corp. and 4227298 Canada Inc. are the trustees (together the “Trustees”) of the Trust. The Trustees are responsible for the management of the Trust. National Bank of Canada is the 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 Trustees. The promoter of the Trust is National Bank Financial Inc. The directors of the Trustees benefit from a liability coverage provided by National Bank of Canada.

The Trust provides its unitholders with a mezzanine exposure to three portfolios (collectively, the “portfolio”) containing 136 securities each (2007 – 151 securities each) (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 three credit default swap agreements with a counterparty, MMAI-I Trust (“MMAI-I”), which itself entered into six credit default swap agreements with a counterparty, Deutsche Bank (the “Bank”). Three of the six credit default swap agreements MMAI-I entered into with the Bank are a mirror image of the three credit default swaps the Trust entered into with MMAI-I.

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 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.

On October 30, 2007, the Trust entered into an amendment for its three credit default swaps with MMAI-I. As a result of these amendments, the Trust will not experience any loss under any credit default swaps pursuant to credit events under mortgage-backed securities or asset-backed securities (the “Contingent Exposures”) included in the portfolios of reference obligations related to such credit default swaps until the synthetic corporate exposures (the “Primary Exposures”) in such portfolios have all defaulted and their notional amounts have been reduced to zero.

### 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 MMAI-I, 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.

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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On August 14, 2007, MMAI-I notified the Trust that its payments to the Trust were being withheld and that MMAI-I 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 \$0.0495 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 MMAI-I to roll its maturing ABCP.

Further to this development, the Trust entered into a standstill agreement (the ‘Standstill Agreement’) with MMAI-I 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 MMAI-I 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 MMAI-I (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 MMAI-I 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 \$0.0495 per unit declared on July 18, 2007 on January 30, 2009 and declared two extraordinary cash distributions in January 2009 of \$0.74 and of \$0.57 per unit which were paid on February 13, 2009 and March 13, 2009 respectively.

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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### 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 Trustees to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Trustees 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) 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 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 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.

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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### 4 Fair value of financial instruments

The financial instruments are accounted for at fair value and any transaction fees are included directly in the Statement of Income. The Trust is an investment company as per “AcG18” and measures all of its investments at fair value and present them on this basis in its financial statements. Realized and unrealized gains and losses on such financial instruments are recorded in gains and losses on investment and credit default swaps in the Statement of Income. The fair value of the financial instruments is determined as follows:

#### Establishing fair value

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

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

#### a) Valuation of credit default swaps

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

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

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

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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c) Other financial instruments

The carrying value of a number of short-term financial instruments presented in the statement of net assets approximates their fair value. These financial instruments include 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 \$740,773.

## **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 in the IG9 index, a North American Investment Grade Index composed of 125 investment grade entities, on the Trust’s credit default swaps would result respectively in a \$2,095,668 decrease or \$2,915,712 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 \$637,812 decrease or increase in the fair value on the Trust’s term deposit and the long-term receivable.

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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### *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. The Primary risk resides with static (no changes) corporate exposures while the Contingent risk is on asset backed securities managed by the Trust as per the criteria established in the credit default swaps. (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 MMAI-I and is expected to matured on September 2014 but no later than September 2016. Under the credit default swap agreements, the term deposit investment is pledged to MMAI-I. The amounts recoverable on the expected maturity date of the investment and of the long-term receivable (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 D, E and F amounts to \$91,116,000 (2007 – \$91,116,000).

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

### 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
<b>Financial assets</b>			
Investment (a)	65,171,370	-	-
Credit default swaps receivable (a)	28,943,399	-	-
Cash	83,545	-	-
Interest receivable on investment and credit default swaps receivable	-	288,476	-
Other	-	59,935	-
<b>Total financial assets</b>	<b>94,198,314</b>	<b>348,411</b>	<b>-</b>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	-	-	567,973
Credit default swaps payable	-	-	498,954
Distributions payable	-	-	482,677
Credit default swaps related liability	81,548,820	-	-
<b>Total financial liabilities</b>	<b>81,548,820</b>	<b>-</b>	<b>1,549,604</b>

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
<b>Financial assets</b>			
Investment (a)	68,846,053	-	-
Credit default swaps receivable (a)	22,580,355	-	-
Cash	122,828	-	-
Interest receivable on investment and credit default swaps receivable	-	288,476	-
Other assets	-	55,057	-
<b>Total financial assets</b>	<b>91,549,236</b>	<b>343,533</b>	<b>-</b>
<b>Financial liabilities</b>			
Accounts payable and accrued liabilities	-	-	366,204
Credit default swaps payable	-	-	498,954
Distributions payable	-	-	482,677
Credit default swaps related liability	16,856,460	-	-
<b>Total financial liabilities</b>	<b>16,856,460</b>	<b>-</b>	<b>1,347,835</b>

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

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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### 7 Investment

The investment consists of a term deposit issued on an unsubordinated and unguaranteed basis by a financial institution. The investment matures in September 2014.

The term deposit with National Bank of Canada has a fair value of \$65,171,370 (2007 – \$68,846,053), having a long-term solvency rating of A from Standard and Poor's Rating Service ("S&P") with a nominal amount of \$74,840,801 (2007 – \$74,840,801), bears interest at a rate of 4.28%, payable monthly until September 2009. After this date, interest will be at the rate of one-month banker's acceptances plus 20 basis points per year, payable monthly up to the date of maturity.

Under the credit default swap agreements, the term deposit investment is pledged to MMAI-I. The amounts recoverable on the expected maturity date of the investment (or the legal maturity date, as applicable) will be reduced by any loss incurred as a result of credit events in excess of the subordination under the credit default swaps. After year end, following the Disengagement Transaction described in note 2, the term deposit investment was pledged to the Bank.

### 8 Credit default swaps receivable

The fair value of the total credit default swaps receivable from MMAI-I 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 swaps receivable of \$28,943,399 (2007 – \$22,580,355) is composed of \$8,519,897 (2007 – \$2,697,287) in a short-term receivable corresponding to the amounts accrued monthly and paid by MMAI-I that were accumulated in a segregated account, of \$6,251,059 (2007 – \$4,911,513) in a short-term receivable corresponding to the amounts that were accreted monthly by MMAI-I 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 \$14,172,443 (2007 – \$14,971,555) with a nominal amount of \$16,275,199 (2007 – \$16,275,199) and matures in September 2014. The long-term receivable bears interest at a rate of 4.28%, payable monthly until September 2009. After this date, interest will be at the rate of one-month banker's acceptances plus 20 basis points per year, payable monthly up to the date of maturity. 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.

<b>Credit default swaps receivable</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Short-term receivable (segregated account)	8,519,897	2,697,287
Short-term receivable (accreted amount and financial contract fees)	6,251,059	4,911,513
Long-term receivable (redemption of collateral)	14,172,443	14,971,555
Total	<u>28,943,399</u>	<u>22,580,355</u>

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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### 9 Derivative financial instruments and reference obligation portfolios

#### Credit default swap agreements with MMAI-I

The Trust has entered into three credit default swap agreements (“swap agreements D, E and F”) with MMAI-I, pursuant to which the Trust will pay MMAI-I 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 \$91,116,000 (2007 – \$91,116,000). Under swap agreements D, E and F, a monthly payment by the Trust to MMAI-I corresponding to a contractual rate of 3.08% is applied to the notional amount of the contracts and the contractual interest rate of 4.28% is applied to the investments pledged as security. These amounts are exchanged between the Trust and MMAI-I with the net return of MMAI-I being paid to the Trust. On a monthly basis, MMAI-I 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. MMAI-I will pay at term an amount equal to the excess of the notional amount of the contracts less the 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, MMAI-I was replaced by the Bank effective January 20, 2009.

The aggregate notional amount of swap agreements D, E and F as at December 31, 2008 totalled \$91,116,000 (2007 – \$91,116,000) for the reference obligation portfolios of \$34,948,089,003 (2007 – \$34,948,089,003). The Trust estimated the cumulative unrealized loss of the swap agreements D, E and F and the credit default swaps related liability as at December 31, 2008 at \$81,548,820 (2007 – cumulative unrealized loss of \$16,856,460) 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 MMAI-I, 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 \$91,116,000 (2007 – \$91,116,000).

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 \$28,444,445 (2007 – \$22,081,401). After year end, following the Disengagement Transaction described in note 2, MMAI-I was replaced by the Bank effective as of January 20, 2009.

#### Credit event notices

During the month of October 2008, the Trust received four Credit Event Notices per the credit default swap agreements (“CDS”) with respect to the following entities: Lehman Brothers Holdings Inc., Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and Controladora Commercial Mexicana SAB. The recovery rates with respect to these entities have been established at 8.625%, 91.51%, 94% and 44%, respectively.

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

As described in note 1, the Trust will not experience any loss under the CDS pursuant to credit events under mortgage-backed securities or asset-backed securities (the “Contingent Exposure”) included in the portfolio of reference obligations in the CDS until the corporate collateralized debt obligation (“CDO”) exposures (the “Primary Exposure”) in such portfolio have all defaulted and their notional amount has been reduced to zero. The Primary Exposure consists of multiple tranches exposures within five corporate CDO with attachment points (the point in the capital structure where the exposure to losses in the portfolio begins) at inception varying between 7.85% and 11.00% and detachment points (the point in the capital structure where the exposure to losses ends) at inception varying between 9.55% and 13.00%. Subsequent to the aforementioned credit events including the credit event in 2005 (Delphi Corp.), the attachment points now vary between 6.23% and 10.03% and the detachment points, between 7.93% and 12.03%. Therefore the CDO exposures have less subordination but the Unitholders have not experienced any loss.

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

### Reference obligation portfolios

The Trust has exposure to three portfolios within three separate swap agreements (D, E, and F) with an aggregate notional amount as at December 31, 2008 totalling \$91,116,000 (2007 – \$91,116,000). The payments under the swaps are made on a monthly basis. Each portfolio has exposure to different tranches of the same five synthetic corporate CDOs (the Primary Exposure) and the same asset backed security portfolio (the Contingent Exposure).

The composition by asset class as at December 31, 2008 and 2007 in each portfolio was as follows:

Asset class	December 31, 2008		December 31, 2007	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Consumer asset-backed securities(i)	44	25.2	59	30.3
Residential mortgage-backed securities(i)	87	49.8	87	44.7
Synthetic corporate exposures(ii)	5	25.0	5	25.0
	136	100.0	151	100.0

i) Contingent Exposure since the October 2007 amendment

ii) Primary Exposure since the October 2007 amendment.

### The Primary Exposure

The reference obligations underlying the static synthetic corporate CDOs for the three portfolios had a S&P average weighted rating of BBB-/BB+ as of December 31, 2008 and BBB/BBB- as of December 31, 2007. The weighted average rating is 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 S&P equivalent ratings as of December 31, 2008 and 2007 in each portfolio were distributed as follows:

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

Rating	December 31, 2008	December 31, 2007
	(by equivalent S&P rating*)	(by equivalent S&P rating*)
	% of Assets	% of Assets
AAA	0.62	4.62
AA+	1.25	0.40
AA	4.14	4.41
AA-	4.97	7.03
A+	8.08	8.63
A	13.66	9.84
A-	15.73	14.05
BBB+	15.33	16.87
BBB	7.45	6.84
BBB-	9.51	8.23
BB+	2.89	3.82
BB	2.90	2.61
BB-	2.49	2.01
B+	2.90	1.81
B	1.66	2.61
B-	0.62	-
CCC+	1.87	-
CC	0.82	-
C	0.83	-
Not Rated	2.28	6.22
Total	100.00	100.00

\* 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.

### The Contingent Exposure

The reference obligations underlying of the mortgage-backed securities and asset-backed securities for the three portfolios had a S&P average weighted rating of AAA/AA+ as of December 31, 2008 and 2007. As of December 31, 2008 and 2007, the S&P equivalent ratings of the mortgage-backed securities and asset-backed securities of the three reference portfolios were distributed as follows:

Rating	December 31, 2008	December 31, 2007
	(by equivalent S&P rating*)	(by equivalent S&P rating*)
	% of Assets	% of Assets
AAA	98.5	100.0
AA	1.5	-
A	-	-
Total	100.0	100.0

\* S&P rating if available, if not then Moody's rating and if no S&P or Moody's ratings are available then the rating from Fitch is used.

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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The three swap agreements are as follows:

### *Swap Agreement D*

Swap Agreement D refers to the credit performance of 136 reference obligations as at December 31, 2008 and 151 reference obligations as at December 31, 2007. Within this Portfolio, there are five underlying corporate CDO (the Primary Exposure) to which the Trust has tranching exposures with attachment points varying between 6.79% and 9.99% and detachment points varying between 8.49% and 11.99% (as of the December 31, 2007, the attachment points and detachment points were varying between 7.85% and 11%, and between 9.55% and 13%, respectively).

### *Swap Agreement E*

Swap Agreement E refers to the credit performance of 136 reference obligations as at December 31, 2008 and 151 reference obligations as at December 31, 2007. Within this Portfolio, there are five underlying corporate CDO (the Primary Exposure) to which the Trust has tranching exposures with attachment points varying between 6.23% and 10.03% and detachment points varying between 7.93% and 12.03% (as of the December 31, 2007, the attachment points and detachment points were varying between 7.85% and 11%, and between 9.55% and 13%, respectively).

### *Swap Agreement F*

Swap Agreement F refers to the credit performance of 136 reference obligations as at December 31, 2008 and 151 reference obligations as at December 31, 2007. Within this Portfolio, there are five underlying corporate CDO (the Primary Exposure) to which the Trust has tranching exposures with attachment points varying between 6.88% and 9.99% and detachment points varying between 8.58% and 11.99% (as of the December 31, 2007, the attachment points and detachment points were varying between 7.85% and 10.63%, and between 9.55% and 12.63%, respectively).

## 10 Servicing fees

The Trust incurs investment advisor servicing fees equal to 0.25% (2007 – 0.25%) 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 Trustees 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 \$345,350 is included in accounts payable and accrued liabilities and was calculated based on the outstanding amount. A reduction of \$150,192 has been recorded in 2009.

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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### 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.

### 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 20<sup>th</sup> 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 10<sup>th</sup> business day following the Redemption Date.

The redemption price will be equal to the lesser of:

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

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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### Annual redemption

Units may also be surrendered to the Administrative Agent for redemption at any time prior to the 20<sup>th</sup> business day preceding the last business day of August (the “Annual Redemption Date”). Subject to the right of the Trust to suspend redemptions in certain circumstances, units surrendered for redemption will be redeemed on such Annual Redemption Date at the unwind price. The payment of the unwind price will be made on the 10<sup>th</sup> business day following the Annual Redemption Date. The unwind price will be an amount equal to the sum of (i) the bid price received by the Trust to terminate the applicable tranche of swap agreements D, E and F and (ii) the market value of the tranche of the Trust’s \$74,840,801 (2007 – \$74,840,801) term deposit and long-term receivable of credit default swap of \$16,275,199 (2007 – \$16,275,199), less applicable unwind costs.

No transactions took place during the years ended December 31, 2008 and 2007:

<b>Number of units</b>	<b>2008</b>	<b>2007</b>
Balance – Beginning and end of year	9,751,054	9,751,054

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:

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Capital issued</b>		
Balance – Beginning of year	73,487,272	76,866,013
Return of capital to unitholders	-	(3,378,741)
Balance – End of year	73,487,272	73,487,272
<b>Retained earnings (deficit)</b>		
Balance – Beginning of year	201,202	14,904,112
Impact of initial adoption of financial instrument standards (note 4)	-	(740,773)
Decrease in net assets from operations	(62,240,173)	(13,962,137)
Balance – End of year	(62,038,971)	201,202
	11,448,301	73,688,474

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 209,100 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 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 and 2007, National Bank of Canada and its subsidiaries held 0.9% of the outstanding units of the Trust.

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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### Distributions and management of Unitholders equity

The Trustees manage 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 \$0.0495 per unit (\$0.594 per annum) up to on or about September 7, 2009 and thereafter, a floating distribution rate equal to the rate of bankers acceptances plus 2% and to repay to Unitholders on or about September, 2014 (the "Expected Maturity Date"), but no later than on or about September 7, 2016 (the "Legal Maturity Date"), 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 \$482,677 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 \$0.0495 per unit declared on July 18, 2007 on January 30, 2009 and declared two extraordinary cash distributions in January 2009 of \$0.74 and of \$0.57 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 \$0.02 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 Trustees are 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 Trustees. 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, MMAI-I. The trustee of MMAI-I is Metcalfe & Mansfield Alternative Investments XI Corp. and has the same board of directors as the Trustees of the Trust. All operations and amounts between the Trust and MMAI-I 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
		\$	\$
Metcalfe & Mansfield Alternative Investments Corp.	Director's fees of the trustees	75,354	44,165
4227298 Canada Inc.	Director's fees of the trustees	75,354	44,166
National Bank of Canada	Administration agent fees	25,178	23,981
National Bank Financial	Servicing fees	67,664	73,368
Natcan Trust	Custody fees	11,822	13,438
		<u>255,372</u>	<u>199,118</u>

# Global Diversified Investment Grade Income Trust

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

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<b>Accounts payable and accrued liabilities at the end of the year</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Metcalfe & Mansfield Alternative Investments Corp.	1,298	16,526
4227298 Canada Inc.	1,298	16,526
National Bank of Canada	7,088	7,830
National Bank Financial	96,663	28,999
Natcan Trust	3,201	3,750
	<u>109,548</u>	<u>73,631</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 figure

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