

Global Diversified Investment Grade Income Trust II

Financial Statements for the semester ended
June 30, 2011
(Unaudited)

The interim financial statements as at June 30, 2011 and 2010 have not been reviewed by our independent auditors.

Global Diversified Investment Grade Income Trust II

Statements of Net Assets

	June 30, 2011	December 31, 2010
	\$	\$
	(unaudited)	
Assets		
Investment (note 8)	51,713,303	53,484,435
Credit default swaps receivable (note 9)	46,754,061	44,184,913
Short-term investments	-	1,299,305
Cash and interest-bearing deposit (note 10)	1,363,985	108,763
Interest receivable on investment and credit default swaps receivable	243,000	251,000
Other assets (note 11)	582,995	582,872
	<hr/>	<hr/>
	100,657,344	99,911,288
Liabilities		
Accounts payable and accrued liabilities	102,406	128,177
Credit default swaps payable	393,000	406,000
Distributions payable	363,730	363,730
Credit default swaps related liability (note 12)	95,859,215	96,370,140
	<hr/>	<hr/>
	96,718,351	97,268,047
Net Assets representing Unitholders' Equity (note 14)	<hr/>	<hr/>
	3,938,993	2,643,241
Number of units outstanding (note 14)	<hr/>	<hr/>
	10,392,283	10,392,283
Net assets per unit	<hr/>	<hr/>
	0.38	0.25

Basis of presentation and going concern (note 2)

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

Approved by the Trustee, Global DIGIT II Management Inc.

Claude Dalphond
Claude Dalphond
Director

Benoît Deschamps
Benoît Deschamps
Director

Global Diversified Investment Grade Income Trust II

Statements of Operations

For the six month period ended June 30

(Unaudited)

	2011 \$	2010 \$
Investment income from trading activities		
Interest on investment and credit default swaps receivable	1,498,000	1,632,000
Income from credit default swaps	3,376,000	3,491,000
Other income	8,061	37,376
	<u>4,882,061</u>	<u>5,160,376</u>
Investment-related expenses		
Expenses on credit default swaps	<u>2,431,000</u>	<u>2,565,000</u>
Net investment income before administrative expenses	<u>2,451,061</u>	<u>2,595,376</u>
Administrative expenses		
Audit fees	38,614	59,587
Legal fees	72,926	114,996
Directors' fees of the Trustee	46,849	64,999
Administrative agent fees	14,175	14,175
Register and transfer agent	3,947	3,938
Custodial fees	1,694	1,640
Unitholder reporting cost and listing fees	18,353	16,493
Insurance	57,390	59,770
Independent review committee fees and expenses	23,985	23,913
Chief compliance officer fees	3,937	-
	<u>281,870</u>	<u>359,511</u>
Net investment income for the period	<u>2,169,191</u>	<u>2,235,865</u>
Gains (losses) on investment and credit default swaps		
Change in unrealized appreciation (depreciation) of fair value of investment and credit default swaps receivable	798,016	(663,716)
Change in unrealized appreciation (depreciation) of fair value of credit default swaps	<u>510,925</u>	<u>(243,298)</u>
	<u>1,308,941</u>	<u>(907,014)</u>
Increase in net assets from operations	<u>3,478,132</u>	<u>1,328,851</u>
Increase in net assets from operations per unit	<u>0.33</u>	<u>0.13</u>

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

Global Diversified Investment Grade Income Trust II

Statements of Changes in Net Assets

For the six month period ended June 30

(Unaudited)

	2011 \$	2010 \$
Increase in net assets from operations	3,478,132	1,328,851
Distributions to unitholders		
Return of capital (note 14)	(2,182,380)	(2,390,225)
Increase (decrease) in net assets during the period	1,295,752	(1,061,374)
Net assets – Beginning of period	2,643,241	3,134,330
Net assets – End of period	3,938,993	2,072,956

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

Global Diversified Investment Grade Income Trust II

Statements of Cash Flows

For the six month period ended June 30

(Unaudited)

	2011 \$	2010 \$
Cash flows from		
Operating activities		
Net investment income for the period	2,169,191	2,235,865
Adjustments for:		
Decrease in investment	2,182,380	2,182,380
Increase in credit default swaps receivable	(2,182,380)	(2,182,380)
Decrease in interest receivable on investment and credit default swaps receivable	8,000	75,000
Decrease (increase) in other assets	(123)	96,801
Decrease in accounts payable and accrued liabilities	(25,771)	(25,777)
Decrease in credit default swaps payable	(13,000)	(79,000)
	(30,894)	67,024
	2,138,297	2,302,889
Financing activities		
Distributions paid to unitholders	(2,182,380)	(2,182,380)
Increase (decrease) in cash and cash equivalents during the period	(44,083)	120,509
Cash and cash equivalents – Beginning of period	1,408,068	1,665,538
Cash and cash equivalents – End of period	1,363,985	1,786,047
Cash and cash equivalents		
Cash and interest-bearing deposit	1,363,985	182,060
Short-term investments	-	1,603,987
	1,363,985	1,786,047

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

Global Diversified Investment Grade Income Trust II

Statement of Investment Portfolio

As at June 30, 2011

(Unaudited)

Investment and credit default swaps receivable	Description	Interest rate	Maturity	Nominal amount \$	Cost \$	Fair value \$
National Bank of Canada ^{a)}	Investment - term deposit	3.094%	March 2, 2015	51,110,202	51,110,202	51,713,303
Deutsche Bank	Long-term receivable	3.094%	March 2, 2015	46,208,798	46,208,798	46,754,061
				<u>97,319,000</u>	<u>97,319,000</u>	<u>98,467,364</u>

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

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

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

1 Creation of Trust and nature of operations

Global Diversified Investment Grade Income Trust II (TSX: GII.UN) is a limited purpose closed-end income trust (the “**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 and is responsible for the management of the Trust. National Bank of Canada acts as administrative agent and Natcan Trust Company acts as custodian of the assets of the Trust. Natcan Trust Company will also act as investment advisor of the Trust if so required by the Trustee. The promoter of the Trust is National Bank Financial Inc. The directors of the Trustee benefit from an indemnity provided by National Bank of Canada.

The Trust provides its unitholders with an equity exposure to three portfolios (collectively, the “**portfolio**”) containing respectively 190, 136 and 235 (December 31, 2010 – 197, 138 and 236) securities (the “**reference obligations**”), the objective being to provide unitholders with a stream of monthly distributions and to redeem all of the outstanding units on or following March 2, 2015 (the “**reset date**”), or on any subsequent reset date on a multiple of five years. The maturity date will not be later than 40 years after initial execution. In order to meet its investment objectives, on March 2, 2005, the Trust entered into three credit default swap agreements with a counterparty, Silverstone Trust (“**Silverstone**”), that was replaced by Deutsche Bank AG (the “**Bank**”) on January 20, 2009 following the events described in note 3.

Until the maturity date, the redemption price of the Trust’s units and the net asset value of the Trust will vary depending on a number of factors such as the monthly distributions to be made on the units, interest rates, the ratings of the reference obligations and the cumulative net losses incurred upon the occurrence of credit events in the portfolio. Credit events include bankruptcy, failure to pay and other specified loss events.

2 Basis of presentation and going concern

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

- 1) as at June 30, 2011, the market value of the Financial Contracts was only 1.50% of the notional amount;
- 2) the Trust has already received seven credit event notices (referred to in note 12), which could result into total losses on Swap Agreements A and B and partial losses on Swap Agreement C representing losses of up to \$6.57 per unit (final settlement amount has not been received);
- 3) while waiting for the resolution of such credit event notices (a process that can take up to 720 days due to end on November 16, 2011, following the reception of a credit event notice), the Bank is withholding 70% of the premium and, consequently, the monthly distributions to unitholders have been reduced;
- 4) upon resolution of such credit event notices, an amount of the investment and the credit default swap receivable corresponding to the losses incurred will have to be transferred by the Trust to the Bank and will therefore reduce the interest income of the Trust thereafter;

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

- 5) Moreover, as indicated in note 12, 8.6% of the reference obligations underlying Swap Agreement C are rated “D” representing 26 obligations with an aggregate nominal value of \$200,262,746, indicating a risk that further credit event notices will be received from the Bank. For example, if the Bank were to send credit event notices for the three largest weighted reference obligations amongst those rated “D” in portfolio C and the recovery rate on such three obligations were to be less than 45%, and also assuming that the previously announced seven credit event notices would result in a total loss, the remaining collateral would be transferred by the Trust to the Bank and, consequently, the Trust would suffer a total loss under Swap Agreement C as well and the current sources of net investment income before administrative expenses of the Trust would essentially be eliminated.

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

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

3 Restructuring plan

Commencing August 13, 2007, the Canadian third party structured finance asset-backed commercial paper (“**Third Party ABCP**”) market experienced a disruption during which Third Party ABCP conduits, such as Silverstone, were unable to repay their commercial paper as they came due. On August 16, 2007, a group of major Canadian investors (the “**Investors Committee**” or “**Committee**”) and market participants reached an agreement aimed at re-establishing normal operations in the Third Party ABCP market. Under the terms of this agreement, holders of Third Party ABCP who 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 the definitive CCAA restructuring plan on January 21, 2009.

On August 14, 2007, Silverstone notified the Trust that its payments to the Trust were being withheld and that Silverstone would not be providing the Trust with the necessary funding to pay the distribution of August 15, 2007. Accordingly, the Trust suspended the distribution of \$0.0687 per unit declared on July 18, 2007 and due on August 15, 2007 to the holders of record at the close of business on July 31, 2007. This followed an announcement of a market disruption in asset-backed commercial paper (“**ABCP**”) and the inability of Silverstone to repay its maturing ABCP.

Further to this development, the Trust entered into a standstill agreement (the “**Standstill Agreement**”) with Silverstone in order to formalize arrangements between them and preserve their respective rights and entitlements until finalization of a solution. Pursuant to this agreement, all amounts normally paid to the Trust since August were deposited in a segregated account with an escrow agent. The Standstill Agreement was signed on September 27, 2007 and was extended periodically.

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

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

On December 21, 2007, the Trust entered into an agreement in principle to negotiate in good faith a transaction pursuant to which Silverstone would effectively be replaced by the Bank as counterparty to the three mirror credit default swaps that were in place between the Trust and Silverstone (the “**Disengagement Transaction**”). Accordingly, the Trust would receive all amounts included in the segregated account and resume distribution payments to unitholders. The Disengagement Transaction would come into effect on a date prior to the date upon which the restructuring of the Third Party ABCP comes into effect or such other date as the parties of the Disengagement Transaction may agree upon.

On March 17, 2008, the Ontario Superior Court of Justice granted an application by the Committee for Third Party ABCP under the provision of the CCAA establishing a procedure for approval of a plan of compromise and arrangement (the “**Plan**”) by holders of Third Party ABCP (collectively the “**Noteholders**”). A Plan information package was then sent by the Committee to all Noteholders of Third Party ABCP and on April 25, 2008, the Noteholders approved such Plan. Moreover, on June 5, 2008, the Ontario Superior Court of Justice issued a sanction order approving the Plan.

On January 12, 2009 the Committee announced that the Superior Court of Ontario had granted the Plan Implementation Order and on January 20, 2009, the Disengagement Transaction was completed, followed by the ABCP restructuring plan on January 21, 2009. The Trust issued a press release on January 21, 2009 confirming that Silverstone as counterparty to the credit default swaps with the Trust was replaced by the Bank. As of the date of the Disengagement Transaction, the Bank was rated Aa1 by Moody’s, A+ by Standard and Poor’s Rating Service (“**S&P**”) and AA- with a negative outlook by Fitch.

Following the Disengagement Transaction, all amounts payable to the Trust under the swaps since August 13, 2007 were released to the Trust. As a result, the Trust paid the distribution of \$0.0687 per unit declared on July 18, 2007 on January 30, 2009 and declared during the year ended December 31, 2009 three extraordinary cash distributions aggregating \$1.755 per unit.

4 Significant accounting policies

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

Basis of recognition for income and expenses

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

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

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

a) Establishing fair value

When a financial instrument is recognized, its fair value is the amount of consideration for which the financial instrument would be exchanged in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act. The best evidence of the fair value of 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 or liability traded in an active market generally reflects its market price. If the market for a financial instrument is not active, the Trust establishes the fair value by using a valuation technique that makes use of observable market data. Such valuation techniques include using available information concerning recent market transactions, referencing to the current fair value of another comparable financial instrument, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants where it has been demonstrated that the technique provides reliable estimates.

i) Valuation of credit default swaps

The credit default swaps are presented at their fair value with changes in the unrealized gain or loss for the period recorded in the 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 inputs are based on factors observable in external markets, such as interest rate yield curves and credit curves. Their fair value will also vary depending on a number of factors such as interest rates, the credit ratings and credit spreads of the reference obligations and the cumulative net losses incurred upon the occurrence of credit events in the portfolio of securities. Credit events include bankruptcy, failure to pay and other specified loss events.

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

ii) Investment and credit default swaps receivable

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

iii) Other financial instruments

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

b) Fair value hierarchy

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

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

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

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

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

June 30, 2011	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Financial assets				
Investment	-	51,713,303	-	51,713,303
Credit default swaps receivable	-	46,754,061	-	46,754,061
Cash and interest-bearing deposit	1,363,985	-	-	1,363,985
Total financial assets	1,363,985	98,467,364	-	99,831,349
Financial liabilities				
Credit default swaps related liability	-	95,859,215	-	95,859,215
Total financial liabilities	-	95,859,215	-	95,859,215

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

December 31, 2010

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Investment	-	53,484,435	-	53,484,435
Credit default swaps receivable	-	44,184,913	-	44,184,913
Short-term investments	-	1,299,305	-	1,299,305
Cash and interest-bearing deposit	108,763	-	-	108,763
Total financial assets	108,763	98,968,653	-	99,077,416
Financial liabilities				
Credit default swaps related liability	-	96,370,140	-	96,370,140
Total financial liabilities	-	96,370,140	-	96,370,140

6 Management of risks associated with financial instruments

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

Market risk

Market risk corresponds to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk associated with financial instruments comprises currency risk, interest rate risk, credit risk, liquidity risk and other price risks. More specifically, through to the expected maturity date of the credit default swaps, their fair value will vary depending on a number of factors such as interest rates, the credit ratings and credit spreads of the reference obligations and the cumulative net losses incurred upon the occurrence of credit events in the portfolio of securities. Credit events include bankruptcy, failure to pay and other specified loss events. Since the Trust's objective is to provide Unitholders with an economic interest in exposures relating to the performance of the underlying portfolio of securities, there is no principal protection. Market rates can vary and cause fluctuations in the fair value of the term deposit. As at June 30, 2011, the effect of an increase or a decrease of 100 basis points of relevant credit spreads on the Trust's credit default swaps would result respectively in a \$8,000 decrease or increase (December 31, 2010 - \$11,000 decrease or increase) in the fair value on the Trust's credit default swaps. In addition, there is a discount rate associated with the term deposit and long-term receivable. The effect of an increase or a decrease of 100 basis points in the discount rate on the term deposit and the long-term receivable would result respectively in a \$3,324,000 decrease or \$3,479,000 increase (December 31, 2010 - \$3,628,000 decrease or \$3,812,000 increase) in the fair value on the Trust's term deposit and the long-term receivable.

Credit risk

The credit risk is the risk of financial loss arising from a counterparty's inability or failure to honour its contractual obligations. The amount that best represents the maximum exposure to credit risk of the Trust as at June 30, 2011 and December 31, 2010 is the sum of financial assets on the Statement of Net Assets. As described above, the credit default swap also has significant credit risk exposure with respect to the reference obligations included in the portfolios and counterparty credit risk (referred to in notes 8, 9 and 12).

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

Liquidity risk

The liquidity risk represents the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Trust's overall liquidity is managed in accordance with policies to ensure that the Trust has sufficient cash resources to meet its current and future obligations, both under normal and unusual conditions. The financial liabilities of the Trust mature on a monthly basis except for the credit default swaps related liability. The credit default swaps related liability pertains to the credit default swap agreements with the Bank and is expected to mature in March 2015 or on any subsequent reset date on a multiple of five years. Under the credit default swap agreements, the term deposit investment is pledged to the Bank. Accordingly, if losses occur, the Trust has the option to deliver its investment and credit default swaps receivable to settle the related payment. The amounts recoverable on the expected maturity date of the investments (or the legal maturity date, as applicable) will be reduced by any loss incurred as a result of credit events. The maximum loss that could be borne by the Trust for credit events with respect to the reference obligations under swap agreements A, B and C amounts to \$97,319,000 (December 31, 2010 – \$97,319,000), which corresponds to the nominal amount of the Trust's investment and credit default swaps receivable.

7 Carrying values of financial assets and liabilities by category

Financial assets and liabilities are recognized in the Statement 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 is presented in the table below:

June 30, 2011	Held for trading \$	Loans and receivables \$	Financial liabilities at cost or amortized cost \$
Financial assets			
Investment ^(a)	51,713,303	-	-
Credit default swaps receivable ^(a)	46,754,061	-	-
Cash and interest-bearing deposit	1,363,985	-	-
Interest receivable on investment and credit default swaps receivable	-	243,000	-
Other assets	-	582,995	-
Total financial assets	99,831,349	825,995	-
Financial liabilities			
Accounts payable and accrued liabilities	-	-	102,406
Credit default swaps payable	-	-	393,000
Distributions payable	-	-	363,730
Credit default swaps related liability	95,859,215	-	-
Total financial liabilities	95,859,215	-	859,136

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

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Notes to Financial Statements (Unaudited)

As at June 30, 2011

December 31, 2010	Held for Trading \$	Loans and receivables \$	Financial liabilities at cost or amortized cost \$
Financial assets			
Investment ^(a)	53,484,435	-	-
Credit default swaps receivable ^(a)	44,184,913	-	-
Short-term investments ^(a)	1,299,305	-	-
Cash and interest-bearing deposit	108,763	-	-
Interest receivable on investment and credit default swaps receivable	-	251,000	-
Other assets	-	582,872	-
Total financial assets	99,077,416	833,872	-
Financial liabilities			
Accounts payable and accrued liabilities	-	-	128,177
Credit default swaps payable	-	-	406,000
Distributions payable	-	-	363,730
Credit default swaps related liability	96,370,140	-	-
Total financial liabilities	96,370,140	-	897,907

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

8 Investment

The investment consists of a term deposit note issued on an unsubordinated and unsecured basis by National Bank of Canada having a long-term solvency rating of A from S&P.

The term deposit has a fair value of \$51,713,303 (December 31, 2010 – \$53,484,435) with a nominal amount of \$51,110,202 (December 31, 2010 – \$53,292,582), bears interest at a rate of 3.094%, payable monthly until March 2015, after which date its rate of return will be reset for five years as of each reset date until the maturity of the Trust.

Under the credit default swap agreements and following the Disengagement Transaction described in note 3, the term deposit investment is pledged to the Bank since January 20, 2009. The amounts recoverable on the expected maturity date of the investments (or the legal maturity date, as applicable) will be reduced by any loss incurred as a result of credit events.

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

9 Credit default swaps receivable

The fair value of the total credit default swaps receivable of \$46,754,061 (December 31, 2010 - \$44,184,913) from the Bank represents the best possible estimate of the amount for which reasonable assurance of collection exists, in light of current conditions and assuming the continuation of the business as a “going concern”. Following the credit event notices as described in note 12, the Bank withheld a portion of the monthly premium payments corresponding approximately to a reduction of 70%, calculated on the aggregate maximum potential losses of the reference obligations. On June 30, 2011, the nominal amount of the credit default swaps receivable is \$46,208,798 (December 31, 2010 – \$44,026,418). The credit default swaps receivable mature in March 2015 and bear interest at a rate of 3.094%, payable monthly until March 2015, after which date their rate of return will be reset for five years as of each reset date until the maturity of the Trust.

10 Cash and interest-bearing deposit

Up until May 13, 2011, the Trust was investing its cash balances in bankers’ acceptances. Since that date, cash balances have been invested in an interest-bearing deposit at a rate equal to the prime rate minus 1.80%. As at June 30, 2011, the prime rate was 3%.

11 Other assets

The other assets of \$582,995 (December 31, 2010 – \$582,872) are composed of the short-term receivable corresponding to the amounts that were accrued monthly by the Bank for the benefit of the Trust, the financial contract fees receivable and other receivables.

Other assets	2011	2010
	\$	\$
Short-term receivable (financial contract fees)	571,000	576,000
Other receivables	11,995	6,872
	<hr/>	<hr/>
Total	582,995	582,872
	<hr/>	<hr/>

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

12 Derivative financial instruments and reference obligation portfolios Credit default swap agreements with the Bank

Following the Disengagement Transaction described in note 3, Silverstone was replaced by the Bank effective January 20, 2009. The Trust has entered into three credit default swap agreements (“**swap agreements A, B and C**”), pursuant to which the Trust may be required to compensate the Bank if credit events occur in connection with the reference obligations. The credit default swap agreements are expected to mature in March 2015 or on any subsequent reset date on a multiple of five years. The maximum loss that could be borne by the Trust for credit events with respect to the reference obligations under swap agreements A, B and C amounts to \$97,319,000 (December 31, 2010 – \$97,319,000). Under swap agreements A, B and C, a monthly payment by the Trust to the Bank corresponding to a contractual rate of 6.40% is applied to the notional amount of the contracts and the contractual interest rate of 3.094% is applied to the investments pledged as security. These amounts are exchanged between the Trust and the Bank with the net return being paid to the Trust. On a monthly basis, the Bank acquires from the Trust a contractually determined portion of the term deposit pledged as security as defined in the supplemental long form prospectus filed on March 4, 2005; this portion is equal to the monthly payment for the month in consideration.

At maturity, the Trust will pay an amount equal to the excess of the notional amount of the contracts less net losses incurred on those contracts over the residual amount of the investments pledged as security.

The aggregate notional amount of swap agreements A, B and C as at June 30, 2011 totalled \$97,319,000 (December 31, 2010 – \$97,319,000) for the reference obligation portfolios of \$7,826,496,421 (December 31, 2010 – \$7,826,496,421). The Trust estimated the cumulative unrealized loss of swap agreements A, B and C and the credit default swaps related liability as at June 30, 2011 at \$95,859,215 (December 31, 2010 – cumulative unrealized loss of \$96,370,140), an amount consistent with the valuation provided by the Bank.

Credit risk

As a result of entering into the credit default swap agreements with the Bank, the Trust is exposed to credit risk with respect to the reference obligations included in the portfolio. Credit events (bankruptcy, failure to pay or other specified loss event) in relation to the reference obligations could result in a loss for the Trust. The maximum loss that could be borne by the Trust for credit events with respect to the reference obligations under swap agreements A, B and C amounts to \$97,319,000 (December 31, 2010 – \$97,319,000).

Additionally, the Trust is exposed to counterparty credit risk arising from any unrealized gain on the credit default swaps plus any amount receivable from the counterparty. The net counterparty credit risk exposure (credit default swaps receivable plus the total of the short-term receivable presented in the other assets minus credit default swaps payable) on June 30, 2011 was \$46,932,061 (December 31, 2010 – \$44,354,913).

Credit events

As described in note 1, the net asset value of the Trust varies depending on a number of factors, in particular the cumulative net losses incurred upon the occurrence of credit events in the portfolio as described above. The Trust is exposed to credit risk with respect to the reference obligations included in the portfolios, and the maximum loss that could be borne by the Trust for credit events with respect to the reference obligations under swap agreements A, B and C is \$23,634,614 (0.95%), \$31,976,243 (1.25%) and \$41,708,143 (1.50%), respectively.

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

The Trust has not been notified of any credit event in the portfolios of reference obligations during the six month period ended June 30, 2011 and during the year ended December 31, 2010. On November 26, 2009, the Trust received from the Bank credit event notices for the following reference obligations:

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

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

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

Further to the 720-day process due to end on November 16, 2011, an amount of investment and credit default swaps receivable corresponding to losses incurred on such defaulted reference obligations will have to be transferred by the Trust to the Bank out of its assets thus affecting the interest revenues. This will normally be expected to reduce even further the income of the Trust available to fund the distributions.

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As at June 30, 2011

Reference obligation portfolios

The portfolios of reference obligations to which swap agreements A, B and C refer, are subject to asset eligibility and portfolio guidelines which may, over time, modify the overall economic exposure of the Trust to the credit performance of these portfolios. The aggregate notional amount as at June 30, 2011 totalled \$97,319,000 (December 31, 2010 – \$97,319,000). The payments under the swaps are made on a monthly basis. The weighted average ratings mentioned below are calculated by adding the product of the notional amount of each reference obligation and its assigned S&P rating factor and dividing such sum by the total notional amount and by assigning such result to the corresponding S&P rating. The information provided below is subject to such asset eligibility and portfolio guidelines. The portfolios of reference obligations were structured between December 13, 2004 and February 28, 2005 (the “inception date”).

Swap Agreement A

Swap Agreement A refers to the credit performance of the reference obligations in Portfolio 1 that comprised 190 reference obligations as at June 30, 2011 (December 31, 2010 – 197).

Portfolio 1’s composition by asset class as at June 30, 2011 and December 31, 2010 was as follows:

Asset class	June 30, 2011		December 31, 2010	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	6	3.8	6	3.6
Consumer asset-backed securities	4	2.5	4	2.4
Residential mortgage-backed securities	85	29.9	85	28.3
Commercial mortgage-backed securities	27	16.8	30	16.5
Structured exposure to mortgage-backed and corporate securities	68	47.0	72	49.2
	190	100.0	197	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:

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Notes to Financial Statements (Unaudited)

As at June 30, 2011

Rating	June 30, 2011	December 31, 2010
	(by equivalent S&P rating*)	(by equivalent S&P rating*)
	% of Assets	% of Assets
AAA	15.6	18.1
AA	8.5	12.7
A	17.5	14.9
BBB	4.8	5.8
BB	5.6	5.7
B	5.5	4.5
CCC	17.7	16.5
CC	6.0	5.3
C	1.7	1.6
D	16.4	14.9
Not rated	0.7	-
Total	100.0	100.0

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

- b. The weighted average assigned S&P rating factor of the mortgage-backed securities, asset-backed securities, other structured finance securities and synthetic corporate exposures comprised in Portfolio 1 was between B- and CCC+ as at June 30, 2011 (December 31, 2010 - between B and B-).

Swap Agreement B

Swap Agreement B refers to the credit performance of the reference obligations in Portfolio 2 that comprised 136 reference obligations as at June 30, 2011 (December 31, 2010 - 138).

Portfolio 2's composition by asset class as at June 30, 2011 and December 31, 2010 was as follows:

Asset class	June 30, 2011		December 31, 2010	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	5	5.8	5	5.9
Consumer asset-backed securities	2	0.7	2	0.7
Residential mortgage-backed securities	51	21.7	51	21.5
Commercial mortgage-backed securities	13	15.8	14	16.1
Structured exposure to mortgage-backed and corporate securities	65	56.0	66	55.8
	136	100.0	138	100.0

- a. The S&P ratings of the mortgage-backed securities, asset-backed securities, structured finance securities, synthetic corporate exposures and other fixed-income securities comprised in Portfolio 2 were distributed as follows:

Global Diversified Investment Grade Income Trust II

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As at June 30, 2011

Rating	June 30, 2011	December 31, 2010
	(by equivalent S&P rating*) % of Assets	(by equivalent S&P rating*) % of Assets
AAA	11.2	11.6
AA	13.6	12.8
A	14.8	13.4
BBB	9.9	13.8
BB	5.2	5.5
B	2.6	2.0
CCC	19.9	19.3
CC	6.5	6.5
C	5.0	4.7
D	11.3	10.4
Total	100.0	100.0

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

- b. The weighted average assigned S&P rating factor of the mortgage-backed securities, asset-backed securities, other structured finance securities and synthetic corporate exposures comprised in Portfolio 2 was between B and B- as at June 30, 2011 (December 31, 2010 - between B and B-).

Swap Agreement C

Swap Agreement C refers to the credit performance of the reference obligations in Portfolio 3 that comprised 235 reference obligations as at June 30, 2011 (December 31, 2010 - 236).

Portfolio 3's composition by asset class as at June 30, 2011 December 31, 2010 was as follows:

Asset class	June 30, 2011		December 31, 2010	
	Number of reference obligations	% of Assets	Number of reference obligations	% of Assets
Commercial asset-backed securities	4	5.0	4	4.9
Consumer asset-backed securities	1	0.2	1	0.2
Residential mortgage-backed securities	82	18.0	82	18.1
Commercial mortgage-backed securities	48	23.9	49	24.3
Structured exposure to mortgage-backed and corporate securities	100	52.9	100	52.5
	235	100.0	236	100.0

- a. The S&P ratings of the mortgage-backed securities, asset-backed securities, structured finance securities, synthetic corporate exposures and other fixed-income securities comprised in Portfolio 3 were distributed as follows:

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

Rating	June 30, 2011	December 31, 2010
	(by equivalent S&P rating*)	(by equivalent S&P rating*)
	% of Assets	% of Assets
AAA	5.2	5.7
AA	8.9	8.3
A	12.7	13.2
BBB	10.2	14.7
BB	8.2	8.2
B	7.3	3.7
CCC	20.9	20.6
CC	16.0	15.7
C	2.0	2.0
D	8.6	7.9
Total	100.0	100.0

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

- b. The weighted average assigned S&P rating factor of the mortgage-backed securities, asset-backed securities, other structured finance securities and synthetic corporate exposures comprised in Portfolio 3 was between B- and CCC+ as at June 30, 2011 (December 31, 2010 - between B- and CCC+).

13 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 be taxable as income at that date.

14 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.

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

Quarterly Redemption

Units may be surrendered to the Administrative Agent for redemption at any time prior to the twentieth business day preceding the last business day of each month of May, August and November (the “**Redemption Date**”). Subject to the right of the Trust to suspend redemptions in certain circumstances, units surrendered for redemption will be redeemed on such Redemption Date at the redemption price. The payment of the redemption price will be made on the tenth business day following the Redemption Date.

The redemption price will be equal to the lesser of:

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

Annual redemption

Units may also be surrendered to the Administrative Agent for redemption at any time prior to the 20th business day preceding the last business day of February (the “**Annual Redemption Date**”). Subject to the right of the Trust to suspend redemptions in certain circumstances, units surrendered for redemption will be redeemed on such Annual Redemption Date at the unwind price. The payment of the unwind price will be made on the 10th business day following the Annual Redemption Date. The unwind price will be an amount equal to the sum of (i) the bid price received by the Trust to terminate the applicable tranche of swap agreements A, B and C and (ii) the market value of the tranche of the Trust’s \$51,110,202 (December 31, 2010 – \$53,292,582) term deposit and long-term receivable of credit default swap of \$46,208,798 (December 31, 2010 – \$44,026,418), less applicable unwind costs.

No redemptions occurred during the six month period ended June 30:

	2011	2010
Number of units		
Balance – Beginning and end of year	<u>10,392,283</u>	<u>10,392,283</u>

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

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

	2011 \$	2010 \$
Capital issued		
Balance – Beginning of period	45,632,938	50,413,388
Return of capital to unitholders	(2,182,380)	(2,390,225)
	<hr/>	<hr/>
Balance – End of period	43,450,558	48,023,163
Deficit		
Balance – Beginning of period	(43,277,064)	(47,619,407)
Transfer of on-going cost of the period	28,534	25,833
Increase in net assets from operations	3,478,132	1,328,851
	<hr/>	<hr/>
Balance – End of period	(39,770,398)	(46,264,723)
Reserve for on-going cost		
Balance – Beginning of period	287,367	340,349
Transfer to deficit of the period	(28,534)	(25,833)
	<hr/>	<hr/>
Balance – End of period	258,833	314,516
	<hr/>	<hr/>
Net Assets representing Unitholders' Equity	3,938,993	2,072,956

As at June 30, 2011 and December 31, 2010, National Bank of Canada and its subsidiaries held 0.5% of the outstanding units of the Trust.

Distributions and management of Unitholders equity

The Trustee manages the capital of the Trust corresponding to Unitholders' equity with the goal of ensuring that it will be able to continue as a going concern while maximizing the return to Unitholders.

The original objectives of the Trust were to provide Unitholders with a fixed rate stream of monthly distributions equal to \$0.0687 per unit (\$0.8244 per annum) up to on or about March 9, 2010 and thereafter, a fixed rate stream of monthly distribution reset every five calendar years intended to equal the five-year Government of Canada bond rate plus 4% to 4.5% and to repay to Unitholders on a reset date falling on or about March 9, 2010 but no later than March 9, 2045 an amount equal to the residual value of the Trust. However, such objectives are no longer achievable given the credit events announced in November 2009 (referred to in note 12). The distributions declared by the Trust are accounted for once declared but are payable on the tenth business day of the following month.

Following the Disengagement Transaction, all amounts payable to the Trust under the swaps since August 13, 2007 were released to the Trust. As a result, the Trust resumed the monthly distribution, paid the distribution declared on July 18, 2007 on January 30, 2009 and declared during the year ended December 31, 2009 three extraordinary cash distributions aggregating \$1.755 per unit. In addition, during the year ended December 31, 2010, the Trust declared two extraordinary distributions aggregating \$0.04 per unit. Following the credit event notices described in note 12, monthly distributions to Unitholders have been reduced starting with the distributions declared in December 2009 (\$363,730 or \$0.035 per unit instead of \$713,950 or \$0.0687 per unit).

Global Diversified Investment Grade Income Trust II

Notes to Financial Statements (Unaudited)

As at June 30, 2011

15 Related party transactions

The Trustee is responsible for the management of the Trust. National Bank of Canada is the administrative agent. Natcan Trust Company, a subsidiary of National Bank of Canada, acts as custodian of the assets of the Trust. Natcan Trust Company will also act as investment advisor of the Trust if so required by the Trustee. The promoter is National Bank Financial, a subsidiary of National Bank of Canada. As described in note 8, the term deposit has been subscribed from the National Bank of Canada. In addition to the transactions separately identified in these financial statements, the following transactions took place during the six month period ended June 30:

Expenses incurred during the period		2011	2010
		\$	\$
Global DIGIT II Management Inc.	Director fees of the trustee	46,849	64,999
National Bank of Canada	Administration agent	14,175	14,175
Natcan Trust	Custody fees	1,694	1,640
		<hr/>	<hr/>
		62,718	80,814
		<hr/>	<hr/>
Accounts payable and accrued liabilities		June 30,	December 31,
		2011	2010
		\$	\$
Global DIGIT II Management Inc.		7,111	7,111
National Bank of Canada		7,087	7,087
Natcan Trust		800	600
		<hr/>	<hr/>
		14,998	14,798
		<hr/>	<hr/>

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.