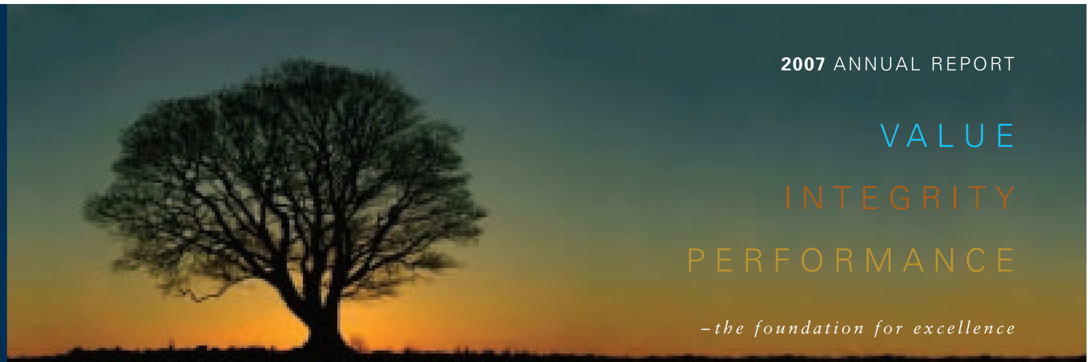
BROMPTON FUNDS



Flaherty & Crumrine
INVESTMENT GRADE
FIXED INCOME FUND

FFI.UN

Investment grade US preferred and fixed income securities actively managed by Flaherty & Crumrine. Units of the Fund are currently rated P-2f by Standard & Poor's.

Management Report of Fund Performance

March 12, 2008

This annual management report of fund performance for Flaherty & Crumrine Investment Grade Fixed Income Fund (the "Fund") contains financial highlights but does not contain the audited annual financial statements. The audited annual financial statements follow this report.

Unitholders may obtain a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, independent review committee's report, or quarterly portfolio disclosure, at no cost, by calling 866-642-6001 or by sending a request to Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, P.O. Box 793, Toronto, Ontario, M5J 2T3.

The Fund

Flaherty & Crumrine Investment Grade Fixed Income Fund is a closed-end investment trust that is managed by Brompton Funds Management Limited (the "Manager"). The units of the Fund trade on the Toronto Stock Exchange ("TSX") under the symbol FFI.UN. Flaherty & Crumrine Incorporated (the "Portfolio Manager") is a leading specialist in managing preferred and debt securities and manages the Fund's portfolio. For a more detailed description of Flaherty & Crumrine and its Portfolio Manager's Report on the Fund, please see the "Portfolio Manager" section. The units of the Fund are currently rated P-2f by Standard & Poor's and the Fund is RRSP, DPSP, RRIF and RESP eligible.

Investment Objectives and Strategies

The Fund's investment objectives are to provide unitholders with a stable stream of monthly distributions, to mitigate the impact of significant and rapid long-term interest rate increases on the value of the portfolio through the use of the safety net hedge, and to preserve the net asset value per unit. To achieve these objectives, the Fund invests in a portfolio of fixed income securities consisting primarily of US dollar denominated corporate debt and preferred securities and various debt instruments of North American issuers. All securities purchased by the Fund are rated investment-grade at the time of investment. Substantially all of the US dollar foreign exchange exposure of the Fund's portfolio is hedged to the Canadian dollar at all times. Also, under normal market conditions, 100% of the portfolio will be hedged using the safety net hedge strategy, which is intended to mitigate the impact of significant and rapid increases in long-term interest rates on the net asset value of the portfolio, while permitting the net asset value to appreciate when long-term interest rates decline.

Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's 2007 annual information form, which is available on the Fund's website at www.bromptongroup.com or on SEDAR at www.sedar.com. There were no changes to the Fund over the period that materially affected the risks associated with an investment in the units of the Fund.

Recent Developments

Negative Impact of "Credit Crunch"

A majority of hybrid preferred securities are issued by financial firms with the bulk of this issuance coming from banks, broker dealers and real estate related companies. Credit exposure of these financial firms to sub-prime debt, either directly or through credit backed products and derivatives, resulted in a series of events that led to a severe credit crunch in the US and a significant negative impact on hybrid preferred securities.

A number of these financial institutions incurred significant asset write-downs due to this exposure, which led to declines in their equity prices and in some cases credit rating downgrades due to lower debt coverage ratios. Consequently, prices of fixed income investments issued by financial firms fell significantly more than similarly rated debt instruments issued by other companies. Market prices for all hybrid preferred securities fell as financial firms comprise the majority of this market and negative market sentiment spread to the entire preferred securities market. Financial firms further exacerbated this decline in the fourth quarter by issuing over $25 billion of preferred securities at higher yields than the market to improve their balance sheet positions and Tier One capital ratios. This additional supply resulted in further price declines for previously issued preferred securities.

The spread differentials between investment grade hybrid preferred securities versus 30-year US Treasury bonds reached record highs in January 2008. While spread differentials have improved somewhat since then, they are still significantly above their historical average. The Portfolio Manager believes that in time, investors will be attracted to the high yields offered on investment-grade preferred securities, such as those included in the portfolio, resulting in price appreciation and higher returns for the asset class.

Adoption of Accounting Standard in the Financial Statements

The Fund has adopted the new accounting standard, Canadian Institute of Chartered Accountants ("CICA"), Section 3855, Financial Instruments – Recognition and Measurement, in the December 31, 2007 financial statements, and it has been applied retroactively without restatement of prior periods. This standard, which applies to fiscal years beginning after September 30, 2006, has caused the Fund to change the way it determines the value of securities it holds in its portfolio for financial statement purposes. In particular, securities traded in an active market are valued using the last available bid price, rather than the closing price, for exchange-traded securities and at the average of the latest bid and ask prices for securities traded over-the-counter.

Investment funds, including the Fund, are currently exempt from applying CICA Section 3855 in the calculation of its weekly net asset values ("Published NAV") and the amount of the net asset value for redemption purposes. As a result, the Published NAVs of the Fund are not the same as the net asset values calculated in accordance with GAAP ("GAAP NAV"). As at December 31, 2007, the Published NAV per unit was $17.41 and the GAAP NAV per unit was $17.34. A reconciliation is also provided in the notes to the financial statements.

In accordance with investment fund industry practice, all figures presented in this management report of fund performance are based on the Fund's Published NAV, except for the figures presented in the Net Asset Value per Unit table, which can be found under Financial Highlights. In accordance with National Instrument ("NI") 81-106, the figures in this table must be derived from the financial statements (GAAP NAV).

Results of Operations

Distributions

The following table provides, on a per unit basis, an approximate breakdown of the components which affected cash flow available for distribution for the year ended December 31, 2007. These are approximate figures and are calculated using the weighted average number of units outstanding for the different periods.

	Year Ended Dec. 31, 2007	Since Inception[1]
Income	$ 2.24	$ 6.71
Expenses		
Management and advisor fees	(0.22)	(0.73)
Interest and bank charges	(0.66)	(1.77)
Other expenses	(0.09)	(0.30)
Total expenses	$ (0.97)	$ (2.80)
Net investment income	$ 1.27	$ 3.91
Add: Manager and Portfolio Manager fees paid in units	0.22	0.54
Cash flow available for distribution	$ 1.49	$ 4.45
Distributions to unitholders (excluding special distributions)	(1.50)	(4.66)
Cash flow available for distribution less than distributions	$ (0.01)	$ (0.22)

[1] Period from December 15, 2004 (commencement of operations) to December 31, 2007.

For the year ended December 31, 2007, the distributions to unitholders modestly exceeded the cash flow available for distribution by $0.01 per unit. This slight shortfall was caused by the strengthening Canadian dollar relative to the US dollar over the year. The Fund earns its revenues in US dollars and, as a result, the strengthening of the Canadian dollar caused the Fund to earn lower revenues in Canadian dollar terms over the year. However, the strengthening Canadian dollar has also resulted in significant foreign exchange hedging gains. In the second half of the year, the Fund realized gains of approximately $19.4 million which were reinvested in the portfolio to generate additional income.

Declining short-term interest rates in the US have had a positive impact on the Fund's cash flow as its cost of leverage has decreased. This improved cash flow has allowed the Fund to maintain its distribution rate in 2008 while discontinuing the dilutive practice of paying the Manager and the Portfolio Manager their fees in units. The Manager believes that the current rate of distributions, which is equivalent to $1.50 per unit per annum, is sustainable given current market conditions. Any further reduction in US short-term interest rates will further benefit the Fund.

The Fund has a distribution reinvestment plan which allows participating unitholders to automatically reinvest monthly distributions in additional units of the Fund. For the year ended December 31, 2007, 4,413 units were acquired in the market pursuant to this plan at an average price of $19.90 per unit and 862 units were issued from treasury at an average price of $20.21.

Changes in Net Asset Value

From December 31, 2006 to December 31, 2007, the net asset value per unit decreased from $22.08 per unit to $17.41 per unit, which is a decline of 21.2%. The table below provides an approximate breakdown of the various factors which have contributed to the decline in net asset value per unit over this period. These are approximate figures and are calculated using the weighted average number of units outstanding.

Changes in Net Asset Value on a Per Unit Basis

		Year Ended Dec. 31, 2007		Since Inception[1]
Opening net asset value per unit	$	**22.08**	$	23.63
Losses on portfolio investments[2]		**(3.57)**		(4.22)
Cost of safety net hedge		**(0.38)**		(1.12)
Distributions exceeding cash flow available for distribution		**(0.01)**		(0.22)
Cost of foreign exchange hedge		**(0.52)**		(0.12)
Reduction from management and advisor fees paid in units		**(0.22)**		(0.54)
Rounding and timing adjustments		**0.03**		—
Total change	$	**4.67**	$	(6.22)
Ending net asset value per unit	$	**17.41**	$	17.41

[1] Period from December 15, 2004 (commencement of operations) to December 31, 2007.

[2] Excludes the impact of foreign exchange, which is included in the foreign exchange hedge.

The decline in the net asset value per unit of the Fund during 2007 was a consequence of the "credit crunch" in the US, as described in the Recent Development section. The value of the Fund's portfolio investments decreased (including net realized and unrealized gains) during the year by approximately $3.57 per unit.

During 2007, the safety net hedge incurred a cost for the Fund of approximately $0.38 per unit. Interest rates on 30-year US Treasury bonds declined in the second half of the year. Consequently, the safety net hedge option contracts provided no benefit during this period and were a cost to the Fund.

The impact of the weakening US dollar has been greatly mitigated by the hedging program, considering the 17.9% increase in the Canadian dollar, relative to the US dollar, from December 31, 2006 to December 31, 2007. However, for the year ended December 31, 2007, foreign exchange movements resulted in a cost to the Fund of $0.49 per unit in net asset value or 2.2% of the net asset value per unit at 2006 year-end. This loss on the value of the foreign exchange contracts was a result of a decrease over the year in the spread between Canadian and US interest rates for similar maturities of the Fund's foreign currency forward contracts. The spread decreased largely due to falling US interest rates. The decrease in the spread has negatively affected the value of the forward contracts relative to the end of 2006.

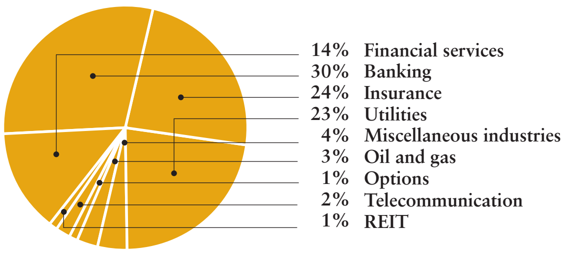
When the Manager and Portfolio Manager agree to take their fees in units of the Fund, additional cash is available for distributions. The Manager has been taking its fee in units since the inception of the Fund. At the end of 2005, the Portfolio Manager also agreed to take its fees in units to help offset the decline in cash flow available for distribution. The disadvantage of taking the management and advisor fees in Fund units is that the net asset value per unit declines over time due to the additional units outstanding. Beginning in 2008, the Manager and the Portfolio Manager have discontinued the dilutive practice of taking their fees in units.

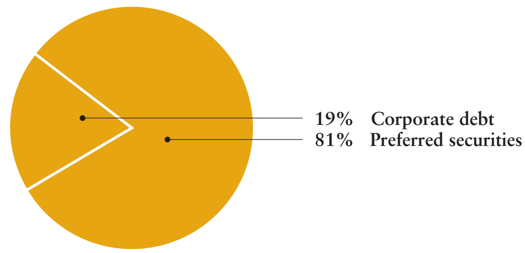
Although the net asset value per unit has declined by about $6.22 since inception, it is important for unitholders to remember that they have received $4.66 per unit in cash distributions over this period.

Investment Portfolio

All securities purchased by the Fund are rated investment grade at the time of investment. The portfolio is well diversified with 65 issues. The breakdown of the portfolio is shown in the accompanying pie charts. The Fund's credit quality remains investment-grade and its units are currently rated P-2f by Standard & Poor's ("S&P").

Portfolio Sectors





The ratings breakdown as of December 31, 2007 by Moody's and S&P is provided below.

Credit Quality

Moody's Rating	% of Portfolio	S&P Rating	% of Portfolio
Aaa	0.1%	AAA	0.1%
Aa	9.2%	AA	1.0%
A	20.4%	A	16.2%
Baa	52.0%	BBB	58.8%
Below Baa	15.1%	Below BBB	20.9%
Not rated	0.0%	Not rated	0.0%

Hedging Strategies

Foreign Exchange Hedge

Units of the Fund are purchased and valued in Canadian dollars, but the Fund invests in US dollar denominated fixed income securities. Substantially all of the US dollar foreign exchange exposure of the Fund's portfolio is hedged by the Fund to the Canadian dollar at all times. At December 31, 2007, about two-thirds of the portfolio was hedged using a combination of forward contracts with maturity dates of March 2008, November 2008 and November 2009, at approximately 22.2% each, and one-third of the portfolio was hedged naturally through the Fund's US dollar borrowings. Since the Fund's inception and for the year ended December 31, 2007, the Canadian dollar has appreciated by 25.2% and 17.9%, respectively.

Safety Net Hedge

Due to the negative effect that rising long-term interest rates can have on the value of a long-duration portfolio, the Portfolio Manager employs a safety net hedge strategy to help mitigate this impact. The safety net hedge has two purposes. The first is to offset, in part, the decline in the value of the Fund's securities portfolio caused by a significant and rapid rise in long-term US interest rates. The Fund purchases out-of-the-money put options on US Treasury futures whose price movements are correlated (albeit not perfectly) with those of the Fund's investments. During a period of rising long-term interest rates, the Fund will initially experience a reduction in net asset value as the hedge tightens and only partially offsets the decline in the value of the securities portfolio. However, as interest rates continue to increase, the hedge will offset an increasing proportion of the decline in the value of the Fund's investments.

The second purpose of the safety net hedge is to generate additional income following a rapid increase in long-term interest rates. This can be achieved by investing realized gains from the put options in additional income producing securities. The safety net hedge worked well in the first half of 2007 as it helped insulate the Fund from a more significant decline in net asset value resulting from the rise in long-term rates which occurred during the first half of the year. As interest rates on long-term US Treasury Bonds declined in the second half of the year, the safety net hedge was a cost to the Fund resulting in an overall cost of approximately $0.38 per unit for the year.

Liquidity and Capital Resources

As of December 31, 2007, the Fund had total borrowings of $58.5 million (US$59.3 million), which represented 39.9% of total assets. The rate paid on these borrowings is adjusted regularly based on the London Interbank Offered Rate ("LIBOR"). The borrowings have been used to invest in additional portfolio investments to enhance the distributions paid by the Fund. During the year ended December 31, 2007, the minimum and maximum amounts of borrowings of the Fund were $57.9 million and $99.4 million, respectively.

To provide liquidity, units of the Fund are listed on the TSX under the symbol FFI.UN. The Fund's normal course issuer bid allows it to purchase its units on the TSX if they trade below net asset value per unit. As a result, purchases under the issuer bid are accretive to the net asset value per unit of the Fund. A total of 430,700 units were purchased in the year ended December 31, 2007 under this program at an average price of $19.65 per unit. Investors may also redeem their units annually, in November, in accordance with the Fund's redemption provisions.

Related Party Transactions

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.35% per annum of the Published NAV of the Fund, plus applicable taxes. In addition, Flaherty & Crumrine Incorporated, the Portfolio Manager for the Fund, and Brompton Capital Advisors Inc. are entitled to receive an additional fee equal to 0.70% per annum of the Published NAV, plus applicable taxes. These fees may be paid in cash or units. To the extent that units are issued from treasury for this purpose, they are issued at the net asset value per unit. During the year ended December 31, 2007, 81,574 units were issued for the payment of these fees.

The Fund also pays to the Manager a service fee equal to 0.30% per annum of the net asset value of the Fund. The service fee is in turn paid by the Manager to the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter. For the year ended December 31, 2007, management, advisor and service fees amounted to $0.6 million, $1.1 million and $0.4 million, respectively.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the fiscal periods indicated. This information is derived from the Fund's audited annual financial statements. *The information in the following tables is presented in accordance with NI 81-106 and, as a result, does not act as a continuity of opening and closing net asset value per unit*. The increase (decrease) in net assets from operations is based on average units outstanding during the period, and all other numbers are based on actual units outstanding at the relevant point in time.

Net Asset Value per Unit

For the Years Ended December 31		2007		2006		2005		2004[1]
Net asset value, beginning of year[2][3]	$	**22.01**	$	22.35	$	23.23	$	23.63
Increase (decrease) from operations:[4]								
Total revenue		**2.24**		2.30		2.14		0.07
Total expenses		**(0.99)**		(1.01)		(0.81)		(0.04)
Realized gain (loss) for the year		**(0.04)**		(0.34)		(0.11)		(0.11)
Unrealized gain (loss) for the year		**(4.25)**		0.29		(0.55)		(0.32)
Total increase (decrease) in net assets from operations	$	**(3.04)**	$	1.24	$	0.67	$	(0.40)
Distributions to unitholders:[3]								
From net investment income	$	**0.84**	$	1.09	$	0.22	$	—
From net realized gain on investments		**—**		—		0.82		—
Return of capital		**0.66**		0.44		0.59		—
Total distributions to unitholders	$	**1.50**	$	1.53	$	1.63	$	—
Net asset value, end of year[2]	$	**17.34**	$	22.08	$	22.35	$	23.23

(1) Period from December 15, 2004 (commencement of operations) to December 31, 2004.

(2) The net asset value per unit for prior periods is based on the prior period financial statements and have not been adjusted for the new accounting standards adopted in 2007. The net asset value per unit at the beginning and at the end of the period from 2007 are both shown as the GAAP NAV. The Published NAV per unit is shown for all prior periods.

(3) Net asset value per unit and distributions per unit are based on the actual number of units outstanding at the relevant time.

(4) The increase (decrease) in net assets from operations is based on the weighted average number of units outstanding over the fiscal period.

Ratios and Supplemental Data (Based on Published NAV)

December 31	2007	2006	2005	2004[(1)]
Net assets (in 000s)	**$ 87,061**	$ 174,138	$ 268,420	$ 345,726
Number of units outstanding (in 000s)	**5,001**	7,886	12,011	14,882
Management expense ratio ("MER")[(2)]	**4.75%**	4.47%	3.45%	9.21%
MER excluding interest expense and issuance costs[(3)]	**1.53%**	1.44%	1.48%	1.52%
Portfolio turnover rate[(4)]	**82.01%**	73.24%	131.75%	N/A
Trading expense ratio[(5)]	**0.04%**	0.08%	0.12%	N/A
Closing market price	**$ 16.14**	$ 22.37	$ 21.40	$ 24.95

(1) Annualized, if applicable, for the period from December 15, 2004 (commencement of operations) to December 31, 2004.

(2) MER is based on the requirements of NI 81-106 and includes the total expenses of the Fund for the stated period, including interest expense and issuance costs but excluding brokerage commissions on securities transactions, and is expressed as an annualized percentage of the average net assets of the period.

(3) MER, excluding interest expense and issuance costs, has been presented separately as it expresses only the ongoing management and administrative expenses of the Fund as a percentage of average net assets.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher the Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of the Fund. The portfolio turnover rate is not provided when a fund is less than one year old. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period.

(5) The trading expense ratio represents total commissions expressed as an annualized percentage of daily average net assets of the Fund during the period. This disclosure was a new requirement in 2005 under NI 81-106 and was not applied retroactively.

Expense Ratio

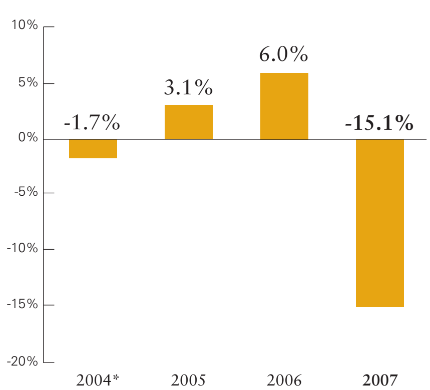
The MER of the Fund increased from 4.47% in 2006 to 4.75% in 2007 due to a lower average net asset value in 2007, which is largely a result of redemptions at the end of 2006. The MER is exaggerated by the inclusion of interest expense on borrowings used to purchase additional portfolio investments to increase the distributions of the Fund. The MER, excluding interest expenses and issuance costs, increased from 1.44% in 2006 to 1.53% in 2007, as a result of an increased burden of fixed costs on a lower average net asset value. This latter rate is more representative of the ongoing efficiency of the administration of the Fund.

Past Performance

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Published NAV per unit and assumes that distributions made by the Fund on its units in the periods shown were reinvested (at Published NAV per unit) in additional units of the Fund.

The chart shows the Fund's annual return in each year/period since inception to December 31, 2007. The chart shows, in percentage terms, how an investment held on the first day of each fiscal year/period would have increased or decreased by the last day of the fiscal year/period.

Year-by-Year Returns



* Period from December 15, 2004 (commencement of operations) to December 31, 2004.

The following table shows the Fund's annual compound return for each period indicated, compared with the return for the Merrill Lynch Hybrid Preferred Securities Index ("Merrill Lynch Index"). The Merrill Lynch Index is an unmanaged index of investment grade, exchange-traded preferred stocks with outstanding market values of at least $30 million and at least one year to maturity.

Annual Compound Returns

	1 Year	3 Year	Since Inception[1]
Flaherty & Crumrine Investment Grade Fixed Income Fund[2]	(15.1%)	(2.5%)	(3.0%)
Merrill Lynch Hybrid Preferred Securities Index	(12.7%)	(1.9%)	(1.6%)

(1) Period from December 15, 2004 (commencement of operations) to December 31, 2007.

(2) Based on Published NAV per unit and assuming that distributions made by the Fund on its units in the periods shown were reinvested (at Published NAV per unit) in additional units of the Fund.

During 2007 and since inception, the Fund has performed in line with the Merrill Lynch Index after accounting for administrative costs of the Fund and the cost of the currency hedge. In 2007, the Fund's portfolio significantly outperformed the Merrill Lynch Index, but still generated a negative return. The Fund's strategy of employing leverage amplified the negative returns earned on the portfolio and consequently the Fund provided a lower total return after costs than the Index. The Fund had a negative return of 15.1% in 2007 as the US hybrid preferred market experienced significant deterioration due to the "credit crunch" and, as a result, since inception returns have also been negative. Please see the Recent Developments sections and the Portfolio Manager's Report for further information.

Summary of Investment Portfolio

As at December 31, 2007

Total Published NAV	$ 87,060,816

Portfolio Composition	% of Portfolio	% of Published NAV
Preferred Securities:		
Banking	28.8%	48.0%
Insurance	18.3%	30.4%
Utilities	18.2%	30.3%
Financial services	10.7%	17.9%
Telecommunication	1.7%	2.8%
Oil and gas	1.4%	2.3%
	79.1%	131.7%
Corporate Debt:		
Insurance	5.4%	9.0%
Utilities	4.2%	7.0%
Miscellaneous industries	3.6%	6.1%
Financial services	2.6%	4.3%
Oil and gas	1.6%	2.7%
Real estate investment trusts	0.3%	0.5%
Telecommunications	0.2%	0.3%
	17.9%	29.9%
Cash and short-term investments	2.9%	4.8%
Options	0.1%	0.2%
Total investment portfolio	100.0%	166.6%
Other net liabilities		(66.6%)
Total net asset value		100.0%

Top 25 Holding	% of Portfolio	% of Published NAV
PECO Energy Capital Trust IV, *5.75% June 15, 2033 Capital Security*	6.2%	10.2%
Liberty Mutual Insurance Co., *7.697% October 15, 2097*	5.1%	8.3%
AON Capital Trust A, *8.205% January 1, 2027 Capital Security*	3.9%	6.4%
First Empire Capital Trust II, *8.277% June 1, 2027 Capital Security*	3.7%	5.9%
Comerica Capital Trust II, *6.576% Capital Securities*	3.6%	5.8%
Axis Capital Holdings Limited, *7.50% Pfd.*	3.5%	5.6%
Southern Union Company, *8.25% November 15, 2029*	3.4%	5.5%
Banco Santander, *6.8% Pfd.*	3.3%	5.4%
CalEnergy Capital Trust III, *6.5% Pfd.*	3.1%	5.1%
Morgan Stanley Capital Trust VI, *6.6% Pfd.*	3.1%	5.1%
Capital One Capital III, *7.686% August 15, 2036*	3.1%	5.0%
Everest Reinsurance Holdings Inc., *6.6% May 15, 2067*	3.1%	5.0%
Cash and short-term investments	3.0%	4.8%
General Motors Acceptance Corporation, *8% November 1, 2031, Senior Bonds*	2.6%	4.1%
Dominion Resources Capital Trust I, *7.83%, December 1, 2027*	2.4%	3.9%
Sovereign Capital Trust VI, *7.908% June 13, 2036*	2.2%	3.5%
Delphi Financial Group, Inc., *7.376% May 15, 2037*	2.1%	3.3%
Ambac Financial Group, Inc., *6.15% February 15, 2037*	2.1%	3.3%
Banco Santander, *6.5% Pfd.*	2.1%	3.3%
CIT Group, Inc. *6.1% March 15, 2067*	2.0%	3.2%
FPL Group Capital Inc., *6.6% Pfd., Series A*	1.9%	3.1%
Commonwealth Edison Co., *6.35% March 15, 2033*	1.9%	3.0%
Washington Mutual Preferred Funding (Cayman) I Ltd., *6.534% March 15, 2011*	1.9%	3.0%
Schwab Capital Trust I, *7.5% due November 15, 2037*	1.8%	2.9%
Centaur Funding Corp., *9.08% April 21, 2020*	1.8%	2.8%

The investment portfolio may change due to ongoing portfolio transactions of the investment fund. Quarterly updates are available within 60 days of each quarter end.

2007 Tax Information

The following information is applicable to holders who, for the purpose of the Income Tax Act (Canada), are resident in Canada and hold Fund units as capital property outside of an RRSP, RRIF or DPSP. Unitholders should receive a T3 slip from their investment dealer providing this information.

T3 supplementary slips for holdings of the fund will indicate Foreign Non-Business Income in Box 25, Investment Income in Box 26, Capital Gains in Box 21 and Dividend Income in Box 23 and Box 49. Dividend income is subject to the standard gross-up and federal dividend tax credit rules.

The return of capital component is a non-taxable amount that serves to reduce the adjusted cost base of Fund units and is reported on the T3 supplementary slips in Box 42.

The following table outlines the breakdown of the Fund's distributions declared in 2007 on a per unit basis.

Record Date	Payment Date	Foreign Non-Business Income	Return of Capital	Total Distribution
Jan. 31, 2007	Feb. 14, 2007	$ 0.07027	$ 0.05473	$ 0.125
Feb. 28, 2007	Mar. 14, 2007	0.07027	0.05473	0.125
Mar. 30, 2007	Apr. 16, 2007	0.07027	0.05473	0.125
Apr. 30, 2007	May 14, 2007	0.07027	0.05473	0.125
May 31, 2007	Jun. 14, 2007	0.07027	0.05473	0.125
Jun. 29, 2007	Jul. 16, 2007	0.07027	0.05473	0.125
Jul. 31, 2007	Aug. 15, 2007	0.07027	0.05473	0.125
Aug. 31, 2007	Sep. 17, 2007	0.07027	0.05473	0.125
Sep. 28, 2007	Oct. 15, 2007	0.07027	0.05473	0.125
Oct. 31, 2007	Nov. 14, 2007	0.07027	0.05473	0.125
Nov. 30, 2007	Dec. 14, 2007	0.07027	0.05473	0.125
Dec. 31, 2007	Jan. 15, 2008	0.07027	0.05473	0.125
Total		**$ 0.84324**	**$ 0.65676**	**$ 1.500**

This information is of a general nature only and does not constitute legal or tax advice to any particular investor. Accordingly, investors are advised to consult their own tax advisors with respect to their individual circumstances.

Portfolio Manager

Flaherty & Crumrine Incorporated
Flaherty & Crumrine Incorporated is the oldest and most experienced firm specializing in preferred securities and has extensive additional experience in corporate debt instruments. Flaherty & Crumrine acts as Portfolio Manager for two Brompton funds – Flaherty & Crumrine Investment Grade Preferred Fund and Flaherty & Crumrine Investment Grade Fixed Income Fund, both of which invest in investment grade corporate debt and preferred securities, primarily of US issuers. The firm uses intensive credit analysis, thorough analysis of securities' terms and structure and active portfolio management, exploiting pricing inefficiencies in the fixed income markets to provide attractive rates of return on its funds.

FC Flaherty & Crumrine Incorporated

Portfolio Manager's Report

The past year was disappointing as the Fund posted negative performance, particularly in the latter half of the year as conditions in US preferred securities markets deteriorated dramatically. Since last July, US preferred and debt markets have suffered from a severe credit crunch. While problems in the US sub-prime mortgage market sparked it, the credit crunch expanded into a complete re-evaluation by investors and lenders of prices associated with the extension of credit and liquidity – in other words, the "risk premium." Rationally or irrationally, lenders and investors became afraid of the increased risk that their borrowers might default, and demanded significantly higher risk premiums for making loans or owning credit market instruments, including preferred securities. Many investors fled to the safest credit instrument they knew – US Treasury securities.

Widening risk premiums played out in a number of market sectors. For consumers, mortgage rates jumped significantly in the first few months of the crunch and banks tightened lending standards. For institutions, credit fears became so widespread that banks even worried about lending to other banks, and the cost of interbank borrowing surged. In some asset classes, lenders and investors simply retreated from extending credit to borrowers at any risk premium.

Left unchecked, this credit contraction could have had severe negative repercussions on both asset values and the economy. In response, the US Federal Reserve (the "Fed") has cut the federal funds rate by 2.25% and the discount rate by 2.75% in multiple steps, with the possibility of further cuts to come. In addition, the Fed and other major global central banks have flooded markets with liquidity through repurchase operations.

Preferred securities and other credit-market instruments, which had declined in price prior to the Fed's actions, have since stabilized, and results in January 2008 were positive. While we cannot say that prices of these securities have reached a bottom, the Fed's actions have clearly helped provide liquidity to the market.

It's likely that the behaviour of the preferred securities market these past months will one day be the subject of business school dissertations. From our vantage point, we'd observe that the market was impacted by, among other things, issues of liquidity, a flood of supply from financial issuers desperate to replenish their capital, and concerns over the creditworthiness of the financial institutions that constitute a large part of the preferred securities market.

Early on, losses by investors in mortgage securities prompted liquidation of their holdings in preferred securities to meet their funding needs. Too many willing sellers and too few buyers had an adverse impact on valuations throughout the secondary preferred securities market. Subsequently, companies directly impacted by credit-related losses, especially banks, broker-dealers and the government-sponsored housing lenders Fannie Mae and Freddie Mac, turned largely to the preferred market to raise much-needed capital to offset their losses. The pricing of these new issues came at substantial discounts to outstanding preferred securities, which further drove down prices in the secondary preferred market (including for preferred securities of non-financial companies).

Although all companies have felt some strain from the current credit crunch, banks, finance companies and broker-dealers have been most affected given their direct and indirect exposure to the problems in the housing and structured finance markets. Securities issued by these types of companies have consequently suffered the greatest declines in value.

The outlook for corporate credit quality continues to be generally positive, even while the economic outlook has become increasingly uncertain. The corporate non-financial sector remains healthy, with low leverage, strong interest coverage, and good liquidity. While market technicals led to the decline of these issuers' preferred prices, we look instead to the credit fundamentals of each particular issuer. The credit fundamentals for non-financial issuers generally remain sound and have changed little in recent quarters.

However, as discussed above, the corporate financial sector is both more strained and more variable. Life insurance and property and casualty insurance companies have generally avoided most of the problems facing other financial companies, but banks, finance companies, financial guarantors and broker-dealers have been significantly affected because of their direct and indirect exposure to problems in housing markets. These companies all face a difficult operating environment over the next several years, especially if the economy slips into recession.

Recognizing these risks, overall we believe that the issuers in the Fund's portfolio will remain current on their payments of dividends and principal because these issuers (1) are well capitalized, (2) have strong business franchises, (3) are well managed, and (4) have access to additional capital if needed. Therefore, we believe that they have the ability to absorb sizable losses and navigate a difficult credit landscape.

Moreover, because these companies operate in a mark-to-market environment, *their write-downs already reflect both current and expected future losses*. In other words, the charges that financial companies have taken on mortgage securities (as well as other mark-to-market assets) reflect the severe loss assumptions that are baked into current market prices, not just the actual losses from defaults that have been incurred to date. These companies have already taken write-downs that reflect a very pessimistic outlook, yet they still retain adequate capital and long-term earnings capacity to absorb sizable incremental losses.

In summary, we believe that current market values of most preferred securities in the Fund's portfolio are more reflective of the credit crunch and associated fears and illiquidity than the overall creditworthiness of these issuers. No one knows when the preferred and overall credit markets will stabilize, but eventually they will. The road to stabilization is likely to be bumpy for some time, so we will continue to navigate diligently with our disciplined, credit-focused investment strategy. Consequently, we remain cautiously optimistic that a more normal market will bring about positive returns for preferred securities investments this year. On a longer-term horizon, we are all but certain of it.

Forward-Looking Statements

Some of the statements contained herein including, without limitation, financial and business prospects and financial outlook may be forward-looking statements which reflect management's expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as "may," "will," "should," "could," "anticipate," "believe," "expect," "intend," "plan," "potential," "continue" and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based on what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

Management's Responsibility Statement

The financial statements of Flaherty & Crumrine Investment Grade Fixed Income Fund (the "Fund") have been prepared by Brompton Funds Management Limited (the "Manager" of the Fund) and approved by the Board of Directors of the Manager. The Manager is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

The Manager maintains appropriate procedures to ensure that relevant and reliable financial information is produced. Statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgements. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of the Manager is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of a majority of independent directors.

The Manager, with the approval of its Board of Directors, has appointed the external firm of PricewaterhouseCoopers LLP as the auditors of the Fund. They have audited the financial statements of the Fund in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.

(Signed)

Mark A. Caranci
President and Chief Executive Officer
Brompton Funds Management Limited
March 12, 2008

(Signed)

Craig T. Kikuchi
Chief Financial Officer
Brompton Funds Management Limited

Auditors' Report to Unitholders

To the Unitholders of Flaherty & Crumrine Investment Grade Fixed Income Fund:

We have audited the statement of investments of Flaherty & Crumrine Investment Grade Fixed Income Fund (the Fund) as at December 31, 2007, the statements of net assets as at December 31, 2007 and 2006 and the statements of operations and deficit, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's Manager. 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 investments of the Fund as at December 31, 2007, the net assets as at December 31, 2007 and 2006 and the results of its operations and deficit, the changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed)

PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
March 12, 2008

Statements of Net Assets

As at December 31	2007	2006
Assets		
Investments, at market value[(1)]	$ 140,451,962	$ 269,763,889
Option contracts purchased, at market value (note 9)	131,851	653,670
Cash and short-term investments	4,174,743	638,627
Income receivable	1,521,132	2,540,793
Total assets	146,279,688	273,596,979
Liabilities		
Option contracts written, at market value (note 9)	—	626,396
Unrealized loss on forward contracts (note 8)	40,534	2,182,517
Accounts payable and accrued liabilities	420,840	648,264
Distributions payable to unitholders (note 5)	625,160	985,791
Loans payable (note 10)	58,476,935	95,015,885
Total liabilities	59,563,469	99,458,853
Unitholders' equity		
Unitholders' capital (note 4)	117,876,946	186,145,192
Contributed surplus (note 4)	25,575,686	10,338,838
Deficit	(56,736,413)	(22,345,904)
Net assets representing unitholders' equity	$ 86,716,219	$ 174,138,126
Units outstanding (note 4)	5,001,279	7,886,326
Net asset value per unit	$ 17.34	$ 22.08

(1) Investments, at market value, exclude the value of derivative contracts which are disclosed separately on the Statement of Net Assets.

Approved on behalf of Flaherty & Crumrine Investment Grade Fixed Income Fund by the Board of Directors of Brompton Funds Management Limited, the Manager.

(Signed)

Peter A. Braaten
Director

Raymond R. Pether
Director

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

Statements of Operations and Deficit

For the years ended December 31	2007	2006
Income		
Dividends	$ 6,916,713	$ 8,146,698
Interest income	9,692,996	18,291,820
	16,609,709	26,438,518
Expenses		
Advisory fees (note 6)	1,096,123	1,780,850
Management fees (note 6)	583,128	947,409
Service fees (note 6)	427,664	707,069
Audit fees	29,087	18,224
Director and independent review committee fees	35,828	41,116
Trustee fees	21,910	22,536
Custodial fees	32,584	53,082
Legal fees	40,548	26,094
Unitholder reporting costs	10,397	31,111
Other administrative expenses	98,650	135,830
Interest and bank charges (note 10)	5,005,873	7,900,730
	7,381,792	11,664,051
Net investment income	9,227,917	14,774,467
Net realized loss on investments and foreign currency transactions (note 7)	(17,608,228)	(22,837,043)
Transaction costs (note 2)	(62,498)	—
Net realized gain on forward contracts and options (note 8)	17,545,021	18,956,831
Net change in unrealized gain/loss on investments and foreign currency transactions	(33,679,965)	17,193,353
Net change in unrealized gain/loss on forward contracts and options (notes 8 & 9)	1,732,800	(13,851,169)
Increase (decrease) in net assets from operations	(22,844,953)	14,236,439
Deficit, beginning of year	(22,938,574)	(19,457,341)
Distributions to unitholders (note 5)	(10,952,886)	(17,125,002)
Deficit, end of year	$ (56,736,413)	$ (22,345,904)
Increase (decrease) in net assets from operations per unit[1]	$ (3.04)	$ 1.24

[1] Based on the weighted average number of units outstanding for the year (note 4).

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

Statements of Cash Flows

For the years ended December 31	2007	2006
Cash flows from operating activities:		
Increase (decrease) in net assets from operations	**$ (22,844,953)**	$ 14,236,439
Adjustments to reconcile net cash provided by (used in) operations:		
Net realized (gain) loss on sale of investments, options and foreign currency transactions	**19,359,429**	22,848,281
Net change in unrealized gain/loss on investments and foreign currency transactions	**34,946,543**	(22,329,661)
Net change in unrealized gain/loss on forward contracts and options	**(3,010,832)**	18,989,091
Amortization of deferred financing costs	**—**	4,755
Decrease (increase) in income receivable	**1,019,661**	3,922,071
Increase (decrease) in accounts payable and accrued liabilities	**(227,424)**	(177,222)
Purchase of investments and options (note 7)	**(190,673,494)**	(273,280,046)
Proceeds from sale of investments and options (note 7)	**251,768,023**	399,500,941
Cash provided by operating activities	**90,336,953**	163,714,649
Cash flows from financing activities:		
Proceeds from issuance of units (note 4)	**1,705,483**	2,655,334
Increase (decrease) in loans payable	**(22,455,922)**	(55,115,840)
Distributions paid to unitholders (note 5)	**(11,313,517)**	(17,765,527)
Repurchase of units (note 4)	**(8,460,472)**	(8,264,113)
Amounts paid for redemption of units	**(46,276,409)**	(86,178,746)
Cash used in financing activities	**(86,800,837)**	(164,668,892)
Net increase (decrease) in cash and short-term investments	**3,536,116**	(954,243)
Cash and short-term investments, beginning of year	**638,627**	1,592,870
Cash and short-term investments, end of year	**$ 4,174,743**	$ 638,627
Supplemental information:		
Interest paid	**$ 5,068,663**	$ 7,972,857

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

Statements of Changes in Net Assets

For the years ended December 31	2007	2006
Net assets, beginning of year (note 3)	**$ 173,545,456**	$ 268,420,032
Operations:		
Increase (decrease) in net assets from operations	**(22,844,953)**	14,236,439
Unitholder transactions:		
Distributions to unitholders (note 5)		
Net investment income	**(6,157,712)**	(12,169,073)
Return of capital	**(4,795,174)**	(4,955,929)
Total	**(10,952,886)**	(17,125,002)
Proceeds from issuance of units (note 4)	**1,705,483**	2,655,334
Redemption of units (note 4)	**(46,276,409)**	(85,784,564)
Repurchase of units (note 4)	**(8,460,472)**	(8,264,113)
Total unitholder transactions	**(63,984,284)**	(108,518,345)
Net decrease in net assets	**(86,829,237)**	(94,281,906)
Net assets, end of year	**$ 86,716,219**	$ 174,138,126
Distributions per unit	**$ 1.5000**	$ 1.5312

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

Statement of Investments

Shares/Par Value US$	As at December 31, 2007	Cost (USD)	Cost (CAD)	Market Value (USD)	Market Value (CAD)	% of Portfolio
	Preferred Securities					
	Banking					
$ 1,000,000	Astoria Capital Trust I, *9.75% November 1, 2029 Capital Security, Series B*	$ 1,170,000	$ 1,346,840	$ 1,123,680	$ 1,109,019	
179,950	Banco Santander, *6.8% Pfd.*	4,498,750	5,085,862	4,763,276	4,701,128	
104,800	Banco Santander, *6.5% Pfd.*	2,615,600	3,047,675	2,874,664	2,837,157	
$ 5,375,000	Capital One Capital III, *7.686% August 15, 2036*	5,440,829	5,989,855	4,370,734	4,313,708	
100,000	Citigroup Capital VIII, *6.95% Pfd.*	2,506,525	2,899,982	2,105,000	2,077,535	
117,500	Citizens Funding Trust I, *7.5% Pfd.*	2,943,625	3,296,959	1,821,249	1,797,487	
$ 6,360,000	Comerica Capital Trust II, *6.576% Capital Securities*	5,974,307	6,622,097	5,080,177	5,013,894	
$ 5,000,000	First Empire Capital Trust II, *8.277% June 1, 2027 Capital Security*	5,471,800	6,765,080	5,218,699	5,150,609	
$ 745,000	First Midwest Capital Trust I, *6.95% December 1, 2033 Capital Security*	817,012	1,010,565	677,213	668,377	
$ 2,000,000	First Tennessee Capital Trust I, *8.07% due January 6, 2027*	2,065,000	2,063,349	2,080,700	2,053,552	
$ 75,000	First Union Capital II, *7.85% January 1, 2027 Capital Security*	78,666	92,032	78,017	76,999	
60,000	HSBC Finance Corporation, *6.875% due January 30, 2033*	1,515,000	1,783,843	1,400,999	1,382,720	
$ 870,000	JP Morgan Capital Trust XXIII, *6.36% May 15, 2047*	864,980	942,912	678,278	669,428	
20,000	JP Morgan Chase Cap XXIV, *6.87% August 1, 2047 Capital Securities*	476,000	502,820	455,800	449,853	
7,600	KeyCorp Capital VIII, *7% June 15, 2066*	188,556	209,730	151,468	149,492	
24,000	Lehman Capital Trust, *6.24% Pfd.*	517,200	546,342	482,400	476,106	
$ 1,575,000	Regions Financing Trust II, *6.625% May 15, 2047*	1,567,016	1,736,785	1,301,549	1,284,567	
33,700	Sovereign Capital Trust V, *7.75% December 31, 2036*	855,980	953,600	708,037	698,799	
$ 3,200,000	Sovereign Capital Trust VI, *7.908% June 13, 2036*	3,277,859	3,192,700	3,093,279	3,052,920	
10,000	USB Capital X, *6.5% Pfd.*	245,500	280,889	209,000	206,273	
$ 4,250,000	Washington Mutual Preferred Funding (Cayman) I Ltd., *6.534% March 15, 2011*	4,229,401	4,878,808	2,624,077	2,589,840	
$ 1,200,000	Webster Capital Trust IV, *7.65% June 15, 2037*	1,196,064	1,276,142	1,015,559	1,002,309	
		48,515,670	**54,524,867**	**42,313,855**	**41,761,772**	**29.7%**
	Financial Services					
52,100	Cabco – Goldman, *6% Series GS*	1,276,450	1,565,697	1,013,866	1,000,638	
$ 3,925,000	CIT Group, Inc. *6.1% March 15, 2067*	3,368,364	3,722,599	2,849,942	2,812,758	
60,000	Corporate Backed Trust Certificates Goldman Sachs Capital I, *6% Series 2004-4*	1,452,000	1,674,740	1,179,600	1,164,209	
82,450	Corporate Backed Trust Certificates, *6.3% Series GS*	2,081,863	2,553,618	1,726,502	1,703,976	
70,000	Deutsche Bank Contingent Capital Trust II, *6.55% Pfd.*	1,750,000	1,929,991	1,507,100	1,487,436	
25,800	Morgan Stanley Capital Trust III	549,791	544,279	491,490	485,077	
222,438	Morgan Stanley Capital Trust VI, *6.6% Pfd.*	5,582,277	6,412,374	4,462,105	4,403,887	
$ 2,500,000	Schwab Capital Trust I, *7.5% due November 15, 2037*	2,495,575	2,496,199	2,511,750	2,478,978	
		18,556,320	**20,899,497**	**15,742,355**	**15,536,959**	**11.1%**
	Insurance					
74,400	ACE Ltd., *7.8% Pfd., Series C*	1,950,648	2,327,528	1,772,208	1,749,085	
$ 3,925,000	Ambac Financial Group, Inc., *6.15% February 15, 2037*	3,233,087	3,316,742	2,866,780	2,829,376	
$ 5,455,000	AON Capital Trust A, *8.205% January 1, 2027 Capital Security*	6,089,672	7,165,615	5,637,905	5,564,346	
69,750	Arch Capital Group Ltd., *8% Pfd.*	1,798,599	2,076,851	1,726,312	1,703,788	
19,089	Axis Capital Holdings Limited, *7.25% Pfd.*	465,625	540,895	396,287	391,117	
50,845	Axis Capital Holdings Limited, *7.50% Pfd.*	5,202,856	5,896,285	4,952,302	4,887,688	
160,000	Delphi Financial Group, Inc., *7.376% May 15, 2037*	3,824,250	4,124,838	2,913,600	2,875,585	
23,500	Everest Capital Trust II, *6.2% Pfd., Series B*	552,291	680,184	437,570	431,861	
$ 4,935,000	Everest Reinsurance Holdings Inc., *6.6% May 15, 2067*	4,925,685	5,493,981	4,370,929	4,313,900	
12,500	RenaissanceRe Holding, *6.60% Pfd.*	264,798	273,189	230,250	227,246	
$ 1,000,000	USF & G Capital, *8.312% due July 1, 2046*	1,193,560	1,296,502	1,227,789	1,211,770	
10,300	W.R. Berkley Capital Trust II, *6.75% Pfd.*	254,006	297,185	215,578	212,766	
		29,755,077	**33,489,795**	**26,747,510**	**26,398,528**	**18.8%**
	Oil and Gas					
$ 2,250,000	KN Capital Trust III, *7.63% April 15, 2028 Capital Security*	2,563,104	3,145,327	1,996,875	1,970,821	
		2,563,104	**3,145,327**	**1,996,875**	**1,970,821**	**1.4%**
	Telecommunications					
2,176	Centaur Funding Corp., *9.08% April 21, 2020*	2,494,643	2,817,801	2,505,119	2,472,434	
		2,494,643	**2,817,801**	**2,505,119**	**2,472,434**	**1.8%**
	Utilities					
94,000	CalEnergy Capital Trust III, *6.5% Pfd.*	4,608,350	5,095,928	4,476,750	4,418,340	
$ 3,400,000	Commonwealth Edison Co., *6.35% March 15, 2033*	3,494,180	4,263,431	2,670,564	2,635,720	
$ 3,268,000	Dominion Resources Capital Trust I, *7.83%, December 1, 2027*	3,431,410	3,889,684	3,408,687	3,364,213	
30,000	DTE Energy Trust II, *7.5% Pfd.*	786,000	973,182	742,500	732,812	
112,737	FPL Group Capital Inc., *6.6% Pfd., Series A*	2,794,907	3,146,674	2,688,777	2,653,696	
$ 10,140,000	PECO Energy Capital Trust IV, *5.75% June 15, 2033 Capital Security*	9,910,532	12,116,601	8,957,066	8,840,200	
$ 250,000	Union Electric Co. *7.69% due December 15, 2036*	257,500	282,684	258,622	255,248	
57,607	Virginia Power Capital Trust, *7.375% July 30, 2042*	1,471,008	1,647,632	1,391,209	1,373,057	
$ 2,250,000	Wisconsin Energy Corp., *6.25% May 15, 2067*	2,243,777	2,482,229	2,086,605	2,059,380	
		28,997,664	**33,898,045**	**26,680,780**	**26,332,666**	**18.7%**
	Total Preferred Securities	**$ 130,882,478**	**$ 148,775,332**	**$ 115,986,494**	**$ 114,473,180**	**81.5%**

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

Statement of Investments (continued)

Shares/Par Value US$	As at December 31, 2007	Cost (USD)	Cost (CAD)	Market Value (USD)	Market Value (CAD)	% of Portfolio
	Corporate Debt Securities					
	Financial Services					
$ 4,360,000	General Motors Acceptance Corporation, *8% November 1, 2031, Senior Bonds*	$ 4,203,510	$ 5,061,159	$ 3,646,660	$ 3,599,081	
7,600	PreferredPLUS Trust Series GEC-1, *6.05% March 15, 2032*	195,700	240,829	170,240	168,019	
		4,399,210	**5,301,988**	**3,816,900**	**3,767,100**	**2.7%**
	Insurance					
$ 700,000	Liberty Mutual Insurance Co., *7.8% March 15, 2037*	595,802	626,066	622,664	614,540	
$ 7,774,000	Liberty Mutual Insurance Co., *7.697% October 15, 2097*	7,918,484	9,097,159	7,287,113	7,192,036	
		8,514,286	**9,723,225**	**7,909,777**	**7,806,576**	**5.6%**
	Oil and Gas					
$ 2,800,000	Kinder Morgan Inc., *7.45% March 1, 2098*	2,591,578	3,012,947	2,394,112	2,362,875	
		2,591,578	**3,012,947**	**2,394,112**	**2,362,875**	**1.7%**
	Real Estate Investment Trust					
$ 500,000	Realty Income Corp., *5.875% March 15, 2035, Senior Unsecured Notes*	484,320	583,265	412,670	407,286	
		484,320	**583,265**	**412,670**	**407,286**	**0.3%**
	Telecommunications					
16,300	Corporate Backed Trust Certificates, *7% Sprint Capital Note-Backed Series 2003-17*	408,315	460,276	305,461	301,476	
		408,315	**460,276**	**305,461**	**301,476**	**0.2%**
	Utilities					
$ 1,230,000	Southern Union Company, *7.6% February 1, 2024*	1,315,731	1,501,308	1,292,890	1,276,021	
$ 4,343,000	Southern Union Company, *8.25% November 15, 2029*	5,474,086	6,781,667	4,860,467	4,797,051	
		6,789,817	**8,282,975**	**6,153,357**	**6,073,072**	**4.3%**
	Miscellaneous Industries					
$ 2,170,000	Pulte Homes Inc., *7.875% June 15, 2032*	2,344,477	2,660,580	1,854,677	1,830,478	
$ 2,880,000	Pulte Homes Inc., *6.375% May 15, 2033*	2,773,369	3,347,735	2,181,828	2,153,361	
67,507	Pulte Homes Inc., *7.375% June 1, 2046*	1,665,036	1,853,233	1,293,434	1,276,558	
		6,782,882	**7,861,548**	**5,329,939**	**5,260,397**	**3.7%**
	Total Corporate Debt Securities	**$ 29,970,408**	**$ 35,226,224**	**$ 26,322,216**	**$ 25,978,782**	**18.5%**
	Embedded Broker Commission (note 2)	(45,629)	(45,629)	—	—	
	Total	$ 160,807,257	$ 183,955,927	$ 142,308,710	$ 140,451,962	100.0%

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

Notes to the Financial Statements

December 31, 2007 and 2006

1. OPERATIONS

Flaherty & Crumrine Investment Grade Fixed Income Fund (the "Fund") is a closed-end investment trust created under the laws of the Province of Alberta on November 25, 2004, pursuant to an amended and restated declaration of trust. Computershare Trust Company of Canada is the Trustee and Brompton Funds Management Limited is the Manager and is responsible for managing the affairs of the Fund. Flaherty & Crumrine Incorporated is the portfolio manager. RBC Dexia Investor Services Trust is the custodian of the Fund's assets and prepares the weekly valuations of the Fund. The Fund commenced operations on December 15, 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and they include estimates and assumptions made by management that affect the reported amounts of assets and liabilities at the date of these financial statements and the reported amounts of income and expenses during the periods for which the financial statements report. Actual results could differ from these estimates.

(a) Adoption of New Accounting Standards

Section 3855 – Financial Instruments – Recognition and Measurement

On January 1, 2007, the Fund adopted Section 3855, "Financial Instruments – Recognition and Measurement," of the Canadian Institute of Chartered Accountants Handbook – Accounting. Section 3855 establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires bid prices (for investments held) and ask prices (for investments sold short) to be used in determining the fair value of investments. Prior to the adoption of this new standard, fair value was commonly based on the closing price of an investment for the day. Section 3855 also requires transaction costs, such as brokerage commissions, incurred in the purchase and sale of investments by the Fund be expensed in the period incurred. Prior to the adoption of Section 3855, transaction costs were capitalized and included in the cost of purchases or proceeds from sale of investments.

Section 14.2 of National Instrument ("NI") 81-106, issued by the Canadian Securities Administrators ("CSA") in 2005, requires the net asset value of an investment fund to be calculated in accordance with Canadian GAAP. The CSA has granted relief to investment funds from complying on an interim basis with Section 3855 for the purposes of calculating and reporting of net asset value other than for financial reporting purposes (the "Published NAV"). Relief has been granted to the earlier of (i) September 30, 2008, or (ii) the date on which changes to NI 81-106 become effective for calculating the Published NAV.

In accordance with the relief granted by the CSA, a reconciliation between the Published NAV and the net asset value calculated in accordance with Section 3855 (the "GAAP NAV") has been provided in note 3.

On June 1, 2007, the CSA proposed amendments to NI 81-106 that would remove the requirement to calculate the Published NAV in accordance with Canadian GAAP. The proposed amendments, if adopted, would not require the Fund to change the way that it calculates its Published NAV and continue to use GAAP NAV for financial statements reporting purposes.

The provisions of Section 3855 have been applied retroactively without restatement of prior periods. Accordingly, the opening net asset value in the Statement of Changes in Net Assets for the year ended December 31, 2007 has been adjusted. Refer to note 3 for the adjustment to the opening net asset value.

Section 1506 – Accounting Changes

On January 1, 2007, the Fund adopted Section 1506 of the CICA Handbook, Accounting Changes, which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. Section 1506 also requires the disclosure of new primary sources of GAAP that have been issued but are not yet effective. This standard did not affect the Fund's financial position or results of operations.

(b) Valuation of Investments

The Fund's investments are valued at estimated market value. Investments held that are publicly traded are valued at their bid prices on the valuation date. Investments with no available bid prices are valued at their closing price. Short-term investments and bonds are valued at the average bid quotations from recognized investment dealers. These valuation methodologies were adopted in 2007 and applied retroactively without restatement of prior periods. The cost of investments is based on their average cost.

(c) Investment Transactions and Income Recognition

Investment transactions are recorded on trade date and any realized gains or losses are recognized using the average cost of the investments. Interest income is recognized on an accrual basis. Dividend income is recognized on the ex-dividend date. Net realized gains or losses on investments and options include net realized gains or losses from foreign currency changes.

Option premiums paid or received by the Fund are, so long as the options are outstanding, reflected as an asset or liability, respectively, in the Statement of Net Assets and are valued at an amount equal to the current market value of an option that would have the effect of closing the position.

(d) Cash and Short-Term Investments

Cash and short-term investments consist of cash on hand and short-term debt instruments with maturities of less than three months on acquisition.

Notes to the Financial Statements (continued)

(e) Transaction Costs

Transaction costs such as brokerage commissions incurred in the purchase and sale of securities are expensed and are recognized in the Statement of Operations. This accounting policy was adopted in 2007 and applied retroactively without restatement of prior periods.

(f) Foreign Currency Forward Contracts

The Fund may enter into foreign currency forward contracts, which are agreements between two parties to buy and sell currencies at a set price on a future date. The market value of the contract will fluctuate with changes in currency exchange rates. The contract is marked-to-market and the change in market value is recorded as an unrealized gain or loss. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

(g) Income Taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). Provided the Fund makes distributions in each year of its net income and net realized capital gains, the Fund will not generally be liable for income tax. It is the intention of the Fund to distribute all of its net income and net realized capital gains on an annual basis. Accordingly, no income tax provision has been recorded.

(h) Foreign Exchange

The market values of investments and other assets and liabilities that are denominated in foreign currencies are translated into Canadian dollars at the noon rate of exchange on each valuation date. Purchases and sales of investments and income derived from investments are translated at the rate of exchange prevailing at the time of such transactions.

(i) Fair Value of Financial Instruments

The fair value of the Fund's financial instruments, excluding investments and short-term investments, which are composed of cash, income receivable, accounts payable, accrued liabilities, distributions payable to unitholders and loans payable, approximates their book value.

(j) Recent Accounting Pronouncements

Section 1535 – Capital Disclosures

The new CICA Handbook Section 1535, Capital Disclosures, requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Fund.

This standard will impact the Fund's disclosures provided but will not affect the Fund's results or financial position.

Section 3862 – Financial Instruments – Disclosures

CICA Handbook Section 3862, Financial Instruments – Disclosures, replaces Section 3861 and increases the disclosures currently required that enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments including specified minimum disclosures about liquidity risks and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income would have been affected by reasonably possible changes in the relevant risk variable. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Fund.

This standard will impact the Fund's disclosures provided but will not affect the Fund's results or financial position.

Section 3863 – Financial Instruments – Presentation

CICA Handbook Section 3863, Financial Instruments – Presentation, also replaces Section 3861. This section carries forward the presentation requirements of Section 3861. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Fund.

This standard will impact the Fund's disclosures provided but will not affect the Fund's results or financial position.

3. RECONCILIATION OF NET ASSET VALUE

In accordance with the decision made by the Canadian securities regulatory authorities, a reconciliation between the Published NAV and the GAAP NAV of an investment fund is required to be disclosed in the financial statements.

The impact of the adoption of Section 3855 on the net asset value of the Fund is as follows:

As at December 31, 2007	Published NAV	Section 3855 Adjustment	GAAP NAV
Net asset value	$ 87,060,816	(344,597)	$ 86,716,219
Net asset value per unit	$ 17.41	(0.07)	$ 17.34

Applying Section 3855 as at December 31, 2006 resulted in a decrease in the Net Asset Value of the Fund and an increase in its Deficit in the amount of $592,670.

4. UNITS OF THE FUND

The Fund is authorized to issue an unlimited number of transferable, redeemable units of beneficial interest, each of which represents an equal, undivided interest in the net assets of the Fund. Each unit entitles the holder to one vote and to participate equally with respect to any and all distributions made by the Fund.

Units may be redeemed at the option of unitholders by tendering units of the Fund, between 20 and 45 business days prior to the second last business day in November ("Redemption Valuation Date"). Redemption of tendered units will be settled based on the Published NAV per unit on the Redemption Valuation Date less associated costs of the redemption, including brokerage costs. Units tendered for redemption will be redeemed effective the Redemption Valuation Date and will be settled on or before the tenth business day following the Redemption Valuation Date.

Issued

	2007		2006	
	Number of Units	**Amount**	Number of Units	Amount
Units, beginning of year	**7,886,326**	**$ 186,145,192**	12,011,203	$ 283,742,681
Issuance of units for service	**81,574**	**1,688,058**	121,920	2,655,334
Redemption of units	**(2,536,783)**	**(59,813,354)**	(3,847,897)	(90,832,337)
Repurchase of units	**(430,700)**	**(10,160,375)**	(398,900)	(9,420,486)
Units issued under the distribution reinvestment plan	**862**	**17,425**	—	—
Units, end of year	**5,001,279**	**$ 117,876,946**	7,886,326	$ 186,145,192

For the year ended December 31, 2007, the Fund issued 81,576 (2006 – 121,920) units in respect of its management and advisor fees.

On November 29, 2007, 2,533,483 units were redeemed at an average of $18.30 per unit.

Units may also be tendered for redemption at the option of unitholders at least 10 business days prior to the second last business day of each month, except for the month of November. Unitholders whose units are redeemed will receive a redemption price per unit equal to the lesser of (i) 96% of the weighted average trading price of the units for the ten trading days preceding the redemption date, and (ii) 100% of the closing market price of the units, less associated costs of the redemption, including brokerage costs. For the year ended December 31, 2007, 3,300 (2006 – 24,476) units were redeemed using the monthly redemption option at an average of $20.67 (2006 – $20.79) per unit.

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid program for the period from December 22, 2006 to December 21, 2007, which allows the Fund to purchase up to 781,200 units for cancellation. The Fund renewed the issuer bid for the period from December 22, 2007 to December 21, 2008, which allows the Fund to purchase up to 500,400 units for cancellation. The Fund may only repurchase units when the Published NAV per unit exceeds its trading price. For the year ended December 31, 2007, 430,700 units (2006 – 398,900) were purchased for cancellation.

As at December 31, 2007, the Fund had accumulated contributed surplus of $25,571,288 (2006 – $10,338,838). Contributed surplus is recorded when units of the Fund are redeemed or repurchased at prices per unit which are below the average cost per unit of unitholders' capital.

The weighted average number of units for the year ended December 31, 2007 was 7,514,232 (2006 – 11,481,890).

Notes to the Financial Statements (continued)

5. DISTRIBUTIONS TO UNITHOLDERS

Distributions, as declared by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month. The distributions are payable by the tenth business day of the following month. For the year ended December 31, 2007, the Fund declared total distributions of $1.5000 (2006 – $1.5312) per unit, which amounted to $10,952,886 (2006 – $17,125,002). Under the Fund's distribution reinvestment plan, unitholders may elect to reinvest monthly distributions in additional units of the Fund, which may be issued from treasury or purchased on the open market. For the year ended December 31, 2007, 862 units (2006 – nil) were issued by the Fund pursuant to the reinvestment plan.

6. MANAGEMENT, ADVISOR AND SERVICE FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.35% per annum of the Published NAV of the Fund, plus applicable taxes. The management fee may be paid in cash or units at the option of the Manager. To the extent that units are issued from treasury for this purpose, they will be issued at the Published NAV per unit. For the year ended December 31, 2007, the entire management fee was paid in units. Flaherty & Crumrine Incorporated, the portfolio manager for the Fund, and Brompton Capital Advisors Inc. are entitled to receive an aggregate fee equal to 0.70% per annum of the Published NAV, plus applicable taxes. Both fees are calculated and payable monthly. For the year ended December 31, 2007, 81,574 (2006 – 121,920) units were issued for the payment of advisor fees. The Fund also pays to the Manager a service fee equal to 0.30% per annum of the Published NAV of the Fund. The service fee is in turn paid by the Manager to the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter.

7. INVESTMENT TRANSACTIONS

Investment transactions for the years ended December 31 were as follows:

	2007[1]	2006
Proceeds from sale of investments and options	**$ 251,531,996**	$ 399,500,941
Less cost of investments sold:		
Investments and options at cost, beginning of year	**276,259,169**	424,592,441
Investments and options purchased during the year	**190,673,494**	273,280,046
Investments and options at cost, end of year	**(184,135,656)**	(276,315,950)
Cost of investments and options sold during the year	**282,797,007**	421,556,537
Net realized loss on sale of investments and options	**$ (31,265,011)**	$ (22,055,596)

[1] In accordance with Section 3855, investment transactions for the year ended December 31, 2007 exclude brokerage commissions.

Brokerage commissions on investments purchased and sold during the year ended December 31, 2007 amounted to $62,498 (2006 – $201,101). For the years ended December 31, 2007 and 2006, there were no soft dollar amounts paid.

8. FOREIGN CURRENCY FORWARD CONTRACTS

The Fund uses foreign currency forward contracts to hedge foreign exchange risks associated with its US dollar investment portfolio. During the year ended December 31, 2007, the Fund realized gains in the amount of $19,624,430 (2006 – $17,333,738) on the close-out of certain contracts.

At December 31, 2007, the Fund had entered into the following foreign currency forward contracts with a Canadian chartered bank with an Aa2 rating:

Canadian Dollars Purchased	US Dollars Sold	Delivery Date	Forward Rate (USD/CAD)	Unrealized Gain (Loss)
$ 30,980,496	$ (31,400,000)	March 19, 2008	$ 1.01354	$ 10,997
31,011,896	(31,400,000)	November 19, 2008	1.01251	(7,529)
31,180,200	(31,400,000)	November 19, 2009	1.00704	(44,002)
$ 93,172,592	$ (94,200,000)			$ (40,534)

As at December 31, 2006

Canadian Dollars Purchased	US Dollars Sold	Delivery Date	Forward Rate (USD/CAD)	Unrealized Gain (Loss)
$ 61,635,736	$ (53,925,000)	January 19, 2007	$ 1.14299	$ (1,078,034)
(8,174,448)	7,200,000	January 19, 2007	1.13534	198,912
61,323,510	(53,925,000)	January 22, 2008	1.13720	(724,012)
60,962,213	(53,925,000)	January 22, 2009	1.13050	(579,383)
$ 175,747,011	$ (154,575,000)			$ (2,182,517)

9. OPTION CONTRACTS

The Fund uses put options on US Treasury bond futures to hedge rapid increases in long-term interest rates. The Fund may also write or purchase options to generate additional income for the Fund. At December 31, 2007, the Fund had the following option contracts outstanding:

Option Contracts Purchased

Underlying Interest	No. of Contracts	Option Type	Expiration Date	Strike Price per Contract	Current Price per Contract (USD)	Premium Paid	Market Value
30-year T-Bond futures	950	Put	February 2008	$ 108	$ 0.14063	$ 179,729	$ 131,851

As at December 31, 2006

Underlying Interest	No. of Contracts	Option Type	Expiration Date	Strike Price per Contract	Current Price per Contract (USD)	Premium Paid	Market Value
30-year T-Bond futures	650	Call	February 2007	$ 116	$ 0.078	$ 400,026	$ 59,094
30-year T-Bond futures	700	Put	March 2007	110	515.63	421,822	420,022
30-year T-Bond futures	1,200	Put	March 2007	108	0.125	200,376	174,554
						$ 1,022,224	$ 653,670

Option Contracts Written

As at December 31, 2007, no written options contracts were outstanding.

As at December 31, 2006

Underlying Interest	No. of Contracts	Option Type	Expiration Date	Strike Price per Contract	Current Price per Contract (USD)	Premium Paid	Market Value
30-year T-Bond futures	650	Call	March 2007	$ 112	$ 0.828	$ 1,356,252	$ 626,396

10. LOANS PAYABLE

Pursuant to an agreement with a Canadian chartered bank, the Fund maintains a 364-day renewable revolving credit facility. The revolving credit facility provides for maximum borrowings of $6.5 million for working capital purposes under one tranche and US$153.8 million under the second tranche for investment purposes. Both tranches can be availed at the prime rate of interest, the bankers' acceptance rate plus a fixed percentage, the LIBOR rate plus a fixed percentage or by US base rate borrowings. At December 31, 2007, the Fund had a US dollar loan equivalent to $58.5 million (US$59.3 million) outstanding under this facility. During the year ended December 31, 2007, the fund realized a foreign exchange gain in the amount of $11,669,555 (2006 – loss of $794,125), on the repayment of borrowings in US dollars and borrowings in US dollars had an unrealized foreign exchange gain of $1,889,851 (2006 – loss of $523,622). The credit facility is secured by a first-ranking and exclusive charge on all of the Fund's assets. For the year ended December 31, 2007, the minimum and maximum amounts of borrowings were $57.9 million (2006 – $93.9 million) and $99.4 million (2006 – $151.0 million), respectively.

11. SECURITIES LENDING

The Fund entered into a securities lending program in August 2006 with its custodian, RBC Dexia Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or the United States government or its agencies, or a permitted supranational agency as defined in NI 81-102. There were no securities on loan as at December 31, 2007.

12. INCOME TAXES

The Fund had accumulated capital losses of $11,192,735 as at December 31, 2007 and 2006. The capital losses can be carried forward for an indefinite period.

Corporate Information

Independent Review Committee

James W. Davie, BComm, MBA

Arthur R.A. Scace, QC, CM

Ken S. Woolner, BSc, PEng

Directors and Officers

Peter A. Braaten, BA, MBA
Director

Raymond R. Pether, BA, MBA
Director

Mark A. Caranci, BComm, CA
Director, President,
Chief Executive Officer

Craig T. Kikuchi, BA, CA, CFA
Chief Financial Officer

David E. Roode, BA, CA, MBA
Senior Vice President

Moyra E. MacKay, BA
Vice President and Corporate Secretary

Lorne J. Zeiler, BA, MBA, CFA
Vice President

Ann P. Wong, BA, MAcc, CA,
CPA (Delaware), CFA
Vice President and Controller

Christopher Cullen, BASc, MBA, CFA
Vice President

Janet R. Toffolo
Assistant Vice President

Continuous Disclosure Manager

Contact: **David E. Roode**
Phone: 416-642-6008
Email: roode@bromptongroup.com

Trustee

Computershare Trust Company
of Canada

Custodian

RBC Dexia Investor Services Trust

Auditors

PricewaterhouseCoopers LLP

Banker

Royal Bank of Canada

Website

www.bromptongroup.com

BROMPTON FUNDS

Mailing Address
Bay Wellington Tower, Brookfield Place
181 Bay Street
Suite 2930, P.O. Box 793
Toronto, ON M5J 2T3

General Inquiries: 416-642-6000
Investor Relations: 416-642-9051
Fax: 416-642-6001
Toll Free: 866-642-6001
Website: www.bromptongroup.com