



BROMPTON
FUNDS



VALUE
INTEGRITY
PERFORMANCE

— the foundation for excellence



FFI.UN,
FFI.WT

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, 2009

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 of the Fund. The audited annual financial statements follow this report. You may obtain a copy of the annual financial statements at your request, at no cost, by calling 866-642-6001 or by sending a request to Investor Relations, Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, P.O. Box 793, Toronto, Ontario, M5J 2T3, or by visiting our website at www.bromptongroup.com or SEDAR at www.sedar.com.

Unitholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, independent review committee's report, or quarterly portfolio disclosure.

The Fund

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

Recent Developments

Fund Merger

In October 2008 the Manager recommended the Merger of Flaherty & Crumrine Investment Grade Preferred Fund ("FAC") into the Fund ("the Merger"). At the time, both funds had similar investment objectives, strategies and portfolios and the same Portfolio Manager, and both paid out a monthly distribution at the same annualized rate of \$1.50 per unit.

The proposed Merger was designed to deliver distinct benefits to unitholders, with lower operating costs per unit, enhanced liquidity and a lower management fee for the Fund's unitholders, as the continuing Fund adopted the lower management fee structure of FAC, which is 1.00% of Net Asset Value per annum. Fixed annual general and administration costs will be spread across a larger base of assets, reducing operating costs on a per unit basis and thereby enhancing returns. In addition, combining the market capitalization, number of units and number of unitholders of the two funds is expected to increase liquidity.

At a special meeting on December 1, 2008, unitholders of FAC approved the Merger, which was completed on December 31, 2008.

Warrants

On February 10, 2009, the Fund issued 6,583,670 warrants to unitholders on the basis of one warrant for each unit held. Each warrant entitles the holder to subscribe for one unit of the Fund at a subscription price of \$6.65. The warrants must be exercised prior to September 15, 2009, or they will expire worthless. The offering was designed to provide the Fund with additional capital that can be used to take advantage of attractive investment opportunities, while also increasing the trading liquidity of the units and reducing the management expense ratio ("MER") of the Fund.

Safety Net Hedge

The Portfolio Manager suspended use of the safety net hedging strategy in November 2008, as the abnormal market conditions reduced the strategy's effectiveness. The correlation between the Fund's portfolio and US Treasury bonds had declined substantially, and market volatility significantly increased the strategy's cost. The Portfolio Manager will continue to review market conditions to determine if and when it will be appropriate to employ the safety net hedge strategy again.

Investment Objectives and Strategies

The Fund's investment objectives are unchanged following the Merger: 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. As discussed in the Recent Developments section, the safety net hedge strategy was suspended in November 2008.

Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's 2008 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.

In accordance with investment fund industry practice, all figures presented in this management report of fund performance are based on the Fund's calculation of its weekly Net Asset Value ("Net Asset Value"), which is exempted from the application of Canadian Institute of Chartered Accountants ("CICA") Section 3855, 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 ("Net Assets").

Results of Operations

As the Merger of the Fund was completed on December 31, 2008, the results of operations in this report are only based on the results of the Fund.

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, 2008 and since inception. These are approximate figures and are calculated using the weighted average number of units outstanding for the year or period.

	Year Ended Dec. 31, 2008	Since Inception ⁽¹⁾
Revenues	\$ 2.30	\$ 9.07
Expenses		
Management and Portfolio Manager fees	(0.15)	(0.87)
Other expenses	(0.08)	(0.38)
Interest and bank charges	(0.34)	(2.17)
Total expenses	(0.57)	(3.42)
Net investment income	1.73	5.65
Add: Management and Portfolio Manager fees paid in units	—	0.57
Cash flow available for distribution	1.73	6.22
Distributions to unitholders	(1.50)	(6.16)
Cash flow available for distributions in excess of (less than) distributions	\$ 0.23	\$ 0.06

⁽¹⁾ Period from December 15, 2004 (commencement of operations) to December 31, 2008.

For the year ended December 31, 2008, the cash flow available for distribution exceeded distributions paid to unitholders by \$0.23 per unit, mainly due to higher revenues resulting from the strengthening of the US dollar compared to the Canadian dollar. Declining short-term interest rates in the US have also 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.

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, 2008, 3,810 units were acquired in the market pursuant to this plan at an average price of \$13.15 per unit, and 1,589 units were issued from treasury.

Changes in Net Asset Value

From December 31, 2007 to December 31, 2008, the Net Asset Value per unit decreased from \$17.41 per unit to \$6.59 per unit. The table below provides an approximate breakdown of the various factors which contributed to the change in Net Asset Value per unit over the period. These are approximate figures calculated using the weighted average number of units outstanding.

Changes in Net Asset Value on a Per Unit Basis

	Year Ended Dec. 31, 2008	Since Inception ⁽¹⁾
Opening Net Asset Value	\$ 17.41	\$ 23.63
Loss on portfolio investments ⁽²⁾	(10.89)	(15.11)
Cost of the safety net hedge	(0.04)	(1.16)
Cash flow available for distributions in excess of (less than) distributions	0.23	0.01
Cost of foreign exchange hedge	(0.25)	(0.37)
Reduction from management fees being paid in units	0.00	(0.54)
Reimbursement of overpayment of 2007 redemption	0.07	0.07
Rounding/timing adjustments	0.06	0.06
Total change	\$ (10.82)	\$ (17.04)
Closing Net Asset Value	\$ 6.59	\$ 6.59

⁽¹⁾ Period from December 15, 2004 (commencement of operations) to December 31, 2008.

⁽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 2008 was a consequence of the steep decline in the US non-government fixed income securities market. The value of the Fund's portfolio investments (including net realized and unrealized gains) decreased during the year by approximately \$10.89 per unit. The Fund's leverage exacerbated the decline experienced in the preferred securities and corporate debt markets.

During the year, the safety net hedge incurred a cost to the Fund of approximately \$0.04 per unit. When employing the safety net hedge, the Fund purchases out-of-the-money put options on US Treasury futures, which generally have price movements that are correlated (albeit not perfectly) with those of the Fund's investments. As interest rates on 30-year US Treasury bonds declined during the period, the safety net hedge option contracts provided no benefit and were a small cost to the Fund. In November 2008, due to the abnormal market conditions, the Portfolio Manager decided to suspend employment of the safety net hedging strategy, as discussed in the Recent Developments section.

The Fund has a hedging program in place for the Fund's foreign exchange risk. 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. As at December 31, 2008, about 60% of the portfolio was hedged using forward contracts with a maturing date of November 2009, and the balance of the portfolio was hedged through the Fund's US dollar borrowings. For the year ended December 31, 2008, the Fund incurred a cost of \$0.25 per unit under the hedging strategy.

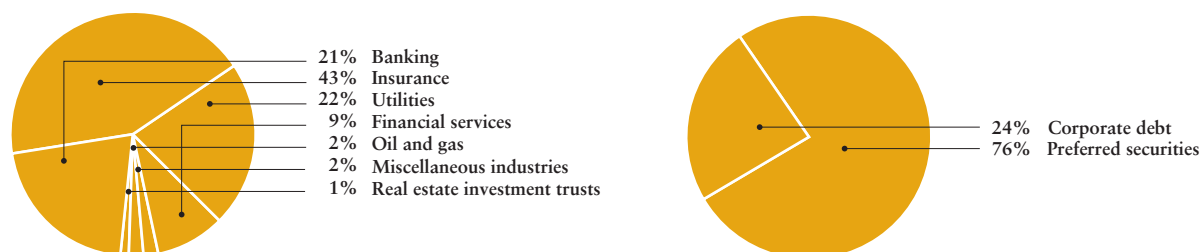
When the Manager and Portfolio Manager agree to take their fees in units of the Fund, additional cash becomes available for distributions. From the inception of the Fund through 2007, the Manager received its fee in units. At the end of 2005, the Portfolio Manager also agreed to take its fees in units to help offset the decline in cash flow available for distribution. The disadvantage of paying 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. In 2008, the Manager and the Portfolio Manager discontinued the dilutive practice of taking their fees in units, as the Fund generated sufficient ongoing cash flow to maintain the distribution levels.

As a result of the Fund being provided with an incorrect valuation, the redemption price paid to investors who redeemed their units in November 2007 was more than if the correct Net Asset Value had been used. The Fund was therefore reimbursed \$0.07 per unit in 2008 for the amount of overpayment made.

Investment Portfolio

All securities purchased by the Fund are rated investment grade at the time of investment. The portfolio is well diversified with 40 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 S&P.

Portfolio Sectors



Credit Quality

As at December 31, 2008, the Fund invested in debt and preferred securities with the following credit ratings. Credit ratings are obtained from S&P and Moody's.

Portfolio by Rating Category	% of Portfolio
A	1%
BBB	45%
BBB-	33%
Below BBB-	21%
	100%

Liquidity and Capital Resources

As of December 31, 2008, the Fund had total borrowings of \$27.6 million (US\$22.3 million), which represented 38.3% of total assets, or 63.5% of Net 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, 2008, the minimum and maximum amounts of borrowings were \$15.0 million and \$60.8 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 for cancellation 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 283,900 units were purchased in the year ended December 31, 2008 under this program at an average price of \$12.60 per unit. Investors may also redeem their units annually, in November, in accordance with the Fund's redemption provisions. During 2008, units of the Fund traded at an average discount to their Net Asset Value per unit of 4.2%.

Related Party Transactions

Related party transactions consist of services provided by the Manager pursuant to a management agreement. See the Management Fees section below.

Management 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 0.30% per annum of the Net Asset Value of the Fund, plus applicable taxes. All of the management fee is used by the Manager to cover its general administration expenses and for profit. In addition, Flaherty & Crumrine Incorporated, the Portfolio Manager of the Fund, and Brompton Capital Advisors Inc. are entitled to receive an additional fee equal to 0.70% per annum of the Net Asset Value, plus applicable taxes. As a result of the Merger completed on December 31, 2008, the management fee for the Fund has been reduced from 0.35% to 0.30%, effective January 1, 2009. 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. At the beginning of 2008, 2,969 units were issued for payment of these fees; as previously noted, the practice of taking fees as units was discontinued. 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, 2008, \$0.7 million (\$0.15 per unit) was paid in management and advisory fees, and \$0.2 million (\$0.04 per unit) was paid in service fees.

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 Assets 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 Assets per Unit⁽¹⁾

For the year/period ended December 31	2008	2007	2006	2005	2004 ⁽²⁾
Net Assets, beginning of year/period ⁽³⁾⁽⁴⁾	\$ 17.34	\$ 22.01	\$ 22.35	\$ 23.23	\$ 23.63
Increase (decrease) from operations: ⁽⁵⁾					
Total revenue	2.30	2.24	2.30	2.14	0.07
Total expenses	(0.57)	(0.99)	(1.01)	(0.81)	(0.04)
Realized gain (loss) for the year/period	(11.59)	(0.04)	(0.34)	(0.11)	(0.11)
Unrealized gain (loss) for the year/period	0.14	(4.25)	0.29	(0.55)	(0.32)
Total increase (decrease) in Net Assets from operations	\$ (9.72)	\$ (3.04)	\$ 1.24	\$ 0.67	\$ (0.40)
Distributions to unitholders: ⁽⁴⁾					
From net investment income	\$ 1.05	\$ 0.84	\$ 1.09	\$ 0.22	\$ —
From net realized gain on investments	—	—	—	0.82	—
Return of capital	0.45	0.66	0.44	0.59	—
Total distributions to unitholders	\$ 1.50	\$ 1.50	\$ 1.53	\$ 1.63	\$ —
Net Assets, end of year/period⁽⁴⁾	\$ 6.55	\$ 17.34	\$ 22.08	\$ 22.35	\$ 23.23

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. The Net Assets per unit presented in the financial statements differ from the Net Asset Value calculated for weekly Net Asset Value purposes. An explanation of these differences can be found in the notes to the financial statements.

⁽²⁾ Period from December 15, 2004 (commencement of operations) to December 31, 2004.

⁽³⁾ The Net Assets from the beginning of 2007 are for financial reporting purposes. The Net Assets per unit for prior periods are based on the prior period financial statements and have not been adjusted for the new accounting standards adopted in 2007.

⁽⁴⁾ Net Assets per unit and distributions per unit are based on the actual number of units outstanding at the relevant time.

⁽⁵⁾ The increase (decrease) in Net Assets from operations per unit is based on the weighted average number of units outstanding over the fiscal period.

Ratios and Supplemental Data (Based on Net Asset Value)

As at December 31	2008	2007	2006	2005	2004 ⁽¹⁾
Net Asset Value (in 000s)	\$ 43,414	\$ 87,061	\$ 174,138	\$ 268,420	\$ 345,726
Number of units outstanding (in 000s)	6,591	5,001	7,886	12,011	14,882
Management expense ratio ("MER") ⁽²⁾	4.17%	4.75%	4.47%	3.45%	9.21%
Trading expense ratio ⁽³⁾	0.01%	0.04%	0.08%	0.12%	N/A
Portfolio turnover rate ⁽⁴⁾	66.00%	82.01%	73.24%	131.75%	N/A
Net Asset Value per unit	\$ 6.59	\$ 17.41	\$ 22.08	\$ 22.35	\$ 23.23
Closing market price	\$ 6.32	\$ 16.14	\$ 22.37	\$ 21.40	\$ 24.95

⁽¹⁾ 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 (excluding commissions and other portfolio transaction costs) of the Fund for the stated period, including interest expenses and issuance costs, and is expressed as an annualized percentage of the average Net Asset Value for the period.

⁽³⁾ The trading expense ratio represents total commissions expressed as an annualized percentage of daily average Net Asset Value of the Fund during the period. This disclosure was a new requirement in 2005 under NI 81-106 and was not applied retroactively.

⁽⁴⁾ The Fund's portfolio turnover rate indicates how actively the Fund's Portfolio Manager 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 was not provided when the Fund was 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.

Expense Ratio

The MER of the Fund declined to 4.17% in 2008, compared to 4.75% the previous year, primarily due to a fall in LIBOR rates. 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.

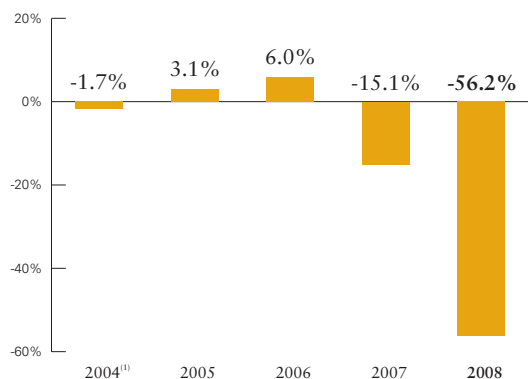
Excluding interest expenses and issuance costs, the MER was 1.64% for 2008, up from 1.58% in 2007. This latter MER is more representative of the ongoing efficiency of the administration of the Fund. The increase is due to the increased weighting of fixed costs on the lower average Net Asset Value in the period.

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 Net Asset Value per unit and assumes that distributions made by the Fund on its units in the periods shown were reinvested (at Net Asset Value per unit) in additional units of the Fund.

The bar chart shows the Fund's return for each period since inception to December 31, 2008. The chart shows, in percentage terms, how an investment held on the first day of each fiscal period would have changed by the last day of the fiscal period.

Year-by-Year Returns



⁽¹⁾ 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 unleveraged, 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.

The Merrill Lynch Index is calculated without the deduction of fees and fund expenses, whereas the performance of the Fund is calculated after deducting such fees and expenses.

Annual Compound Returns

	1 Year	3 Year	Since Inception ⁽¹⁾
Flaherty & Crumrine Investment Grade Fixed Income Fund ⁽²⁾	(56.2%)	(26.7%)	(20.3%)
Merrill Lynch Hybrid Preferred Securities Index	(8.7%)	(4.9%)	(3.3%)

⁽¹⁾ Period from December 15, 2004 (commencement of operations) to December 31, 2008.

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

The Fund experienced highly negative returns during 2008, as the fallout from the subprime mortgages and credit crunch in the US impacted the preferred securities market. The severe strain in the US financial system, coupled with the declining equity and corporate debt markets, resulted in many institutional investors being forced to liquidate investment holdings to generate cash. The institutional taxable preferred securities market was particularly impacted as distressed institutional sellers were forced to sell into a highly illiquid market, which resulted in sharp price reductions for the market as a whole and the Fund's holdings in particular. The Fund's use of leverage exacerbated the negative portfolio returns.

The Fund's portfolio remains investment grade. The Portfolio Manager remains comfortable with the credit quality of the Fund's holdings and believes the pricing of these securities may correct upwards, along with the preferred securities market as a whole, when calm begins to return to the US market. Until that time, investors are being paid a high level of monthly income to wait.

Please see the Portfolio Manager's Report for further information.

Summary of Investment Portfolio

As at December 31, 2008

Total Net Asset Value	\$ 43,413,875
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Portfolio Composition	% of Portfolio	% of Net Asset Value
Preferred securities:		
Insurance	37.2%	60.2%
Banking	24.4%	39.5%
Utilities	18.9%	30.6%
Financial services	8.5%	13.8%
	89.0%	144.1%
Corporate debt:		
Insurance	12.6%	20.5%
Utilities	7.2%	11.6%
Miscellaneous industries	2.4%	3.9%
Oil and gas	1.9%	3.1%
Financial services	1.6%	2.7%
Real estate investment trusts	1.5%	2.4%
Telecommunications	0.4%	0.7%
	27.6%	44.9%
Cash and short-term investments	1.1%	1.8%
Currency forward contracts	(17.7%)	(28.7%)
Total investment portfolio	100.0%	162.1%
Other net liabilities		(62.1%)
Total Net Asset Value		100.0%

Top 25 Holdings	% of Portfolio	% of Net Asset Value
Liberty Mutual Insurance Co., 7.697% <i>October 15, 2097</i>	12.7%	20.5%
Axis Capital Holdings Limited, 7.50% <i>Pfd.</i>	11.7%	18.8%
Southern Union Company, 8.25% <i>November 15, 2029</i>	7.3%	11.6%
Comerica Capital Trust II, 6.576% <i>Capital Securities</i>	7.0%	11.2%
Everest Reinsurance Holdings Inc., 6.6% <i>May 15, 2067</i>	6.7%	10.7%
Delphi Financial Group, Inc., 7.376% <i>May 15, 2037</i>	5.9%	9.4%
Capital One Capital III, 7.686% <i>August 15, 2036</i>	5.3%	8.5%
USF&G Capital I, 8.5% <i>December 15, 2045 Capital Security</i>	5.2%	8.3%
Dominion Resources Capital Trust I, 7.83%, <i>December 1, 2027</i>	4.8%	7.7%
Enbridge Energy Partners L.P., 8.05% <i>due October 1, 2037</i>	4.8%	7.6%
Commonwealth Edison Co., 6.35% <i>March 15, 2033</i>	4.3%	6.8%
CIT Group, Inc., 6.1% <i>March 15, 2067</i>	4.3%	6.7%
First Midwest Capital Trust I, 6.95% <i>December 1, 2033 Capital Security</i>	3.4%	5.4%
First Tennessee Capital Trust I, 8.07% <i>due January 6, 2027</i>	3.3%	5.2%
Astoria Capital Trust I, 9.75% <i>November 1, 2029 Capital Security, Series B</i>	2.7%	4.3%
PartnerRe Finance II Inc., 6.44% <i>due December 1, 2066</i>	2.5%	4.0%
Pulte Homes Inc., 7.375% <i>June 1, 2046</i>	2.5%	3.9%
Dominion Resources Inc., 7.5% <i>due June 30, 2066</i>	2.4%	3.8%
RenaissanceRe Holding, 6.08% <i>Pfd, Series C</i>	2.3%	3.6%
Corporate Backed Trust Certificates, 6.3% <i>Series GS</i>	2.1%	3.3%
Wisconsin Energy Corp., 6.25% <i>May 15, 2067</i>	2.1%	3.3%
Noble Energy Inc., 7.25% <i>August 1, 2097</i>	2.0%	3.1%
SATURNS Goldman Sachs Group, Inc. Debenture Backed Series 2004-2, 5.75%	1.7%	2.7%
Arch Capital Group Ltd., 8% <i>Pfd.</i>	1.7%	2.6%
USF & G Capital, 8.312% <i>due July 1, 2046</i>	1.7%	2.6%

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.

2008 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 shares 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.

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 2008 on a per unit basis.

Record Date	Payment Date	Return of Capital	Foreign Non-Business Income	Total Distribution
Jan. 31, 2008	Feb. 14, 2008	\$ 0.03783	\$ 0.08717	\$ 0.125
Feb. 29, 2008	Mar. 14, 2008	0.03783	0.08717	0.125
Mar. 31, 2008	Apr. 14, 2008	0.03783	0.08717	0.125
Apr. 30, 2008	May 14, 2008	0.03783	0.08717	0.125
May 30, 2008	Jun. 13, 2008	0.03783	0.08717	0.125
Jun. 30, 2008	Jul. 15, 2008	0.03783	0.08717	0.125
Jul. 31, 2008	Aug. 15, 2008	0.03783	0.08717	0.125
Aug. 29, 2008	Sep. 15, 2008	0.03783	0.08717	0.125
Sep. 30, 2008	Oct. 15, 2008	0.03783	0.08717	0.125
Oct. 31, 2008	Nov. 14, 2008	0.03783	0.08717	0.125
Nov. 28, 2008	Dec. 12, 2008	0.03783	0.08717	0.125
Dec. 31, 2008	Jan. 15, 2009	0.03783	0.08717	0.125
Total		\$ 0.45396	\$ 1.04604	\$ 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. 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.



Portfolio Manager's Report

There can be no mincing words. The USD preferred market had an awful year. The environment has been extremely difficult for the Fund, which invests most of its assets in USD preferred securities on a leveraged basis. The most positive aspect of 2008 stems from our fervent belief that, at present, preferred securities prices have simply fallen too much and, over time, will recover.

We struggle to find appropriate words to describe events that occurred in the financial markets in 2008. Although evidence of market troubles first appeared in mid-2007, there can be little doubt that in recent months we have witnessed the worst fallout from the financial crisis. Over a three-week period in September, the US government placed Fannie Mae and Freddie Mac into conservatorship, Lehman Brothers and Washington Mutual filed for bankruptcy and AIG required the first of two massive doses of government assistance. Like a financial earthquake, these events sent tremors throughout the financial system, with the preferred securities market situated near the epicenter.

In response, the US Federal Reserve has flooded the system with liquidity, and numerous new government programs designed to stabilize the financial system have been created. The critical objective of each program is to restore confidence in the system, and, to that end, no amount of effort (or money) has been spared. Many of these efforts appear to be taking hold and, while we are clearly in the midst of a severe economic slowdown, the foundation for recovery is being established.

Of these government programs, the Capital Purchase Program ("CPP"), launched in mid-October, had the greatest significance for the Fund. Through this program, the government injected almost US\$350 billion of capital into qualifying banks and finance companies by purchasing newly issued preferred securities. The preferred securities market got a boost when it was disclosed that *existing* taxable preferred securities (similar to the type of preferred securities held by the Fund) of companies that participate in the program will typically *rank senior* to those held by the government.

Most of the new government programs are aimed at shoring up the financial industry (commercial banks, investment banks and insurance companies), which has experienced enormous writedowns and losses. The Fund's performance was hurt badly by the financial industry downturn, despite having disproportionately less exposure to financials when compared to the overall preferred securities universe. At their lowest levels, prices on some financial issues had fallen by over 75%. Once the lifeline of government aid reaches a particular company, prices on its preferred securities tend to rebound, but they still remain well below earlier levels.

While some of the price decline can be attributed to concerns about credit quality, technical factors, like the ongoing massive, economy-wide de-leveraging, and a dramatic decline in market liquidity have hurt valuations more. Issues of utility and energy companies, which comprise most of the non-financial portion of the Fund's portfolio, also experienced substantial price declines during the period. While concerns about credit quality may have contributed to these price declines, technical factors have played a more substantial role.

The unprecedented turbulence in financial markets also prompted the Fund to modify its interest rate hedging strategy this year. As the credit crisis intensified in 2008, the normal relationship between the prices of preferred securities and the Fund's interest rate hedge positions (primarily options on US Treasury bond futures and interest rate swaps) weakened or even reversed, eliminating the ability of the hedge to help stabilize the Fund's Net Asset Value per unit. At the same time, the yield curve steepened and option prices rose, increasing the cost of hedging. As these conditions developed, the Fund scaled back its interest rate hedge positions, removing them entirely by November 2008. We will continue to review these conditions to determine if and when it is most appropriate to reapply an interest rate hedging strategy.

Where do we go from here? Just about any USD fixed income investment that doesn't have "US Treasury" in its name has likely declined substantially in price over recent months, but the market for preferred securities has been particularly hard hit. Price declines of 50%–75% on investment grade preferred securities have not been unusual. We believe the preferred securities market is significantly undervalued at this time and that long-term investors will be rewarded handsomely for their patience. This conclusion is based upon our analysis, which is more fully described in the portfolio commentary titled "Preferred Valuations After the TARP," which is posted on Brompton's website.

Finally, we know this has been an extremely difficult year for unitholders. We believe that our fundamental approach to portfolio management has helped us avoid most of the credit casualties (the biggest exception being our exposure to Washington Mutual). We also believe the current portfolio is comprised of companies that will remain going concerns. The steps taken by the Fed and Treasury are starting to gain traction and will help. Economic downturns are always followed by recoveries, and the incoming US administration has indicated that stabilizing the economy is its highest priority. Although we cannot say exactly when the preferred market will recover, we look forward to a much happier 2009! In the meantime, the Fund will continue to deliver a high level of current income.

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, 2009

(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, 2008, the statements of Net Assets as at December 31, 2008 and 2007 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 the Fund's Manager, 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, 2008, the Net Assets as at December 31, 2008 and 2007 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, 2009

Statements of Net Assets

As at December 31	2008	2007
Assets		
Investments, at fair value ⁽¹⁾	\$ 81,760,684	\$ 140,451,962
Option contracts purchased, at fair value (note 10)	—	131,851
Cash and short-term investments	780,330	4,174,743
Income receivable	1,754,011	1,521,132
Total assets	84,295,025	146,279,688
Liabilities		
Unrealized loss on forward contracts (note 9)	12,459,874	40,534
Accounts payable and accrued liabilities	302,128	420,840
Distributions payable to unitholders (note 6)	784,950	625,160
Loans payable (note 11)	27,578,885	58,476,935
Total liabilities	41,125,837	59,563,469
Unitholders' equity		
Unitholders' capital (note 4)	105,628,577	117,876,946
Contributed surplus (note 4)	47,725,881	25,575,686
Deficit	(110,185,270)	(56,736,413)
Net assets representing unitholders' equity	\$ 43,169,188	\$ 86,716,219
Units outstanding (note 4)	6,590,770	5,001,279
Net assets per unit	\$ 6.55	\$ 17.34

⁽¹⁾ Investments, at fair value, exclude the value of derivative contracts which are disclosed separately on the Statements 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

(Signed)

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	2008	2007
Income		
Dividends	\$ 3,007,985	\$ 6,916,713
Interest income	8,010,595	9,692,996
	11,018,580	16,609,709
Expenses		
Advisory fees (note 7)	457,545	1,096,123
Management fees (note 7)	241,845	583,128
Service fees (note 7)	170,706	427,664
Audit fees	24,003	29,087
Director and independent review committee fees	30,931	35,828
Trustee fees	14,324	21,910
Custodial fees	10,184	32,584
Legal fees	2,264	40,548
Unitholder reporting costs	32,095	10,397
Other administrative expenses	26,070	98,650
Interest and bank charges (note 11)	1,658,989	5,005,873
	2,668,956	7,381,792
Net investment income	8,349,624	9,227,917
Net realized loss on investments and foreign currency transactions (note 8)	(46,468,050)	(17,608,228)
Transaction costs (note 2)	(9,410)	(62,498)
Net realized gain (loss) on forward contracts and options (note 8)	(8,292,172)	17,545,021
Net change in unrealized gain/loss on investments and foreign currency transactions	7,635,018	(33,679,965)
Net change in unrealized gain/loss on forward contracts and options (notes 9 & 10)	(7,642,555)	1,732,800
Decrease in Net Assets from operations	(46,427,545)	(22,844,953)
Deficit, beginning of year (note 3)	(56,736,413)	(22,938,574)
Distributions to unitholders (note 6)	(7,021,312)	(10,952,886)
Deficit, end of year	\$(110,185,270)	\$ (56,736,413)
Decrease in Net Assets from operations per unit⁽¹⁾	\$ (9.70)	\$ (3.04)

⁽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	2008	2007
Cash flows from operating activities:		
Decrease in Net Assets from operations	\$ (46,427,545)	\$ (22,844,953)
Adjustments to reconcile net cash provided by (used in) operations (net of effects of acquisition of Flaherty & Crumrine Investment Grade Preferred Fund):		
Net realized (gain) loss on sale of investments, options and foreign currency transactions	48,551,178	19,359,429
Net change in unrealized gain/loss on investments and foreign currency transactions	(7,619,131)	34,946,543
Net change in unrealized gain/loss on forward contracts and options	7,642,555	(3,010,832)
Decrease (increase) in income receivable	500,049	1,019,661
Increase (decrease) in accounts payable and accrued liabilities, net of management fees and advisory fees paid in units	(346,559)	1,478,059
Purchase of investments and options (note 8)	(38,877,234)	(190,673,494)
Proceeds from sale of investments and options (note 8)	102,605,472	251,768,023
Cash provided by operating activities	66,028,785	92,042,436
Cash flows from financing activities:		
Proceeds from distribution reinvestment plan (note 8)	14,771	—
Issuance costs on units issued for Merger (note 4)	(67,056)	—
Decrease in loans payable	(53,069,555)	(22,455,922)
Distributions paid to unitholders (note 6)	(7,189,246)	(11,313,517)
Repurchase of units (note 4)	(3,611,880)	(8,460,472)
Amounts paid for redemption of units	(6,031,941)	(46,276,409)
Cash used in financing activities	(69,954,907)	(88,506,320)
Cash flows from investing activities:		
Cash acquired from acquisition of Flaherty & Crumrine Investment Grade Preferred Fund (note 1)	531,709	—
Cash provided by investing activities	531,709	—
Net decrease in cash and short-term investments	(3,394,413)	3,536,116
Cash and short-term investments, beginning of year	4,174,743	638,627
Cash and short-term investments, end of year	\$ 780,330	\$ 4,174,743
Supplemental information:		
Interest paid	\$ 1,787,783	\$ 5,068,663

Statements of Changes in Net Assets

For the years ended December 31	2008	2007
Net Assets, beginning of year (note 3)	\$ 86,716,219	\$ 173,545,456
Operations:		
Decrease in Net Assets from operations	(46,427,545)	(22,844,953)
Unitholder transactions:		
Distributions to unitholders (note 6)		
Net investment income	(4,827,854)	(6,157,712)
Return of capital	(2,193,458)	(4,795,174)
Total	(7,021,312)	(10,952,886)
Proceeds from issuance of units (note 4)	51,683	1,705,483
Issuance of units upon Fund Merger, net (note 4)	19,479,193	—
Proceeds from distribution reinvestment plan (note 6)	14,771	—
Repurchase of units (note 4)	(3,611,880)	(8,460,472)
Redemption of units (note 4)	(6,031,941)	(46,276,409)
Total unitholder transactions	2,880,514	(63,984,284)
Net decrease in Net Assets	(43,547,031)	(86,829,237)
Net Assets, end of year	\$ 43,169,188	\$ 86,716,219
Distributions per unit (note 6)	\$ 1.5000	\$ 1.5000

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

Statement of Investments

As at December 31, 2008		Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
Shares/Par Value US\$	Preferred Securities					
	Banking					
\$ 1,750,000	Astoria Capital Trust I, 9.75% November 1, 2029 <i>Capital Security, Series B</i>	\$ 1,816,616	\$ 2,138,816	\$ 1,508,517	\$ 1,862,275	
\$ 137,000	BankAmerica Corp., 8% December 15, 2026 <i>Capital Security</i>	113,285	138,752	111,974	138,233	
\$ 6,538,000	Capital One Capital III, 7.686% August 15, 2036	4,852,465	5,524,684	2,985,774	3,685,959	
10,000	Colonial Capital Trust IV, <i>Pfd.</i>	119,400	146,241	119,100	147,030	
\$ 9,810,000	Comerica Capital Trust II, 6.576% <i>Capital Securities</i>	7,371,351	8,333,194	3,938,224	4,861,765	
\$ 2,065,000	First Midwest Capital Trust I, 6.95% December 1, 2033 <i>Capital Security</i>	2,046,486	2,516,425	1,899,965	2,345,520	
\$ 2,950,000	First Tennessee Capital Trust I, 8.07% due January 6, 2027	2,657,178	2,788,648	1,821,006	2,248,044	
\$ 75,000	First Union Capital II, 7.85% January 1, 2027 <i>Capital Security</i>	78,666	92,033	61,463	75,877	
\$ 378,000	First Union Capital II, 7.95% due November 15, 2029 <i>Series A</i>	314,827	385,600	310,924	383,838	
\$ 750,000	Regions Financing Trust II, 6.625% May 15, 2047	516,502	602,931	408,277	504,021	
\$ 5,150,000	Washington Mutual Preferred Funding (Cayman) I Ltd., 6.534% March 15, 2011	4,230,121	4,879,689	5,150	6,358	
\$ 500,000	Washington Mutual Preferred Funding Trust IV, 9.75% <i>Pfd.</i>	400	490	500	617	
\$ 1,900,000	Webster Capital Trust IV, 7.65% June 15, 2037	1,448,782	1,585,670	680,732	840,368	
		25,566,079	29,133,173	13,851,606	17,099,905	20.9%
	Financial Services					
35,200	Cabco – Goldman, 6% <i>Series GS</i>	862,400	1,057,822	536,800	662,683	
\$ 7,650,000	CIT Group, Inc., 6.1% March 15, 2067	4,796,365	5,355,949	2,362,244	2,916,206	
53,300	Corporate Backed Trust Certificates Goldman Sachs Capital I, 6% <i>Series 2004-4</i>	1,142,890	1,331,563	746,200	921,189	
82,450	Corporate Backed Trust Certificates, 6.3% <i>Series GS</i>	2,081,863	2,553,618	1,155,949	1,427,027	
		8,883,518	10,298,952	4,801,193	5,927,105	7.2%
	Insurance					
46,299	Arch Capital Group Ltd., 8% <i>Pfd.</i>	1,150,796	1,337,286	912,090	1,125,982	
100,445	Axis Capital Holdings Limited, 7.50% <i>Pfd.</i>	8,464,056	9,890,602	6,607,372	8,156,847	
270,000	Delphi Financial Group, Inc., 7.376% May 15, 2037	5,147,550	5,745,615	3,253,500	4,016,468	
\$ 9,250,000	Everest Reinsurance Holdings Inc., 6.6% May 15, 2067	6,803,519	7,744,233	3,775,203	4,660,514	
\$ 3,500,000	PartnerRe Finance II Inc., 6.44% due December 1, 2066	2,276,328	2,389,814	1,391,285	1,717,551	
82,500	RenaissanceRe Holding, 6.08% <i>Pfd. Series C</i>	1,269,675	1,555,098	1,268,025	1,565,386	
\$ 3,120,000	USF&G Capital I, 8.5% December 15, 2045 <i>Capital Security</i>	2,969,039	3,636,478	2,925,718	3,611,819	
\$ 1,000,000	USF&G Capital, 8.312% due July 1, 2046	1,193,560	1,296,502	917,740	1,132,956	
3,200	W.R. Berkley Capital Trust II, 6.75% <i>Pfd.</i>	78,915	92,329	56,800	70,120	
		29,353,438	33,687,957	21,107,733	26,057,643	31.8%
	Utilities					
\$ 3,816,000	Commonwealth Edison Co., 6.35% March 15, 2033	3,168,897	3,872,189	2,391,411	2,952,213	
12,000	Constellation Energy Group Inc., 8.625% due June 15, 2068	228,000	279,254	228,000	281,468	
\$ 3,019,000	Dominion Resources Capital Trust I, 7.83%, December 1, 2027	3,024,316	3,510,837	2,696,208	3,328,488	
\$ 2,670,000	Dominion Resources Inc., 7.5% due June 30, 2066	2,098,650	2,206,025	1,335,000	1,648,067	
\$ 5,500,000	Enbridge Energy Partners L.P., 8.05% due October 1, 2037	4,317,188	4,551,597	2,677,565	3,305,473	
\$ 250,000	Union Electric Co., 7.69% due December 15, 2036	257,500	282,684	257,223	317,543	
\$ 2,321,000	Wisconsin Energy Corp., 6.25% May 15, 2067	1,687,607	1,940,389	1,148,895	1,418,319	
		14,782,158	16,642,975	10,734,302	13,251,571	16.2%
	Total Preferred Securities	\$ 78,585,193	\$ 89,763,057	\$ 50,494,834	\$ 62,336,224	76.1%

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

Statement of Investments (continued)

As at December 31, 2008		Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
Shares/Par Value US\$	Corporate Debt Securities					
	Financial Services					
64,600	SATURNS Goldman Sachs Group, Inc. Debenture Backed Series 2004-2, 5.75%	\$ 956,080	\$ 1,171,007	\$ 917,320	\$ 1,132,438	
		956,080	1,171,007	917,320	1,132,438	1.4%
	Insurance					
\$ 10,821,000	Liberty Mutual Insurance Co., 7.697% <i>October 15, 2097</i>	9,966,922	11,606,085	7,189,797	8,875,854	
		9,966,922	11,606,085	7,189,797	8,875,854	10.9%
	Oil and Gas					
\$ 1,516,000	Noble Energy Inc., 7.25% <i>August 1, 2097</i>	1,091,914	1,337,376	1,077,452	1,330,122	
		1,091,914	1,337,376	1,077,452	1,330,122	1.6%
	Real Estate Investment Trusts					
\$ 1,500,000	Realty Income Corp., 5.875% <i>March 15, 2035</i> , <i>Senior Unsecured Notes</i>	1,059,580	1,287,843	851,925	1,051,707	
		1,059,580	1,287,843	851,925	1,051,707	1.3%
	Telecommunications					
30,000	Corporate Backed Trust Certificates, <i>7% Sprint Capital Note-Backed Series 2003-17</i>	474,300	547,936	255,000	314,799	
		474,300	547,936	255,000	314,799	0.4%
	Utilities					
\$ 5,343,000	Southern Union Company, 8.25% <i>November 15, 2029</i>	6,247,351	7,728,761	4,083,922	5,041,630	
		6,247,351	7,728,761	4,083,922	5,041,630	6.2%
	Miscellaneous Industries					
110,953	Pulte Homes Inc., 7.375% <i>June 1, 2046</i>	2,218,972	2,531,694	1,359,174	1,677,910	
		2,218,972	2,531,694	1,359,174	1,677,910	2.1%
	Total Corporate Debt Securities	\$ 22,015,119	\$ 26,210,702	\$ 15,734,590	\$ 19,424,460	23.9%
	Embedded Broker Commission (note 2)	(13,186)	(16,278)	—	—	
	Total	\$ 100,587,126	\$ 115,957,481	\$ 66,229,424	\$ 81,760,684	100.0%

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

Notes to the Financial Statements

December 31, 2008 and 2007

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.

At a special meeting held on December 1, 2008, unitholders of Flaherty & Crumrine Investment Grade Preferred Fund (“FAC”) approved an extraordinary resolution for the Fund to acquire FAC (the “Merger”).

On December 31, 2008, the Fund issued 2,934,959 units with a fair value of \$19,546,249 to the unitholders of FAC. The following table summarizes the fair value of assets acquired and liabilities assumed.

Assets	
Investments	\$ 35,914,762
Cash	531,709
Other assets	732,928
Total assets acquired	37,179,399
Liabilities	
Current liabilities	258,285
Unrealized loss on forward contracts	4,728,907
Distributions payable to unitholders	327,724
Redemptions payable to unitholders	21,245
Loans payable	12,296,989
Total liabilities assumed	17,633,150
Net Assets acquired	\$ 19,546,249

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 3862 – Financial Instruments – Disclosures

On January 1, 2008, the Fund adopted the Canadian Institute of Chartered Accountants (“CICA”) Section 3862, “Financial Instruments – Disclosures.” Section 3862 requires enhanced disclosure of the nature and extent of the risks arising from financial instruments and how the Fund manages those risks. This standard impacts the Fund’s disclosure provided but does not affect the Fund’s results or financial position.

Section 3863 – Financial Instruments – Presentation

On January 1, 2008, the Fund adopted CICA Section 3863, “Financial Instruments – Presentation.” Section 3863 carries forward the presentation requirements of Section 3861 with respect to financial instruments. This standard impacts the Fund’s disclosure provided but does not affect the Fund’s results or financial position.

Section 3855 – Financial Instruments – Recognition and Measurement

Effective January 1, 2007, the Fund adopted CICA Section 3855, “Financial Instruments – Recognition and Measurement,” which 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 that bid prices (for investments held) and ask prices (for investments sold short) 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. For financial reporting purposes, on January 1, 2007, the Fund adopted the amended valuation policy for actively traded securities held by the Fund without retroactive restatement of prior periods. The impact of the initial adoption of the valuation policy on January 1, 2007 has been disclosed in note 3.

Section 3855 also requires that 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 1535 – Capital Disclosures

On January 1, 2008, the Fund adopted CICA Section 1535, “Capital Disclosures,” which requires that the Fund disclose information about its objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. This standard impacts the Fund’s disclosure provided but does not affect the Fund’s results or financial position.

Notes to the Financial Statements (continued)

b) Valuation of Investments

Investments are deemed held for trading in accordance with Section 3855. The Fund's investments are valued at estimated fair value. Investments held long 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. The cost of investments is based on their average cost.

c) Cash and Short-term Investments

Cash and short-term investments consist of cash on hand and short-term debt investments with maturities of less than three months on acquisition. Cash and short-term investments are deemed held for trading and therefore are carried at fair value.

d) Investment Transactions and Income Recognition

Investment transactions are recorded on the 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. Gains or losses realized upon expiration, repurchase or exercise of the option are included in net realized gain (loss) on options.

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 and Deficit.

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 such a 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 on the date it was opened and the value on the date 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) Securities Lending

The Fund may enter into securities lending transactions. These transactions involve the temporary exchange of securities as collateral with a commitment to deliver the same securities on a future date. Income is earned from these transactions in the form of fees paid by the counterparty and, in certain circumstances, interest paid on securities held as collateral. Income earned from these transactions is recognized on an accrual basis and included in the Statement of Operations and Deficit.

j) Other Assets and Liabilities

For the purposes of categorization in accordance with Section 3855, income receivable and amounts receivable for investments sold are designated as loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities, distributions payable to unitholders and loans payable are designated as financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short-term nature.

k) Recent Accounting Pronouncements

The Canadian Accounting Standards Board ("AcSB") has confirmed its plan to adopt all International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board, on or by January 1, 2011. In accordance with Canadian GAAP and AcSB's plan, the Fund will adopt all the IFRS.

At December 31, 2008, the Fund has developed a plan to meet the timetable published by the CICA for changeover to IFRS. Key elements of the plan include the determination of the qualitative impact and the quantitative impact, if any, on the Fund's financial statements in accordance with IFRS. The Fund has presently determined that there will be no impact to Net Asset Value per unit from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of presentation of unitholders' equity and certain items in the financial statements of the Fund.

l) Comparative Figures

Certain comparative figures have been reclassified to conform with the current year presentation.

3. RECONCILIATION OF NET ASSETS TO NET ASSET VALUE

As a result of the adoption of Section 3855 on January 1, 2007, and in accordance with National Instrument 81-106, an adjustment was required to the opening Net Assets of the Fund between the Net Assets for financial reporting purposes (the “Net Assets”) and the Net Asset value for reporting other than in the financial statements (the “Net Asset Value”).

The decrease to the Net Assets and increase in the deficit as at January 1, 2007 as a result of applying Section 3855 was \$592,670. The reconciliation of the Net Assets to Net Asset Value is as follows:

As at December 31	2008		2007	
	Total	Per Unit	Total	Per Unit
Net Asset Value	\$ 43,413,875	\$ 6.59	\$ 87,060,816	\$ 17.41
Section 3855 adjustment	(244,687)	(0.04)	(344,597)	(0.07)
Net Assets	\$ 43,169,188	\$ 6.55	\$ 86,716,219	\$ 17.34

4. UNITS OF THE FUND

Authorized

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 Asset Value 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 Net Asset Value 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.

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 10 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.

Issued

	2008		2007	
	Number of Units	Amount	Number of Units	Amount
Units, beginning of year	5,001,279	\$ 117,876,946	7,886,326	\$ 186,145,192
Issuance of units for service	2,969	51,683	81,574	1,688,058
Issuance of units upon Fund Merger, net (note 1)	2,934,959	19,479,193	—	—
Redemption of units	(1,066,126)	(25,118,890)	(2,536,783)	(59,813,354)
Repurchase of units	(283,900)	(6,675,126)	(430,700)	(10,160,375)
Units issued under the distribution reinvestment plan	1,589	14,771	862	17,425
Units, end of year	6,590,770	\$ 105,628,577	5,001,279	\$ 117,876,946

The value ascribed to the units issued in conjunction with the Merger (note 1) is net of related unit issuance of \$67,056.

For the year ended December 31, 2008, the Fund issued 2,969 (2007 – 81,574) units in respect of its management and advisor fees.

On November 27, 2008, 1,065,826 units were redeemed at a price of \$5.96 per unit. For the year ended December 31, 2008, 300 (2007 – 3,300) units were redeemed using the monthly redemption option at an average of \$15.54 (2007 – \$20.67) per unit.

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid program for the period from December 22, 2007 to December 21, 2008, which allowed the Fund to purchase up to 500,400 units for cancellation. The Fund renewed the issuer bid for the period from December 22, 2008 to December 23, 2009, which allows the Fund to purchase up to 366,500 units for cancellation. The Fund may only repurchase units when the Net Asset Value per unit exceeds its trading price. For the year ended December 31, 2008, 283,900 units (2007 – 430,700) were purchased for cancellation.

As at December 31, 2008, the Fund had accumulated contributed surplus of \$47,725,881 (2007 – \$25,575,686). 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, 2008 was 4,784,196 (2007 – 7,514,232).

5. CAPITAL MANAGEMENT

The Fund’s objectives in managing its capital 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, and to preserve the Net Asset Value per unit. The Fund’s capital includes unitholders’ capital and loans payable. The Fund manages its capital taking into consideration the risk characteristics of its holdings. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to unitholders, return capital to unitholders, increase or decrease its level of borrowing, or purchase units for cancellation.

Notes to the Financial Statements (continued)

6. 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, 2008, the Fund declared total distributions of \$1.50 (2007 – \$1.50) per unit, which amounted to \$7,021,312 (2007 – \$10,952,886). 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, 2008, 1,589 units (2007 – 862) were issued by the Fund pursuant to the reinvestment plan.

7. 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 Net Asset Value 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 Net Asset Value per unit. Prior to the Merger, Flaherty & Crumrine Incorporated, the Portfolio Manager for the Fund, and Brompton Capital Advisors Inc. were entitled to receive an aggregate advisor fee equal to 0.70% per annum of the Net Asset Value, plus applicable taxes. Following the Merger this advisor rate was reduced to 0.65% per annum. Fees are calculated and payable monthly. For the year ended December 31, 2008, 2,969 (2007 – 81,574) 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 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.

8. INVESTMENT TRANSACTIONS

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

	2008	2007
Proceeds from sale of investments and options	\$ 102,605,472	\$ 251,531,996
Less cost of investments sold:		
Investments and options at cost, beginning of year	184,135,656	276,259,169
Investments and options purchased during the year	38,877,234	190,673,494
Investments transferred in upon the Merger	35,914,762	—
Investments and options at cost, end of year	(115,957,481)	(184,135,656)
Cost of investments and options sold during the year	142,970,171	282,797,007
Net realized loss on sale of investments and options	\$ (40,364,699)	\$ (31,265,011)

For the years ended December 31, 2008 and 2007, there were no soft dollar amounts paid.

9. 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, 2008, the Fund realized losses in the amount of \$7,374,527 (2007 – gain of \$19,624,430) on the close-out of certain contracts.

At December 31, 2008, 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)
\$ 31,180,200	\$ (31,400,000)	November 19, 2009	\$ 1.00704	\$ (7,431,626)
20,671,981	(20,900,000)	November 19, 2009	1.01103	(5,028,248)
\$ 51,852,181	\$ (52,300,000)			\$ (12,459,874)

As at December 31, 2007

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)

10. OPTION CONTRACTS

The Fund may use 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, 2008, the Fund had no option contracts outstanding.

As at December 31, 2007

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
						\$ 179,729	\$ 131,851

11. 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 \$3.3 million for working capital purposes under one tranche and US\$62.5 million under the second tranche for investment purposes. Both tranches may 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, 2008, the Fund had a US dollar loan equivalent to \$27.6 million (US\$22.3 million) outstanding under this facility. During the year ended December 31, 2008, the Fund realized a foreign exchange loss in the amount of \$8,186,479 (2007 – gain of \$11,669,555) on the repayment of borrowings in US dollars, and borrowings in US dollars had an unrealized foreign exchange gain of \$201,814 (2007 – gain of \$1,889,851). 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, 2008, the minimum and maximum amounts of borrowings were \$15.0 million (2007 – \$57.9 million) and \$60.8 million (2007 – \$99.4 million), respectively.

12. 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, 2008 and 2007.

13. FINANCIAL RISK MANAGEMENT

The Fund's investment activities expose it to a variety of financial risks. The Statement of Investments presents the securities held by the Fund as at December 31, 2008, and groups the securities by asset type and market segment. Significant risks that are relevant to the Fund are discussed below.

The Manager attempts to minimize potential adverse effects of these risks on the Fund's performance by employing a professional, experienced Portfolio Manager, by diversifying the investment portfolio within the constraints of the investment objectives, and by using financial instruments to hedge certain risk exposures. All securities purchased by the Fund are rated investment grade at the time of investment. To assist in managing risks, the Manager also maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and restrictions, internal guidelines, and securities regulations.

The investment portfolio is primarily comprised of US dollar denominated corporate debt and preferred securities. It is the Manager's intention to hedge substantially all of the US dollar foreign exchange exposure at all times.

a) Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments such as corporate debt and preferred securities. The Fund is exposed to the risk that the value of interest-bearing financial instruments will fluctuate due to changes in the prevailing levels of market interest rates. Due to the negative effect that rising long-term interest rates can have on the value of a long-term duration portfolio, the Fund may employ a safety net hedge strategy to help mitigate this impact. The Fund purchases out-of-the-money put options on US Treasury futures under this strategy.

The Fund is also exposed to interest rate risk on its variable interest rate loans. Fluctuations in interest rates have a direct impact on the interest payments the Fund makes on its loans.

The table below summarizes the Fund's exposure to interest rate risk by remaining term to maturity.

	Less than 1 Year	1–3 Years	3–5 Years	>5 Years	Total
Preferred securities and corporate debt	\$ —	\$ —	\$ —	\$ 81,760,684	\$ 81,760,684
Loans payable	27,578,885	—	—	—	27,578,885

Notes to the Financial Statements (continued)

As at December 31, 2008, had prevailing interest rates increased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have decreased by approximately \$2.3 million or 5.4% of Net Asset Value. Similarly, had prevailing interest rates decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have increased by \$2.3 million or 5.4% of Net Asset Value. The Fund's sensitivity to interest rate changes was estimated using the weighted average duration of the portfolio and the impact on annual interest expense for the loans payable. In practice, the actual trading results may differ, and the difference could be material.

b) Currency Risk

Currency risk is the risk that the fair value or future cash flows of financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. The investment portfolio is comprised primarily of US dollar denominated corporate debt and preferred securities. As at December 31, 2008, the Fund's exposure to US dollar currency was substantially hedged through its US dollar denominated foreign currency forward contracts and loans.

c) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund's greatest concentration of credit risk is in debt securities such as corporate debt, preferred securities and derivatives. The fair value of corporate debt, preferred securities and derivatives includes consideration of the credit-worthiness of the issuer. The carrying amount of investments, as presented on the Statement of Investments, represents the maximum credit risk exposure as at December 31, 2008. The carrying amount of the Fund's other assets also represents the maximum credit risk exposure, as they will be settled in the short term.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment. The trade will fail if either party fails to meet its obligation.

Credit risk arising on debt and preferred securities is mitigated by investing in investment grade securities at the time of purchase. The Portfolio Manager evaluates the credit quality of the securities prior to purchase and performs ongoing monitoring of the credit quality of the securities. The Fund would not invest more than 10% of its total assets in the securities of any one issuer at the time of purchase in accordance with investment restrictions.

The Fund has entered a securities lending program with its custodian; see note 12. Credit risk associated with these transactions is considered minimal as all counterparties have a sufficient, approved credit rating and the value of cash or securities held as collateral must be at least 102% of the fair value of the securities loaned.

As at December 31, 2008, the Fund invested in debt and preferred securities with the following credit ratings. Credit ratings are obtained from Standard & Poor's, and Moody's.

Portfolio by Rating Category

	% of Portfolio
A	1%
BBB	45%
BBB-	33%
Below BBB-	21%
Total	100%

d) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to liquidity risk primarily through its annual redemptions and loans payable. For the annual redemption, the Fund receives notice at least 20 business days prior to the date of redemption and has up to 10 business days following the redemption date in December to settle the redemption, which gives the Portfolio Manager time to sell securities, although there may not be sufficient time to sell the securities at a reasonable price.

The Fund also has a 364-day revolving credit facility which can be used to fund redemptions or finance investments; see note 11. The credit facility contains several financial covenants that require the Fund to meet certain financial ratios and financial condition tests. The Fund is within its financial covenants with respect to the credit facility. The Manager monitors the use of the credit facility on a regular basis.

13. INCOME TAXES

The Fund had accumulated capital losses of \$57,410,185 (2007 – \$2,074,746) as at December 31, 2008. The capital losses can be carried forward for an indefinite period.

14. SUBSEQUENT EVENT

The Fund issued 6,583,670 warrants to unitholders of record on February 10, 2009.

Unitholders received warrants on the basis of one warrant for each unit held on December 10, 2009. A warrant entitles the holder to subscribe for one unit of the Fund at a subscription price of \$6.65. Warrants not exercised prior to September 15, 2009 will be void and will have no value. Upon the exercise of a warrant, the Fund will pay a fee equal to \$0.10 per warrant to the dealer whose client is exercising the warrant.

Corporate Information

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Ken S. Woolner, BSc, PEng

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