2009 INTERIM REPORT

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

August 13, 2009

This interim management report of fund performance for Flaherty & Crumrine Investment Grade Fixed Income Fund (the "Fund") contains financial highlights but does not contain the interim financial statements of the Fund. The interim financial statements follow this report. You may obtain a copy of the interim or annual financial statements, 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.

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 Assets 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.

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, RRIF, RESP and TFSA 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.

As discussed in the 2008 Annual Report of the Fund, the safety net hedge strategy was suspended in November 2008 in response to abnormal market conditions.

Recent Developments

Warrants
On February 10, 2009, the Fund issued 6.6 million warrants to unitholders on the basis of one warrant for each unit held, with each warrant entitling the holder to subscribe for one unit of the Fund at a subscription price of $6.65 if exercised before the expiry date of September 15, 2009. As of June 30, 2009, 0.8 million warrants had been exercised, for proceeds of $5.3 million. As at June 30, 2009, the subscription price represented an 8% discount to the last traded price per unit of $7.25. The offering, which remains open until the expiry date of September 15, 2009, 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.

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. A change to the Fund in 2009 that has materially affected the risks associated with an investment in the units of the Fund is set out below under "Warrants."

Warrants
The issuance of warrants in February 2009 could result in a risk of dilution to existing unitholders. As disclosed in the prospectus of the warrant offering, if unitholders wish to retain their current percentage ownership in the Fund, and assuming that all warrants are exercised, then the unitholders should purchase all of the units for which they may subscribe pursuant to the warrants delivered under the offering. If a unitholder does not do so, and other holders of warrants exercise any of their warrants, that unitholder's current percentage in the Fund will be diluted by the issue of units under the offering. There is also no assurance that the net proceeds from the exercise of the warrants can be reinvested to generate enough revenue to maintain the current distribution rate.

Results of Operations

On December 31, 2008, the Fund was merged with Flaherty & Crumrine Investment Grade Preferred Fund, and the 2009 results of operations in this report are based on the combined results of the post-merger Fund, while the results of operations prior to 2009 are based on pre-merger results.

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 six months ended June 30, 2009 and since inception. These are approximate figures and are calculated using the weighted average number of units outstanding for the period.

	For the Six Months Ended June 30, 2009	Since Inception[1]
Revenues	$ 0.70	$ 9.77
Expenses		
Management and Portfolio Manager fees	(0.03)	(0.91)
Other expenses	(0.03)	(0.41)
Interest and bank charges	(0.03)	(2.21)
Total Expenses	(0.09)	(3.53)
Net investment income	0.61	6.24
Add: Management and Portfolio Manager fees paid in units	0.00	0.57
Cash flow available for distribution	0.61	6.81
Distributions to unitholders	(0.71)	(6.87)
Cash flow available for distributions in excess of (less than) distributions	$ (0.10)	$ (0.06)

[1] Period from December 15, 2004 (commencement of operations) to June 30, 2009.

Over the period, net investment income was less than the amount distributed to unitholders. In April, the Manager announced a reduction in the distribution rate from $0.125 to $0.11 per unit per month, as the cash flow available for distribution declined due to fewer income-producing securities in the portfolio, as the Portfolio Manager responded to the broad sell-off of US financial securities (particularly preferred securities) and sold portfolio investments in order to bring the Fund's level of leverage back within the targeted range. The weakening of the US dollar against the Canadian dollar in the first half of 2009 also had a negative impact on the cash flow available for distributions on a Canadian dollar-equivalent basis.

The Fund has a distribution reinvestment plan which allows participating unitholders to automatically reinvest monthly distributions in additional units of the Fund. For the six months ended June 30, 2009, 1,931 units were acquired in the market pursuant to this plan at an average price of $7.22 per unit and 5,549 units were issued from treasury.

Changes in Net Asset Value
From December 31, 2008 to June 30, 2009, the basic Net Asset Value per unit increased from $6.59 per unit to $8.15 per unit. Assuming all the outstanding warrants are exercised, the diluted Net Asset Value per unit would be $7.45. 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

	For the Six Months ended June 30, 2009	Since Inception[1]
Opening Net Asset Value	**$ 6.59**	$ 23.63
Gains (losses) on portfolio investments[2]	**1.84**	(13.25)
Cost of the safety net hedge	**—**	(1.16)
Cash flow available for distributions in excess of (less than) distributions	**(0.10)**	(0.06)
Cost of foreign exchange hedge	**(0.09)**	(0.46)
Reduction from management fees being paid in units	**—**	(0.54)
Dilution due to exercise of warrants	**(0.10)**	(0.10)
Reimbursement of overpayment of 2007 redemption	**—**	0.07
Rounding/timing adjustments	**0.01**	0.02
Total change	**1.56**	(15.48)
Closing Net Asset Value – basic	**8.15**	8.15
Dilution impact[3]	**(0.70)**	(0.70)
Closing Net Asset Value – diluted	**$ 7.45**	$ 7.45

[1] Period from December 15, 2004 (commencement of operations) to June 30, 2009.

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

[3] Assumes all outstanding warrants are exercised prior to expiry date.

The increase in the Net Asset Value per unit of the Fund during the first half of 2009 was due to improvement in the US non-government fixed income securities market, which occurred largely during the second quarter. During the period, the value of the Fund's portfolio investments (including realized and unrealized gains) increased by approximately $1.84 per unit. The increase was partly offset by the impact of dilution from the exercise of warrants, as well as by distributions.

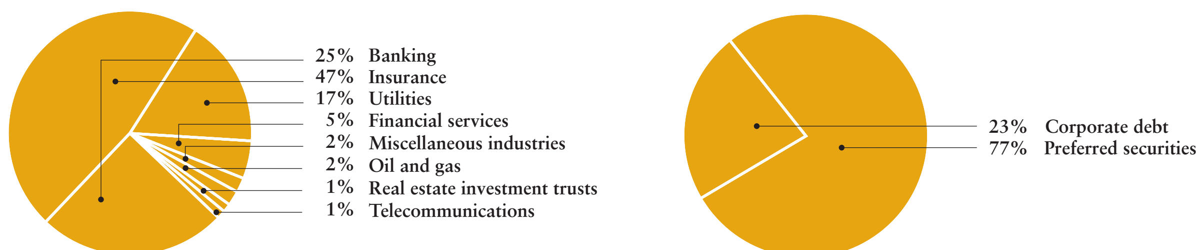
There were no costs associated with the safety net hedge during the period as the safety net hedging strategy was suspended by the Portfolio Manager in November 2008 in response to abnormal market conditions.

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 June 30, 2009, about 65% of the portfolio was hedged using forward contracts maturing in November 2009 and the balance of the portfolio was hedged through the Fund's US dollar borrowings. For the six months ended June 30, 2009, the Fund incurred a cost of $0.09 per unit under the hedging strategy.

Investment Portfolio

All securities purchased by the Fund are rated investment grade at the time of investment. The portfolio is well diversified with 47 issues as at June 30, 2009. The breakdown of the portfolio is shown in the accompanying pie charts. The Portfolio Manager is comfortable with the credit quality of all the securities held in the portfolio. The Portfolio Manager believes that most securities included in the portfolio that are below investment grade offer significant upside potential and generally are misrated by the credit rating agencies. 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 June 30, 2009, 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	4%
BBB	55%
BBB-	24%
Below BBB-	17%
	100%

Liquidity and Capital Resources

As of June 30, 2009, the Fund had total borrowings of $32.4 million, which represented 34.6% of total assets, or 53.8% 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 six months ended June 30, 2009, the minimum and maximum amounts of borrowings were $23.2 million and $39.8 million, respectively.

To provide liquidity, units and warrants of the Fund are listed on the TSX under the symbols FFI.UN and FFI.WT, respectively. The Fund's normal course issuer bid program 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 14,500 units were purchased in the six months ended June 30, 2009 under this program at an average price of $6.93 per unit. Investors may also redeem their units annually, in November, in accordance with the Fund's redemption provisions. During the first half of 2009, units of the Fund traded at an average premium to their diluted Net Asset Value per unit of 7.9%.

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

Effective January 1, 2009, 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. Prior to January 1, 2009, the management fee was 0.35% per annum. In addition, Flaherty & Crumrine Incorporated, the Portfolio Manager of the Fund, and Brompton Capital Advisors Inc. ("BCAI") are entitled to receive an additional fee equal to 0.70% per annum of the Net Asset Value, plus applicable taxes. The Fund also pays to the Manager a service fee equal to 0.40% 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 six months ended June 30, 2009, $0.2 million was paid in management and advisory fees and $0.1 million 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 and unaudited interim 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 Six Months Ended June 30, 2009[2]	For the Year Ended December 31				
		2008	2007	2006	2005	2004[3]
Net Assets, beginning of period/year[4][5]	$ **6.55**	$ 17.34	$ 22.01	$ 22.35	$ 23.23	$ 23.63
Increase (decrease) from operations:[6]						
Total revenue	**0.70**	2.30	2.24	2.30	2.14	0.07
Total expenses	**(0.09)**	(0.57)	(0.99)	(1.01)	(0.81)	(0.04)
Realized loss for the period/year	**(1.01)**	(11.59)	(0.04)	(0.34)	(0.11)	(0.11)
Unrealized gain (loss) for the period/year	**2.87**	0.14	(4.25)	0.29	(0.55)	(0.32)
Total increase (decrease) in Net Assets from operations	$ **2.47**	$ (9.72)	$ (3.04)	$ 1.24	$ 0.67	$ (0.40)
Distributions to unitholders:[5]						
From net investment income	$ **N/A**[7]	$ 1.05	$ 0.84	$ 1.09	$ 0.22	$ —
From net realized gain on investments	**N/A**[7]	—	—	—	0.82	—
Return of capital	**N/A**[7]	0.45	0.66	0.44	0.59	—
Total distributions to unitholders	$ **0.70**	$ 1.50	$ 1.50	$ 1.53	$ 1.63	$ —
Net Assets, end of period/year[4][5]	$ **8.12**	$ 6.55	$ 17.34	$ 22.08	$ 22.35	$ 23.23

(1) This information is derived from the Fund's audited annual and unaudited interim 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) Represents basic Net Asset Value per unit.

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

(4) 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.

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

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

(7) Allocations for the period ended June 30, 2009 are not determinable until year-end.

Ratios and Supplemental Data (Based on Net Asset Value)

	June 30, 2009	December 31 2008	2007	2006	2005	2004[1]
Net Asset Value (in 000s)	$ **60,269**	$ 43,414	$ 87,061	$ 174,138	$ 268,420	$ 345,726
Number of units outstanding (in 000s)	**7,392**	6,591	5,001	7,886	12,011	14,882
Management expense ratio ("MER")[2]	**2.86%**	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]	**21.97%**	66.00%	82.01%	73.24%	131.75%	N/A
Net Asset Value per unit – basic	$ **8.15**	$ 6.59	$ 17.41	$ 22.08	$ 22.35	$ 23.23
Net Asset Value per unit – diluted	$ **7.45**	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A
Closing market price – units	$ **7.25**	$ 6.32	$ 16.14	$ 22.37	$ 21.40	$ 24.95
Closing market price – warrants	$ **0.46**	$ N/A	$ N/A	$ N/A	$ N/A	$ N/A

(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 of 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 2.86% for the six months ended June 30, 2009, down from 4.17% in 2008, 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.

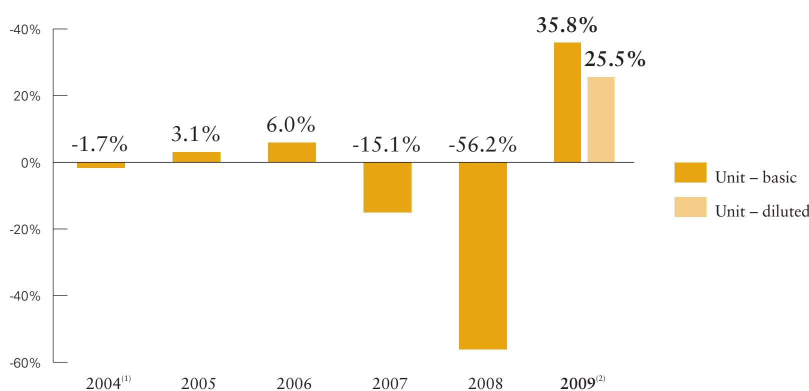
Excluding interest expenses and issuance costs, the MER was 1.79% for the period in 2009, up from 1.64% for 2008. This latter MER is more representative of the ongoing efficiency of the administration of the Fund. The increase was due to the increased weighting of fixed costs on the lower average Net 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 year/period since inception to June 30, 2009. 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.

(2) Period from January 1, 2009 to June 30, 2009.

The following table shows the Fund's 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.

Annual Compound Returns

	Six Months Ended June 30, 2009	Since Inception[(1)]
Flaherty & Crumrine Investment Grade Fixed Income Fund – basic[(2)]	**35.8%**	(12.6%)
Flaherty & Crumrine Investment Grade Fixed Income Fund – diluted[(3)]	**25.5%**	(14.1%)
Merrill Lynch Hybrid Preferred Securities Index	**4.7%**	(2.1%)

(1) Period from December 15, 2004 (commencement of operations) to June 30, 2009.

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

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

Over the six-month period ending June 30, 2009, the Fund provided extremely high returns of approximately 35.8% and 25.5%, based on basic and diluted Net Asset Value, respectively, significantly outperforming the Merrill Lynch Index, which provided a return of approximately 5% during the same period. Outperformance was due to careful security selection and the benefits of leverage, which enhances positive returns.

Since inception, the Fund has significantly underperformed the Merrill Lynch Index due to the negative impact of leverage in declining markets, particularly during the credit crunch in 2008; the cost of the safety net hedge, which has been suspended since November 2008; and the costs of Fund administration, as represented by the MER. As greater calm has returned to the market, the strategy of employing leverage should lead to further positive performance, as it has in the past six months, while investors continue to be paid a high level of monthly income.

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

Summary of Investment Portfolio

As at June 30, 2009

Total Net Asset Value	$ 60,269,189

Portfolio Composition	**% of Portfolio**	**% of Net Asset Value**
Preferred securities:		
Insurance	34.1%	58.4%
Banking	23.2%	39.8%
Utilities	10.3%	17.6%
Financial services	3.5%	5.9%
	71.1%	121.7%
Corporate debt:		
Insurance	9.0%	15.3%
Utilities	5.7%	9.7%
Miscellaneous industries	1.9%	3.2%
Financial services	1.6%	2.7%
Oil and gas	1.4%	2.4%
Real estate investment trusts	1.1%	2.0%
Telecommunications	0.5%	0.8%
	21.2%	36.1%
Cash and short-term investments	7.7%	13.1%
Total investment portfolio	100.0%	170.9%
Currency forward contracts		(13.0%)
Other net liabilities		(57.9%)
Total Net Asset Value		100.0%

Summary of Investment Portfolio (continued)

Top 25 Holdings	% of Portfolio	% of Net Asset Value
Axis Capital Holdings Limited, *7.50% Pfd.*	8.7%	14.6%
Cash and short-term investments	7.8%	13.1%
Liberty Mutual Insurance Co., *7.697% October 15, 2097*	7.4%	12.5%
Comerica Capital Trust II, *6.576% Capital Securities*	6.6%	11.2%
Southern Union Company, *8.25% November 15, 2029*	5.8%	9.7%
Capital One Capital III, *7.686% August 15, 2036*	5.3%	8.9%
Delphi Financial Group, Inc., *7.376% May 15, 2037*	4.7%	7.9%
MetLife Inc., *Variable rate due August 15, 2039*	3.5%	5.8%
Dominion Resources Capital Trust I, *7.83%, December 1, 2027*	3.4%	5.7%
MetLife Capital Trust X, *Variable rate due April 8, 2038*	3.1%	5.2%
Everest Reinsurance Holdings Inc., *6.6% May 15, 2067*	3.1%	5.1%
PNC Preferred Funding Trust III, *Pfd*	2.9%	4.8%
Sovereign Capital Trust VI, *7.908% due June 13, 2036*	2.8%	4.6%
PartnerRe Finance II Inc., *6.44% due December 1, 2066*	2.6%	4.2%
USF&G Capital I, *8.5% December 15, 2045 Capital Security*	2.5%	4.1%
ACE Capital Trust II, *9.7% due April 1, 2030*	2.4%	4.0%
Dominion Resources Inc., *7.5% due June 30, 2066*	2.4%	3.9%
Enbridge Energy Partners L.P., *8.05% due October 1, 2037*	2.2%	3.6%
Wisconsin Energy Corp., *6.25% May 15, 2067*	2.2%	3.5%
Astoria Capital Trust I, *9.75% November 1, 2029 Capital Security, Series B*	2.0%	3.3%
Pulte Homes Inc., *7.375% June 1, 2046*	2.0%	3.2%
Corporate Backed Trust Certificates, *6.3% Series GS*	1.8%	2.9%
RenaissanceRe Holding, *6.08% Pfd, Series C*	1.8%	2.8%
Pacific Life Insurance Co., *9.25% due June 15, 2039*	1.7%	2.8%
Noble Energy Inc., *7.25% August 1, 2097*	1.5%	2.4%

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.

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

The Net Asset Value of the Fund rose substantially over the past four months. It seems clear in retrospect that after several quarters of sharply declining prices, the US dollar denominated preferred market was poised for a rebound. However, despite the recent dramatic recovery in the valuation of preferred securities, the prices of the vast majority of preferreds remain undervalued.

The state of the preferred securities market appeared to hit rock bottom in early March, when the US financial system was rumoured to be on the brink of collapse. Since that time, cooler heads have prevailed and the rumours appear to have been greatly exaggerated. As the financial markets' concern regarding broad nationalization of the US banking system abated and the pace of economic deterioration moderated, the preferred market recovered significantly. With preferred securities priced in early March for a much worse experience than existed during the Great Depression, even a difficult recession looked pretty good by comparison.

Setting the stage for this recovery were several favourable developments occurring in late February and early March. First, the US Treasury detailed the new financial programs and *reaffirmed* that its equity investments in banks would rank *junior* to the existing taxable preferred securities held by the Fund. In addition, Citigroup announced an offer to exchange preferred stock for common stock at prices that, while at discounts to par value, represented a significant premium to then-current market prices[1]. Third, the largest US banks announced that they were profitable in the first quarter (and many of these banks have announced profitability in the second quarter as well). Finally, we began to see some signs that the pace of contraction in the US economy was moderating – initial jobless claims began to stabilize, retail sales rose unexpectedly and home sales (though not home prices) picked up.

During the second quarter, the US government's response to developments in the financial markets continued at an unprecedented pace, as numerous programs continued to provide funding, guarantees or equity capital to specific financial markets and institutions, the magnitude of which dwarfed the size of the original TARP approval. Critical to the preferred market's recovery was the US government altering its emphasis to focus on tangible common equity, reflecting the significant reversal of a long-term trend.

[1] The subsequent rally in Citigroup common stock pushed the exchange value of the preferreds *above* their par value.

Over the past decade, large and mid-sized financial companies in need of new equity capital often chose to issue preferred securities rather than sell common stock. This strategy seemed to satisfy both common shareholders and the regulators; in addition, investors became quite comfortable purchasing these securities. Hundreds of billions of dollars of this "senior equity" has been issued. Pressured by the US government, the emphasis has recently (and dramatically) flip-flopped, and many financial companies have been taking steps to strengthen their balance sheets by exchanging preferred securities for common stock, or simply selling additional common stock. A number of banks have already paid back the funds received from the US government for emergency assistance.

These steps are very beneficial to owners of preferred securities and have been a significant driver of the recent recovery in preferred valuations. Prices have improved as issuers have typically paid above-market levels in order to exchange a sufficient amount of preferred securities for common stock. The credit quality of preferred securities that remain outstanding improved because common stock ranks *junior* to preferred securities, so the more common stock a company has outstanding (relative to preferred), the greater the protection against adversity.

These developments have continued to restore confidence in a preferred market that had been significantly weakened by the events beginning with the conservatorship of the US government-sponsored agencies (Fannie Mae and Freddie Mac) and fears of widespread bank nationalization last year. As confidence has re-emerged, private investors have waded back in, reinforcing higher preferred prices and facilitating the restoration of private capital into the preferred market. In another sign of improvement in the preferred market, several new issues have been brought to market in recent weeks. The new deals, which have primarily originated from utilities, have been structured to attract non-institutional investors ($25 par value and listed on the NYSE), and they have been met with healthy demand.

The Fund's holdings in financial issuers were the primary contributors to its positive performance since early March. The extraordinary steps taken by the various US government entities appear to be helping, but the ultimate recovery of the financial sector will hinge on a broad economic recovery. During the six-month period, the non-financial portion of the portfolio did not materially contribute positively or negatively to the Fund's performance. Looking ahead, we think that the preferred securities market should begin to discriminate more finely between stronger and weaker institutions as it moves away from the "all banks are insolvent" mania that gripped the US financial markets last February and early March. We believe that favours our fundamental, credit-oriented approach to the preferred market. We are not suggesting that banks' troubles are over. The banks still have plenty of troubled loans to work out and the economy remains sluggish. However, we think the crisis phase of the market has passed, and investors have begun to refocus on individual credits rather than worry about the solvency of the financial system as a whole, which will be beneficial to our investment approach and ultimately for the Fund.

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.

Notice

The accompanying unaudited financial statements of Flaherty & Crumrine Investment Grade Fixed Income Fund for the six months ended June 30, 2009 have been prepared by management and have not been reviewed by the external auditors of the Fund.

(Signed)

Mark A. Caranci
Chief Executive Officer
August 13, 2009

(Signed)

Craig T. Kikuchi
Chief Financial Officer

Statements of Net Assets (Unaudited)

As at	June 30, 2009	Dec. 31, 2008
Assets		
Investments, at fair value[1]	$ 94,841,436	$ 81,760,684
Cash and short-term investments	7,915,732	780,330
Amounts receivable for investments sold	730,671	—
Income receivable	1,332,017	1,754,011
Total assets	104,819,856	84,295,025
Liabilities		
Unrealized loss on forward contracts (note 10)	7,856,587	12,459,874
Accounts payable and accrued liabilities	267,836	302,128
Amounts payable for investments purchased	3,483,375	—
Distributions payable to unitholders (note 7)	813,081	784,950
Loans payable (note 11)	32,401,546	27,578,885
Total liabilities	44,822,425	41,125,837
Unitholders' equity		
Unitholders' capital (note 4)	110,565,056	105,628,577
Contributed surplus (note 4)	47,866,397	47,725,881
Deficit	(98,434,022)	(110,185,270)
Net Assets representing unitholders' equity	$ 59,997,431	$ 43,169,188
Units outstanding (note 4)	7,391,641	6,590,770
Net Assets per unit – basic	$ 8.12	$ 6.55
Net Assets per unit – diluted (note 5)	$ 7.43	$ N/A

[1] Investments, at fair value, exclude the value of derivative contracts which are disclosed separately on the Statements of Net Assets.

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

Statements of Operations and Deficit (Unaudited)

For the six months ended June 30	2009	2008
Income		
Dividends	$ 1,248,392	$ 1,730,706
Securities lending income (note 12)	255	—
Interest income	3,473,544	3,936,040
	4,722,191	5,666,746
Expenses		
Advisory fees (note 8)	152,213	243,450
Management fees (note 8)	69,455	190,243
Service fees (note 8)	75,067	113,205
Audit fees	17,827	16,904
Independent review committee fees	14,960	14,959
Trustee fees	6,248	6,000
Custodial fees	5,764	11,020
Legal fees	3,410	2,645
Unitholder reporting costs	6,932	21,441
Other administrative expenses	41,161	63,330
Interest and bank charges (note 11)	233,754	1,037,304
	626,791	1,720,501
Net investment income	4,095,400	3,946,245
Net realized loss on investments and foreign currency transactions (note 9)	(4,107,751)	(9,330,266)
Transaction costs	(71)	(8,633)
Net realized loss on forward contracts (note 9)	(2,661,660)	(729,882)
Net change in unrealized gain/loss on investments and foreign currency transactions	14,590,688	(2,100,604)
Net change in unrealized gain/loss on forward contracts (note 10)	4,603,287	(1,983,611)
Increase (decrease) in Net Assets from operations	16,519,893	(10,206,751)
Deficit, beginning of period	(110,185,270)	(56,736,413)
Distributions to unitholders (note 7)	(4,768,645)	(3,701,511)
Deficit, end of period	$ (98,434,022)	$ (70,644,675)
Increase (decrease) in Net Assets from operations per unit – basic[1]	$ 2.47	$ (2.06)
Increase in Net Assets from operations per unit – diluted[1] (note 5)	$ 2.38	$ N/A

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

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

Statements of Cash Flows (Unaudited)

For the six months ended June 30	2009	2008
Cash flows from operating activities:		
Increase (decrease) in Net Assets from operations	$ 16,519,893	$ (10,206,751)
Adjustments to reconcile net cash provided by operations:		
Net realized loss on sale of investments, options and foreign currency transactions	3,683,737	9,591,543
Net change in unrealized gain/loss on investments and foreign currency transactions	(14,384,089)	2,114,774
Net change in unrealized gain/loss on forward contracts and options	(4,603,287)	1,983,611
Decrease (increase) in income receivable	421,994	13,461
Increase (decrease) in accounts payable and accrued liabilities, net of management fees and advisory fees paid in units	(13,047)	(37,722)
Purchase of investments and options (note 9)	(17,336,667)	(37,872,556)
Proceeds from sale of investments and options (note 9)	16,659,320	46,361,866
Cash provided by operating activities	947,854	11,948,226
Cash flows from financing activities:		
Increase (decrease) in loans payable	5,872,312	(7,800,019)
Distributions paid to unitholders (note 6)	(4,740,514)	(3,717,340)
Proceeds from distribution reinvestment plan (note 7)	35,632	—
Proceeds from issuance of units upon exercise of warrants (note 5)	5,150,996	—
Amounts paid for repurchase and redemption of units (note 4)	(130,878)	(1,706,431)
Cash provided by (used in) financing activities	6,187,548	(13,223,790)
Net increase (decrease) in cash and short-term investments	7,135,402	(1,275,564)
Cash and short-term investments, beginning of period	780,330	4,174,743
Cash and short-term investments, end of period	$ 7,915,732	$ 2,899,179
Supplemental information:		
Interest paid	$ 201,104	$ 1,133,120

Statements of Changes in Net Assets (Unaudited)

For the six months ended June 30	2009	2008
Net Assets, beginning of period (note 3)	$ 43,169,188	$ 86,716,219
Operations:		
Increase (decrease) in Net Assets from operations	16,519,893	(10,206,751)
Unitholder transactions:		
Distributions to unitholders (note 7)	(4,768,645)	(3,701,511)
Proceeds from issuance of units (note 4)	—	51,683
Proceeds from issuance of units upon exercise of warrants (note 5)	5,150,996	—
Proceeds from distribution reinvestment plan (note 7)	35,632	—
Repurchase and redemption of units (note 4)	(109,633)	(1,706,431)
Total unitholder transactions	308,350	(5,356,259)
Net increase (decrease) in Net Assets	16,828,243	(15,563,010)
Net Assets, end of period	$ 59,997,431	$ 71,153,209
Distributions per unit (note 7)	$ 0.7050	$ 0.7500

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

Statement of Investments (Unaudited)

As at June 30, 2009

Shares/Par Value US$	Preferred Securities	Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
	Banking					
$ 1,750,000	Astoria Capital Trust I, *9.75% November 1, 2029 Capital Security, Series B*	$ 1,816,616	$ 2,138,816	$ 1,690,553	$ 1,963,316	
$ 137,000	BankAmerica Corp., *8% December 15, 2026 Capital Security*	113,285	138,752	113,697	132,041	
$ 6,538,000	Capital One Capital III, *7.686% August 15, 2036*	4,852,465	5,524,684	4,632,631	5,380,086	
10,000	Colonial Capital Trust IV, *Pfd.*	119,400	146,241	46,500	54,003	
$ 9,810,000	Comerica Capital Trust II, *6.576% Capital Securities*	7,371,351	8,333,194	5,787,900	6,721,753	
$ 500,000	Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., *Variable rate Pfd.*	500,000	547,897	556,250	645,999	
$ 2,065,000	First Midwest Capital Trust I, *6.95% December 1, 2033 Capital Security*	2,046,486	2,516,425	1,142,585	1,326,936	
$ 450,000	First Tennessee Capital Trust I, *8.07% due January 6, 2027*	405,332	425,387	294,201	341,669	
$ 75,000	First Union Capital II, *7.85% January 1, 2027 Capital Security*	78,666	92,032	60,686	70,477	
$ 378,000	First Union Capital II, *7.95% due November 15, 2029 Series A*	314,827	385,600	305,190	354,431	
$ 3,000,000	PNC Preferred Funding Trust III, *Pfd.*	1,972,500	2,296,569	2,460,030	2,856,945	
$ 3,000,000	Sovereign Capital Trust VI, *7.908% due June 13, 2036*	2,220,000	2,537,027	2,404,740	2,792,735	
$ 5,150,000	Washington Mutual Preferred Funding (Cayman) I Ltd., *6.534% March 15, 2011*	4,230,121	4,879,689	6,180	7,177	
$ 500,000	Washington Mutual Preferred Funding Trust IV, *9.75% Pfd.*	400	490	250	290	
$ 1,900,000	Webster Capital Trust IV, *7.65% June 15, 2037*	1,448,782	1,585,670	1,092,500	1,268,770	
		27,490,231	**31,548,473**	**20,593,893**	**23,916,628**	**25.3%**
	Financial Services					
33,800	Cabco – Goldman, *6% Series GS*	828,100	1,015,750	659,100	765,443	
53,300	Corporate Backed Trust Certificates Goldman Sachs Capital I, *6% Series 2004-4*	1,142,890	1,331,563	922,623	1,071,484	
82,450	Corporate Backed Trust Certificates, *6.3% Series GS*	2,081,863	2,553,618	1,498,116	1,739,831	
		4,052,853	**4,900,931**	**3,079,839**	**3,576,758**	**3.8%**
	Insurance					
$ 2,269,000	ACE Capital Trust II, *9.7% due April 1, 2030*	1,951,340	2,117,293	2,066,219	2,399,595	
20,863	Arch Capital Group Ltd., *8% Pfd.*	518,566	602,600	448,555	520,927	
2,500	Arch Capital Group Ltd., *7.875% Pfd.*	53,000	61,149	51,125	59,374	
$ 1,400,000	AXA, *Variable rate Series A Pfd.*	642,000	747,638	882,000	1,024,307	
$ 600,000	AXA, *Variable rate Series B Pfd.*	243,600	294,940	384,000	445,957	
100,445	Axis Capital Holdings Limited, *7.50% Pfd.*	8,464,056	9,890,602	7,602,481	8,829,109	
267,500	Delphi Financial Group, Inc., *7.376% May 15, 2037*	5,099,888	5,692,415	4,031,225	4,681,646	
$ 4,250,000	Everest Reinsurance Holdings Inc., *6.6% May 15, 2067*	3,125,941	3,558,161	2,635,000	3,060,146	
$ 3,000,000	MetLife Capital Trust X, *Variable rate due April 8, 2038*	2,278,750	2,605,296	2,670,000	3,100,793	
$ 3,000,000	MetLife Inc., *Variable rate due August 15, 2039*	2,999,430	3,483,375	2,999,430	3,483,375	
$ 3,910,000	PartnerRe Finance II Inc., *6.44% due December 1, 2066*	2,473,127	2,619,450	2,198,398	2,553,100	
82,500	RenaissanceRe Holding, *6.08% Pfd., Series C*	1,269,675	1,555,098	1,456,125	1,691,065	
$ 3,120,000	USF&G Capital I, *8.5% December 15, 2045 Capital Security*	2,969,039	3,636,478	2,122,443	2,464,890	
$ 1,000,000	USF&G Capital, *8.312% due July 1, 2046*	1,193,560	1,296,502	680,610	790,424	
		33,281,972	**38,160,997**	**30,227,611**	**35,104,708**	**37.1%**
	Utilities					
12,000	Constellation Energy Group Inc., *8.625% due June 15, 2068*	228,000	279,254	263,280	305,759	
$ 3,019,000	Dominion Resources Capital Trust I, *7.83% December 1, 2027*	3,024,316	3,510,837	2,951,767	3,428,022	
$ 2,670,000	Dominion Resources Inc., *7.5% due June 30, 2066*	2,098,650	2,206,025	2,002,500	2,325,595	
$ 2,525,000	Enbridge Energy Partners L.P., *8.05% due October 1, 2037*	1,711,812	1,949,872	1,843,250	2,140,651	
$ 250,000	Union Electric Co., *7.69% due December 15, 2036*	257,500	282,684	209,993	243,874	
$ 2,500,000	Wisconsin Energy Corp., *6.25% May 15, 2067*	1,798,587	2,077,577	1,825,000	2,119,456	
		9,118,865	**10,306,249**	**9,095,790**	**10,563,357**	**11.1%**
	Total Preferred Securities	**$ 73,943,921**	**$ 84,916,650**	**$ 62,997,133**	**$ 73,161,451**	**77.3%**

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

Statement of Investments (Unaudited) (continued)

As at June 30, 2009

Shares/Par Value US$	Corporate Debt Securities	Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
	Financial Services					
10,000	Ameriprise Financial Inc., *7.75% due June 16, 2039*	$ 219,000	$ 244,799	$ 215,500	$ 250,270	
64,600	SATURNS Goldman Sachs Group, Inc. Debenture Backed Series 2004-2, *5.75%*	956,080	1,171,007	1,159,570	1,346,662	
		1,175,080	**1,415,806**	**1,375,070**	**1,596,932**	**1.7%**
	Insurance					
$ 10,821,000	Liberty Mutual Insurance Co., *7.697% October 15, 2097*	9,966,922	11,606,084	6,473,447	7,517,910	
$ 1,500,000	Pacific Life Insurance Co., *9.25% due June 15, 2039*	1,499,280	1,695,692	1,455,780	1,690,664	
		11,466,202	**13,301,776**	**7,929,227**	**9,208,574**	**9.7%**
	Oil and Gas					
$ 1,516,000	Noble Energy Inc., *7.25% August 1, 2097*	1,091,914	1,337,376	1,254,672	1,457,108	
		1,091,914	**1,337,376**	**1,254,672**	**1,457,108**	**1.5%**
	Real Estate Investment Trusts					
$ 1,500,000	Realty Income Corp., *5.875% March 15, 2035, Senior Unsecured Notes*	1,059,580	1,287,846	1,013,550	1,177,082	
		1,059,580	**1,287,846**	**1,013,550**	**1,177,082**	**1.2%**
	Telecommunications					
30,000	Corporate Backed Trust Certificates, *7% Sprint Capital Note-Backed Series 2003-17*	474,300	547,936	428,100	497,172	
		474,300	**547,936**	**428,100**	**497,172**	**0.5%**
	Utilities					
$ 5,343,000	Southern Union Company, *8.25% November 15, 2029*	6,247,351	7,728,761	5,011,947	5,820,603	
		6,247,351	**7,728,761**	**5,011,947**	**5,820,603**	**6.1%**
	Miscellaneous Industries					
110,953	Pulte Homes Inc., *7.375% June 1, 2046*	2,218,972	2,531,694	1,655,419	1,922,514	
		2,218,972	**2,531,694**	**1,655,419**	**1,922,514**	**2.0%**
	Total Corporate Debt Securities	**$ 23,733,399**	**$ 28,151,195**	**$ 18,667,985**	**$ 21,679,985**	**22.7%**
	Embedded Broker Commission	(12,273)	(14,253)	—	—	
	Total	**$ 97,665,047**	**$ 113,053,592**	**$ 81,665,118**	**$ 94,841,436**	**100.0%**

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

Notes to the Financial Statements (Unaudited)

June 30, 2009 and 2008

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 to merge FAC into the Fund. On December 31, 2008, the Fund issued 2,934,959 units to the unitholders of FAC.

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 should be read in conjunction with the most recent audited financial statements at December 31, 2008. The significant accounting policies used for preparing these unaudited interim financial statements are consistent with those used in preparing the audited annual financial statements, except as described below.

Future Accounting Changes

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.

The Fund has developed a plan to meet the timetable published by the Canadian Institute of Chartered Accountants ("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 area of additional note disclosures in the financial statements of the Fund.

Comparative Figures

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

3. RECONCILIATION OF NET ASSETS TO NET ASSET VALUE

In accordance with National Instrument ("NI") 81-106, a reconciliation was required 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").

	June 30, 2009			December 31, 2008	
	Total – Basic	**Per Unit – Basic**	**Per Unit – Diluted**	Total	Per Unit
Net Asset Value	$ 60,269,189	$ 8.15	$ 7.45	$ 43,413,875	$ 6.59
Section 3855 adjustment	(271,758)	(0.03)	(0.02)	(244,687)	(0.04)
Net Assets	$ 59,997,431	$ 8.12	$ 7.43	$ 43,169,188	$ 6.55

Notes to the Financial Statements (Unaudited) (continued)

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.

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.

Issued

On December 31, 2008, the Fund completed the merger by exchanging the units of the merging fund for units of the Fund. As a result of the merger, the Fund issued 2,934,959 units based on the exchange ratios calculated for the merging fund for a total, net of issuance costs, of $19,479,193.

For the period ended June 30, 2009, the Fund issued 811,298 units upon exercise of warrants, 5,549 units (2008 – nil) pursuant to the reinvestment plan (note 7) and nil (2008 – 2,969) units in respect of its management and advisor fees.

For the period ended June 30, 2009, 1,476 (2008 – 300) units were redeemed using the monthly redemption option at an average of $6.19 (2008 – $15.54) per unit and 14,500 units (2008 – 129,300) were purchased for cancellation.

As at June 30, 2009, the Fund had accumulated contributed surplus of $47,866,397 (2008 – $47,725,881). 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.

As at June 30, 2009, the Fund had 7,391,641 units issued and outstanding. The basic and diluted weighted average number of units for the period ended June 30, 2009 were 6,700,031 and 6,937,257 (2008 – 4,946,315 and 4,946,315), respectively.

5. WARRANTS

Unitholders received warrants on the basis of one warrant for each unit held on February 10, 2009. One warrant will entitle the holder to purchase a unit of the Fund at an exercise 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.

The Fund issued 6,583,670 warrants to unitholders of record on February 10, 2009. 811,298 warrants were exercised during the period ended June 30, 2009. The fair value of each warrant on the date of issuance was estimated to be nil. Costs associated with the issuance of these warrants amounted to $180,000.

Diluted Net Assets per unit is calculated when the closing price on the Toronto Stock Exchange of the Fund's units on a valuation date is greater than the subscription price. To calculate diluted Net Assets per unit, Net Assets are increased by the net proceeds received from the exercise of all warrants, and units are increased by the number of units issued from the exercise of all warrants.

Diluted increase (decrease) in Net Assets from operations per unit is calculated using the treasury stock method.

6. 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.

7. 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 period ended June 30, 2009, the Fund declared total distributions of $0.7050 (2008 – $0.75) per unit, which amounted to $4,768,645 (2008 – $3,701,511). 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 period ended June 30, 2009, 5,549 units (2008 – nil) were issued by the Fund pursuant to the reinvestment plan.

8. 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 0.30% per annum of the Net Asset Value of the Fund, plus applicable taxes. Prior to December 31, 2008, the rate was 0.35% per annum. 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. Flaherty & Crumrine Incorporated, the Portfolio Manager for the Fund, and Brompton Capital Advisors Inc. were entitled to receive an aggregate fee equal to 0.70% per annum of the Net Asset Value, plus applicable taxes. Fees are calculated and payable monthly. For the period ended June 30, 2009, nil (2008 – 2,969) 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.

9. INVESTMENT TRANSACTIONS

Investment transactions for the periods ended June 30 were as follows:

	2009	2008
Proceeds from sale of investments and options	**$ 17,389,991**	$ 46,638,968
Less cost of investments sold:		
Investments and options at cost, beginning of period	**115,957,480**	184,135,656
Investments and options purchased during the period	**20,820,042**	37,872,556
Investments and options at cost, end of period	**(113,053,592)**	(166,016,452)
Cost of investments and options sold during the period	**23,723,930**	55,991,760
Net realized loss on sale of investments and options	**$ (6,333,939)**	$ (9,352,792)

For the periods ended June 30, 2009 and 2008, there were no soft dollar amounts paid.

10. 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 period ended June 30, 2009, the Fund realized losses in the amount of $2,661,660 (2008 – loss of $602,406) on the close-out of certain contracts.

At June 30, 2009, the Fund had entered into the following foreign currency forward contracts with a Canadian chartered bank with an AA rating:

Canadian Dollars Purchased	US Dollars Sold	Delivery Date	Forward Rate (USD/CAD)	Unrealized Loss
$ 10,802,000	$ (10,000,000)	September 16, 2009	1.08020	$ (805,066)
20,671,981	(20,900,000)	November 19, 2009	1.01103	(3,579,630)
20,654,400	(20,800,000)	November 19, 2009	1.00705	(3,471,891)
$ 52,128,381	$ (51,700,000)			$ (7,856,587)

As at December 31, 2008:

Canadian Dollars Purchased	US Dollars Sold	Delivery Date	Forward Rate (USD/CAD)	Unrealized 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)

Notes to the Financial Statements (Unaudited) (continued)

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 June 30, 2009, the Fund had a US dollar loan equivalent to $32.4 million (US$27.9 million) outstanding under this facility. During the period ended June 30, 2009, the Fund realized a foreign exchange gain in the amount of $2,650,202 (2008 – loss of $238,751) on the repayment of borrowings in US dollars, and borrowings in US dollars had an unrealized foreign exchange loss of $1,398,737 (2008 – gain of $606,991). The credit facility is secured by a first-ranking and exclusive charge on all of the Fund's assets. For the period ended June 30, 2009, the minimum and maximum amounts of borrowings were $23.2 million (2008 – $51.3 million) and $39.8 million (2008 – $60.8 million), respectively.

12. SECURITIES LENDING

The Fund has entered into a securities lending program 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 June 30, 2009 and 2008.

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 June 30, 2009, 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 as at June 30, 2009 by remaining term to maturity.

	Less than 1 Year	1–3 Years	3–5 Years	>5 Years	Total
Preferred securities and corporate debt	$ —	$ —	$ —	$ 94,841,436	$ 94,841,436
Loans payable	32,401,546	—	—	—	32,401,546

As at December 31, 2008:

	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

As at June 30, 2009, 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 $5.0 million or 8.3% (December 31, 2008 – $2.3 million or 5.4%). 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 $6.1 million or 10.3% (December 31, 2008 – $2.3 million or 5.4%). 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 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 June 30, 2009, 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 creditworthiness of the issuer. The carrying amount of investments, as presented on the Statement of Investments, represents the maximum credit risk exposure as at June 30, 2009. 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. The risk of default is considered minimal as delivery of securities sold is only made once the Fund 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 June 30, 2009, the Fund was 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	4%
BBB	55%
BBB-	24%
Below BBB-	17%
Total	**100%**

As at December 31, 2008:

	% 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 through its monthly and 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.

Corporate Information

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