

Notice

The accompanying unaudited interim financial statements of Flaherty & Crumrine Investment Grade Fixed Income Fund for the six months ended June 30, 2006 have been prepared by management and have not been reviewed by the external auditors of the Fund.

(Signed)

Raymond R. Pether
Chief Executive Officer
August 10, 2006

(Signed)

Craig T. Kikuchi
Chief Financial Officer

Statements of Net Assets (Unaudited)

	June 30, 2006	Dec. 31, 2005
Assets		
Investments, at market value ⁽¹⁾	\$ 373,170,700	\$ 398,873,529
Unrealized gain on forward contracts (note 7)	7,415,446	16,806,574
Option contracts purchased, at market value (note 8)	4,585,239	3,693,837
Cash and short-term investments	7,201,687	1,592,870
Dividends and interest receivable	3,962,717	4,824,023
Other receivable	—	1,638,841
Deferred financing costs (note 9)	2,268	4,755
Total assets	396,338,057	427,434,429
Liabilities		
Option contracts written, at market value (note 8)	495,232	5,160,877
Accounts payable and accrued liabilities	826,400	825,486
Amounts payable for investments purchased	4,860,011	—
Distributions payable to unitholders (note 4)	1,467,063	1,626,317
Redemption payable to unitholders	—	394,182
Loans payable (note 9)	143,761,121	151,007,535
Total liabilities	151,409,827	159,014,397
Unitholders' equity		
Unitholders' capital (note 3)	277,158,118	283,742,681
Contributed surplus	5,147,193	4,134,692
Deficit	(37,377,081)	(19,457,341)
Net assets representing unitholders' equity	\$ 244,928,230	\$ 268,420,032
Units outstanding (note 3)	11,736,505	12,011,203
Net asset value per unit	\$ 20.87	\$ 22.35

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

Statements of Operations and Retained Earnings (Deficit) (Unaudited)

For the six months ended June 30	2006	2005
Income		
Interest income	\$ 9,390,241	\$ 14,774,217
Dividends	3,787,897	1,172,416
	13,178,138	15,946,633
Expenses		
Advisor fees (note 5)	934,262	1,251,044
Management fees (note 5)	494,886	661,860
Service fees (note 5)	392,847	533,224
Audit fees	16,326	11,938
Director fees	20,951	19,836
Trustee fees	11,196	11,264
Custodial fees	22,650	37,757
Unitholder reporting costs	13,445	62,617
Other administrative expenses	61,091	106,727
Interest and bank charges (note 9)	3,794,599	3,008,642
	5,762,253	5,704,909
Net investment income	7,415,885	10,241,724
Net realized loss on investments and foreign currency transactions (notes 6 & 9)	(9,371,520)	(582,025)
Net realized gain (loss) on forward contracts and options (notes 6 & 7)	29,707,378	(7,490,975)
Net change in unrealized gain (loss) on investments and foreign currency transactions (note 9)	(30,193,620)	31,438,774
Net change in unrealized loss on forward contracts and options (notes 7 & 8)	(6,201,936)	(8,725,263)
Increase (decrease) in net assets from operations	\$ (8,643,813)	\$ 24,882,235
Deficit, beginning of period	\$ (19,457,341)	\$ (5,847,309)
Distributions to unitholders (note 4)	(9,275,927)	(12,096,099)
Retained earnings (deficit), end of period	(37,377,081)	6,938,827
Increase (decrease) in net assets from operations per unit⁽¹⁾	\$ (0.73)	\$ 1.67

⁽¹⁾ Based on the weighted average number of units outstanding for the period (note 3).

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

Statements of Cash Flows (Unaudited)

For the six months ended June 30	2006	2005
Cash flows from operating activities:		
Increase (decrease) in net assets from operations	\$ (8,643,813)	\$ 24,882,235
Adjustments to reconcile net cash provided by (used in) operations:		
Net realized (gain) loss on sale of investments, options and foreign currency transactions	(1,539,013)	8,070,632
Net change in unrealized (gain) loss on investments and foreign currency transactions	26,994,471	(31,481,820)
Net change in unrealized loss on forward contracts and options	9,391,128	8,725,263
Amortization of deferred financing costs (note 9)	2,487	18,917
Decrease in dividends and interest receivable	861,306	2,610,280
Increase in other receivable	1,638,841	—
Decrease (increase) in accounts payable and accrued liabilities	914	(236,927)
Purchase of investments and options (note 6)	(156,236,468)	(463,187,242)
Proceeds from sale of investments and options (note 6)	148,540,389	469,181,896
Cash provided by operating activities	21,010,242	18,583,234
Cash flows from financing activities:		
Proceeds from issuance of units (note 3)	1,272,989	676,949
Deferred financing costs paid	—	(2,785)
Distributions paid to unitholders	(9,435,181)	(10,080,697)
Proceeds from distribution reinvestment plan (note 4)	—	30,089
Repurchase of units (note 3)	(6,336,156)	(617,746)
Amounts paid for redemption of units (note 3)	(903,077)	—
Cash used in financing activities	(15,401,425)	(9,994,190)
Net increase in cash and short-term investments	5,608,817	8,589,044
Cash and short-term investments, beginning of period	1,592,870	25,957
Cash and short-term investments, end of period	\$ 7,201,687	\$ 8,615,001
Supplemental information:		
Interest paid	\$ 3,867,402	\$ 2,949,312

Statements of Changes in Net Assets (Unaudited)

For the six months ended June 30	2006	2005
Net assets, beginning of period	\$ 268,420,032	\$ 345,726,142
Operations:		
Increase (decrease) in net assets from operations	(8,643,813)	24,882,235
Unitholder transactions:		
Proceeds from issuance of units (note 3)	1,272,989	676,949
Distributions to unitholders (note 4)	(9,275,927)	(12,096,099)
Proceeds from distribution reinvestment plan (note 4)	—	30,089
Repurchase of units (note 3)	(6,336,156)	(617,746)
Redemption of units (note 3)	(508,895)	—
Total unitholder transactions	(14,847,989)	(12,006,807)
Net increase (decrease) in net assets	(23,491,802)	12,875,428
Net assets, end of period	\$ 244,928,230	\$ 58,601,570
Distributions per unit	\$ 0.7812	\$ 0.8124

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

Statement of Investments (Unaudited)

As at June 30, 2006		Cost (USD)	Cost (CDN)	Market Value (USD)	Market Value (CDN)	% of Portfolio
	Shares/ Par Value \$US					
	Preferred Securities					
	Banking					
\$	1,000,000					
	Astoria Capital Trust I, 9.75% November 1, 2029					
	<i>Capital Security, Series B</i>	\$ 1,170,000	\$ 1,346,840	\$ 1,145,049	\$ 1,273,408	
	70,400 BAC Capital Trust I, 7% Pfd.	1,810,556	2,225,360	1,738,880	1,933,808	
	50,400 BAC Capital Trust VIII, 6% Pfd.	1,257,984	1,534,801	1,115,352	1,240,383	
	66,000 Bank One Capital Trust VI, 7.2% Pfd.	1,685,940	1,991,095	1,663,200	1,849,644	
\$	10,500,000					
	Barclays Bank PLC, 6.278% December 15, 2034	9,817,858	11,592,344	9,360,111	10,409,376	
\$	1,264,000					
	Barnett Capital Trust I, 8.06% December 1, 2026 <i>Capital Security</i>	1,367,016	1,657,773	1,323,246	1,471,582	
	5,600 BNY Capital IV, 6.875% Pfd., Series E	141,064	161,785	137,480	152,891	
	72,600 Capital One Capital II, 7.5% June 15, 2066	1,791,813	1,982,533	1,838,958	2,045,105	
	8,400 Citigroup Capital VII, 7.125% July 31, 2031	209,664	234,918	210,504	234,101	
	290,500 Citigroup Capital VIII, 6.95% Pfd.	7,372,414	8,781,110	7,163,729	7,966,782	
	4,500 Corporate Backed Trust Certificates JPM, 7.2% Series 2001-15	113,850	132,288	114,030	126,813	
	10,200 Corporate Backed Trust Certificates Washington Mutual I, 7.75% Series 2001-20	261,426	302,118	256,326	285,060	
	10,700 CorTS Trust II for First Union Capital I, 7.5% Series II	270,860	314,192	276,595	307,601	
\$	4,000,000					
	First Chicago NBD Capital Trust I, 7.75% December 1, 2026	4,290,000	5,210,611	4,170,347	4,637,841	
\$	5,000,000					
	First Empire Capital Trust II, 8.277% June 1, 2027 <i>Capital Security</i>	5,471,800	6,765,080	5,279,083	5,870,866	
\$	850,000					
	First Midwest Capital Trust I, 6.95% December 1, 2033					
	<i>Capital Security</i>	932,161	1,152,994	835,320	928,959	
\$	2,200,000					
	First of America Capital Trust I, 8.12% January 31, 2027	2,383,700	2,895,229	2,307,752	2,566,450	
\$	75,000					
	First Union Capital II, 7.85% January 1, 2027 <i>Capital Security</i>	78,666	92,032	78,995	87,850	
	28,800 Fleet Capital Trust VII, 7.2% Pfd.	730,232	850,814	718,560	799,110	
	24,800 Fleet Capital Trust VIII, 7.2% Pfd.	636,616	759,169	626,448	696,673	
\$	1,500,000					
	Great Western Finance Trust II, 8.206% February 1, 2027					
	<i>Capital Security, Series A</i>	1,618,200	1,968,541	1,570,757	1,746,838	
\$	5,000,000					
	GreenPoint Capital Trust I, 9.1% June 1, 2027 <i>Capital Security</i>	5,712,500	7,032,673	5,329,482	5,926,915	
\$	2,000,000					
	Haven Capital Trust I, 10.46% February 1, 2027 <i>Capital Security</i>	2,300,000	2,845,232	2,148,500	2,389,346	
\$	5,600,000					
	HBOS Capital Funding, 6.85% March 23, 2049	5,803,000	7,101,685	5,338,024	5,936,414	
\$	2,750,000					
	HBOS PLC, 6.413% October 1, 2035	2,413,593	2,714,555	2,483,040	2,761,388	
	20,000 Household Capital Trust VII, 7.5% Pfd.	536,400	661,544	504,600	561,165	
	22,300 HSBC Holdings PLC, 6.2% Pfd., Series A	532,301	609,033	518,252	576,348	
\$	1,349,000					
	J.P. Morgan Capital Trust II, 7.95% February 1, 2027					
	<i>Capital Security</i>	1,459,711	1,784,106	1,413,039	1,571,441	
\$	2,800,000					
	J.P. Morgan Capital Trust, 7.54% January 15, 2027 <i>Capital Security</i>	2,871,960	3,233,679	2,881,256	3,204,244	
	5,000 J.P. Morgan Capital Trust XI, 7% Pfd.	107,800	120,516	108,050	120,162	
	8,100 J.P. Morgan Capital Trust XIV, 7% Pfd.	185,004	208,073	184,032	204,662	
	50,000 J.P. Morgan Capital Trust X, 7% Pfd.	1,295,000	1,605,544	1,242,500	1,381,784	
	118,900 J.P. Morgan Capital Trust XVI, 6.35% Pfd.	2,972,500	3,755,907	2,757,291	3,066,382	
	9,500 KeyCorp Capital VIII, 7% June 15, 2066	235,695	262,163	232,750	258,841	
\$	725,000					
	Mellon Capital II, 7.995% January 15, 2027 <i>Capital Security</i>	795,688	977,695	765,170	850,946	
	212,400 Royal Bank of Scotland PLC, 6.35% Pfd.	5,310,000	6,635,675	5,023,260	5,586,365	
	12,600 Royal Bank of Scotland PLC, 6.25% Pfd.	288,540	323,700	292,950	325,790	
	33,700 Sovereign Capital Trust V, 7.75% December 31, 2036	855,980	953,600	855,980	951,934	
	18,100 Sun Trust Capital V, 7.05% Pfd.	454,672	524,009	446,889	496,985	
	6,000 USB Capital IV, 7.35% Pfd.	151,320	169,986	151,560	168,550	
	15,100 USB Capital V, 7.25% Pfd.	379,498	432,245	378,708	421,161	
	7,500 USB Capital VII, 5.875% Pfd.	171,750	199,626	161,625	179,743	
	91,200 USB Capital VIII, 6.35% Pfd.	2,242,600	2,576,882	2,094,864	2,329,697	
	10,000 USB Capital X, 6.5% Pfd.	245,500	280,889	237,000	263,568	
\$	4,830,000					
	Wachovia Capital Trust V, 7.965% June 1, 2027 <i>Capital Security</i>	5,250,210	6,356,417	5,073,550	5,642,293	
\$	6,950,000					
	Washington Mutual Preferred Funding (Cayman) I Ltd., 6.534% March 15, 2011	6,916,315	7,978,285	6,632,064	7,375,516	
\$	6,000,000					
	Webster Capital Trust I, 9.36% January 29, 2027 <i>Capital Security</i>	6,696,000	8,351,210	6,373,721	7,088,213	
	2,700 Wells Fargo Capital Trust IV, 7% Pfd.	68,121	78,128	67,041	74,556	
		99,663,477	119,724,684	95,625,920	106,345,550	28.5%
	Financial Services					
	52,100 Cabco – Goldman, 6% Series GS	1,276,450	1,565,697	1,140,990	1,268,895	
	60,000 Corporate Backed Trust Certificates Goldman Sachs Capital I, 6% Series 2004-4	1,452,000	1,674,741	1,302,600	1,448,621	
	244,400 Lehman Capital Trust VI, 6.24% Pfd.	6,104,297	7,517,306	5,621,200	6,251,335	
	5,600 Lehman Capital Trust V, 6% Pfd.	124,488	137,148	123,200	137,011	
	17,500 Merrill Lynch Capital Trust V, 7.28% Series F	466,375	559,276	444,500	494,328	
	13,000 Morgan Stanley Capital Trust II, 7.25% July 31, 2031	326,300	360,987	328,120	364,902	
	16,900 Morgan Stanley Capital Trust III, 6.25% Pfd.	390,166	432,425	381,940	424,755	
	4,000 Morgan Stanley Capital Trust IV, 6.25% Pfd.	92,520	101,851	90,280	100,400	
	38,600 Morgan Stanley Capital Trust V, 5.75% Pfd.	875,416	1,038,678	810,214	901,038	
	451,400 Morgan Stanley Capital Trust VI, 6.6% Pfd.	11,328,278	13,012,819	10,720,750	11,922,542	
		22,436,291	26,400,928	20,963,794	23,313,827	6.2%

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Statement of Investments (Unaudited) (continued)

As at June 30, 2006		Cost (USD)	Cost (CDN)	Market Value (USD)	Market Value (CDN)	% of Portfolio
	Shares/ Par Value \$US					
	Preferred Securities					
	Insurance					
	160,000 ACE Ltd., 7.8% Pfd., Series C	\$ 4,203,200	\$ 5,048,464	\$ 4,136,000	\$ 4,599,644	
	267,200 Aegon NV, 6.375% Pfd.	6,697,802	8,368,841	6,263,168	6,965,267	
	135,000 Aegon NV, 6.5% Pfd.	3,378,500	3,941,618	3,215,700	3,576,179	
\$	2,000,000 AON Capital Trust A, 8.205% January 1, 2027 Capital Security	2,124,560	2,605,991	2,167,783	2,410,791	
	29,750 Arch Capital Group Ltd., 8% Pfd.	743,599	854,584	746,725	830,433	
	61,849 Axis Capital Holdings Limited, 7.25% Pfd.	1,508,639	1,752,518	1,521,485	1,692,043	
	61,845 Axis Capital Holdings Limited, 7.5% Pfd.	6,399,556	7,475,610	6,112,760	6,797,998	
	50,400 Endurance Specialty Holdings Ltd., 7.75% Pfd.	1,216,340	1,363,213	1,215,144	1,351,361	
	63,500 Everest Capital Trust II, 6.2% Pfd., Series B	1,492,362	1,837,945	1,354,455	1,506,289	
\$	7,500,000 Great-West Life & Annuity Insurance Capital LP II, 7.153% May 16, 2046	7,500,000	8,331,760	7,351,372	8,175,458	
	21,700 Hartford Capital III, 7.45% Pfd.	545,130	611,923	540,981	601,625	
\$	600,000 Oil Insurance Ltd, 7.558% June 30, 2011	600,000	673,832	600,485	667,800	
	13,000 PartnerRe Capital Trust I, 7.9% December 31, 2031 Pfd.	328,250	375,997	326,950	363,601	
	142,200 PartnerRe Ltd., 6.5% Pfd., Series D	3,505,450	4,249,615	3,249,270	3,613,512	
	125,000 PartnerRe Ltd., 6.75% Pfd., Series C	3,202,500	3,994,138	2,990,000	3,325,178	
	165,000 Prudential PLC, 6.5% Pfd.	4,125,000	4,971,286	3,991,350	4,438,779	
\$	4,545,000 RenaissanceRe Capital Trust, 8.54% March 1, 2027 Capital Security	4,744,800	5,313,588	4,753,492	5,286,357	
	40,000 RenaissanceRe Holding, 7.3% Pfd., Series B	996,800	1,098,172	980,000	1,089,858	
	138,970 RenaissanceRe Holding, 6.08% Pfd., Series C	2,970,422	3,545,176	2,994,804	3,330,520	
	33,700 St. Paul Capital Trust I, 7.6% Pfd.	850,468	951,511	853,958	949,686	
	22,100 Torchmark Capital Trust III, 7.1% June 1, 2046	543,660	604,604	550,069	611,732	
\$	3,900,000 USF&G Capital III, 8.312% July 1, 2046 Capital Security	4,741,952	5,634,834	4,582,566	5,096,270	
	178,600 W.R. Berkley Capital Trust II, 6.75% Pfd.	4,434,630	5,313,202	4,191,742	4,661,635	
	20,200 XL Capital Ltd., 8% Pfd., Series A	515,908	593,578	512,070	569,473	
	32,800 XL Capital Ltd., 7.625% Pfd., Series B	885,528	1,086,965	829,840	922,865	
		68,255,056	80,598,965	66,032,169	73,434,354	19.7%
	Oil and Gas					
\$	12,275,000 KN Capital Trust III, 7.63% April 15, 2028 Capital Security	13,983,157	17,159,507	10,624,467	11,815,465	
\$	1,895,000 Phillips 66 Capital II, 8% January 15, 2037	1,976,675	2,220,509	1,974,486	2,195,826	
		15,959,832	19,380,016	12,598,953	14,011,291	3.8%
	Telecommunication					
	3,256 Centaur Funding Corp., 9.08% April 21, 2020	3,718,238	4,165,789	3,608,071	4,012,535	
		3,718,238	4,165,789	3,608,071	4,012,535	1.1%
	Utilities					
\$	7,500,000 Commonwealth Edison Co., 6.35% March 15, 2033	7,707,750	9,404,627	6,765,645	7,524,072	
\$	868,000 Dominion Resources Capital Trust I, 7.83%, December 1, 2027	946,415	1,151,735	908,839	1,010,719	
\$	3,000,000 Dominion Resources Inc., June 30, 2066	2,959,560	3,328,602	2,980,562	3,314,682	
	10,000 Dominion Resources Capital Trust II, 8.4% Pfd. January 30, 2041	253,950	296,041	254,300	282,807	
\$	2,000,000 Dominion Resources Capital Trust III, 8.4%, January 15, 2031	2,370,220	2,835,259	2,205,789	2,453,057	
	80,000 DTE Energy Trust II, 7.5% Pfd.	2,096,000	2,595,151	2,024,000	2,250,890	
	42,000 Georgia Power Capital Trust V, 7.125% Pfd.	1,079,400	1,275,359	1,052,100	1,170,040	
\$	10,140,000 PECO Energy Capital Trust IV, 5.75% June 15, 2033 Capital Security	9,910,532	12,116,601	8,555,925	9,515,041	
	75,980 Virginia Power Capital Trust, 7.375% July 30, 2042	1,949,396	2,267,211	1,907,098	2,120,883	
		29,273,223	35,270,586	26,654,258	29,642,191	7.9%
	Miscellaneous Industries					
	16,600 SATURNS BellSouth Debenture-Backed Series 2001-3, 7.125%	416,494	479,197	398,400	443,060	
		416,494	479,197	398,400	443,060	0.1%
	Total Preferred Securities	239,722,611	286,020,165	225,881,565	251,202,808	67.3%

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

Statement of Investments (Unaudited) (continued)

As at June 30, 2006		Cost (USD)	Cost (CDN)	Market Value (USD)	Market Value (CDN)	% of Portfolio
Par Value \$US	Corporate Debt Securities					
	Financial Services					
82,450	Corporate Backed Trust Certificates, 6.3% <i>Series GS</i>	\$ 2,081,863	\$ 2,553,618	\$ 1,901,297	\$ 2,114,432	
2,300	CorTS Trust For General Electric Capital Corporation Notes, 6% <i>March 15, 2032</i>	59,110	72,741	53,015	58,958	
\$ 6,510,000	General Motors Acceptance Corporation, 8% <i>November 1, 2031, Senior Bonds</i>	6,276,340	7,556,914	6,090,752	6,773,523	
30,000	PreferredPLUS Trust Series MSD-1, 7.05% <i>April 1, 2032</i>	745,500	825,006	745,800	829,404	
7,600	PreferredPLUS Trust Series GEC-1, 6.05% <i>March 15, 2032</i>	195,700	240,829	173,432	192,874	
141,450	SATURNS Goldman Sachs Group, Inc. Debenture Backed Series 2003-6, 6%	3,161,013	3,508,813	3,143,019	3,495,350	
		12,519,526	14,757,921	12,107,315	13,464,541	3.6%
	Insurance					
\$ 3,500,000	Farmer's Exchange Capital, 7.2% <i>July 15, 2048</i>	3,314,325	3,648,571	3,343,746	3,718,579	
\$ 11,226,000	Liberty Mutual Insurance Co., 7.697% <i>October 15, 2097</i>	11,418,336	13,171,131	10,662,199	11,857,428	
\$ 2,100,000	OneAmerica Financial Partners, 7% <i>October 15, 2033</i>	2,286,312	2,804,396	2,024,921	2,251,914	
		17,018,973	19,624,098	16,030,866	17,827,921	4.8%
	Oil and Gas					
\$ 500,000	Kinder Morgan Inc., 7.45% <i>March 1, 2098</i>	429,325	473,482	423,109	470,539	
		429,325	473,482	423,109	470,539	0.1%
	Real Estate Investment Trust					
\$ 9,000,000	EOP Operating L.P., 7.5% <i>April 19, 2029, Senior Unsecured Notes</i>	10,553,925	12,955,007	9,425,203	10,481,765	
\$ 4,000,000	EOP Operating L.P., 7.875% <i>July 15, 2031, Senior Unsecured Notes</i>	4,886,400	6,029,838	4,357,427	4,845,893	
\$ 5,000,000	Realty Income Corp., 5.875% <i>March 15, 2035, Senior Unsecured Notes</i>	4,843,200	5,832,651	4,329,023	4,814,305	
		20,283,525	24,817,496	18,111,653	20,141,963	5.4%
	Telecommunication					
28,624	PreferredPLUS Trust Series SPR-1, 7% <i>November 15, 2028</i>	712,710	812,925	704,150	783,085	
		712,710	812,925	704,150	783,085	0.2%
	Utilities					
\$ 3,910,000	Constellation Energy Group, 7.6% <i>April 1, 2032, Senior Notes</i>	4,700,060	5,724,661	4,293,198	4,774,464	
\$ 10,000,000	Duquesne Light Holdings, Inc., 6.25% <i>August 15, 2035, Senior Notes</i>	9,889,880	11,829,362	9,069,163	10,085,813	
\$ 9,843,000	Southern Union Company, 8.25% <i>November 15, 2029</i>	12,476,495	15,525,752	11,199,669	12,455,148	
\$ 10,000,000	TXU Corp., 6.5% <i>November 15, 2024, Senior Notes</i>	9,693,000	11,987,095	8,849,377	9,841,389	
\$ 5,000,000	UGI Utilities Inc., 6.133% <i>October 15, 2034</i>	5,318,000	6,544,345	4,595,874	5,111,069	
\$ 3,000,000	Westar Energy Inc., 5.875% <i>July 15, 2036</i>	2,998,170	3,688,648	2,671,776	2,971,281	
\$ 10,000,000	Westar Energy Inc., 5.95% <i>January 1, 2035</i>	9,907,900	11,851,839	9,019,153	10,030,197	
\$ 549,000	Wisconsin Electric Power Company, 6.875% <i>December 1, 2095</i>	643,527	798,460	565,108	628,457	
		55,627,032	67,950,162	50,263,318	55,897,818	15.0%
	Miscellaneous Industries					
24,150	Maytag Corp., 7.875% <i>Pfd.</i>	541,641	671,351	615,825	684,859	
\$ 3,240,000	Pulte Homes Inc., 7.875% <i>June 15, 2032</i>	3,500,510	3,972,479	3,348,307	3,723,651	
\$ 4,280,000	Pulte Homes Inc., 6.375% <i>May 15, 2033</i>	4,121,534	4,975,108	3,714,075	4,130,421	
174,896	Pulte Homes Inc., 7.375% <i>June 1, 2046</i>	4,313,748	4,801,325	4,354,910	4,843,094	
		12,477,433	14,420,263	12,033,117	13,382,025	3.6%
	Total Corporate Debt Securities	119,068,524	142,856,347	109,673,528	121,967,892	32.7%
	Total	\$358,791,135	\$428,876,512	\$335,555,093	\$373,170,700	100.0%

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

Notes to the Financial Statements (Unaudited)

June 30, 2006

1. OPERATIONS

Flaherty & Crumrine Investment Grade Fixed Income Fund (the “Fund”) is a closed-end investment trust created under the laws of the Province of Alberta on November 25, 2004, pursuant to an amended and restated declaration of trust. Computershare Trust Company of Canada is the Trustee and Brompton Funds Management Limited (formerly Brompton FFI Management Limited) (the “Manager”) 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 is listed on the Toronto Stock Exchange and commenced operations on December 15, 2004.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and should be read in conjunction with the most recent audited financial statements at December 31, 2005. The significant accounting policies used in preparing these unaudited interim financial statements are consistent with those used in preparing the audited financial statements.

Certain comparative figures have been reclassified in accordance with National Instrument 81-106.

3. UNITS OF THE FUND

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

Units may be redeemed at the option of unitholders by tendering units of the Fund between 20 and 45 business days prior to the second last business day in November (“Redemption Valuation Date”). Redemption of tendered units will be settled based on the 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 on the Redemption Valuation Date and will be settled on or before the tenth business day in December.

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 cost of the redemption, including brokerage costs. For the six months ended June 30, 2006, 24,476 units were redeemed using the monthly redemption option at an average of \$20.79 per unit.

For the six months ended June 30, 2006, the Fund issued 57,978 (2005 – 28,622) units in respect of its management and advisor fees.

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid program for the period from December 22, 2005 to December 21, 2006. Pursuant to the issuer bid, the Fund may purchase up to 1,205,400 units for cancellation. The Fund may only repurchase units when the net asset value per unit exceeds its trading price. For the six months ended June 30, 2006, 308,200 (2005 – 27,400) units were purchased for cancellation.

As at June 30, 2006, the Fund had accumulated contributed surplus of \$5,147,193 (2005 – \$29,541) since inception. 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 outstanding for the six months ended June 30, 2006 was 11,892,681 (2005 – 14,890,461).

4. 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 six months ended June 30, 2006, the Fund declared total distributions of \$0.7812 (2005 – \$0.8124) per unit, which amounted to \$9,275,927 (2005 – \$12,096,099). 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 six months ended June 30, 2006, no units (2005 – 1,268) were issued by the Fund pursuant to the reinvestment plan.

Notes to the Financial Statements (Unaudited) (continued)

5. 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. For the six months ended June 30, 2006, the entire management fee was paid in units. Flaherty & Crumrine Incorporated, the Portfolio Manager for the Fund, and Brompton Capital Advisors Inc. are entitled to receive an aggregate fee equal to 0.70% per annum of the net asset value, plus applicable taxes. Both fees are calculated and payable monthly. During 2006, 40,971 units were issued for the payment of the 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.

6. INVESTMENT TRANSACTIONS

Investment transactions for the six months ended June 30 were as follows:

	2006	2005
Proceeds from sale of investments and options	\$ 148,540,389	\$ 469,181,896
Less cost of investments and options sold:		
Investments and options at cost, beginning of period	424,592,441	528,622,454
Investments and options purchased during the period	161,096,479	463,187,242
Investments and options at cost, end of period	(435,049,176)	(516,426,656)
Cost of investments and options sold during the period	150,639,744	475,383,040
Net realized loss on sale of investments and options	\$ (2,099,355)	\$ (6,201,144)

Brokerage commissions on investments purchased and sold during the period ended June 30, 2006 amounted to \$116,841 (2005 – \$188,277). For the period ended June 30, 2006 and 2005, there were no soft dollar amounts paid.

7. 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 six months ended June 30, 2006, the Fund realized gains in the amount of \$18,523,792 (2005 – \$440,319) on the close-out of certain contracts.

At June 30, 2006, the Fund had entered into the following foreign currency forward contracts with a Canadian chartered bank:

Canadian Dollars Purchased	US Dollars Sold	Delivery Date	Forward Rate (USD/CAD)	Unrealized Gain (Loss)
\$ 70,868,438	\$ 62,500,000	July 19, 2006	\$ 0.88	\$ 1,402,623
61,635,736	53,925,000	January 19, 2007	0.87	1,972,004
61,323,510	53,925,000	January 22, 2008	0.88	2,041,456
60,962,213	53,925,000	January 22, 2009	0.88	1,999,363
\$ 254,789,897	\$ 224,275,000			\$ 7,415,446

8. OPTION CONTRACTS

The Fund uses put options on US Treasury bond futures to hedge rapid increases in long-term interest rates. The Fund may also write or purchase options to generate additional income for the Fund. At June 30, 2006, the Fund had the following option contracts outstanding:

Option Contracts Purchased

Underlying Interest	No. of Contracts	Option Type	Expiration Date	Strike Price per Contract	Current Price per Contract (USD)	Premium Paid	Market Value
30-year T-bond futures	750	Call	September 2006	\$ 112	\$ 46.87	\$ 257,731	\$ 39,097
30-year T-bond futures	1,500	Put	September 2006	108	1,937.50	5,003,222	3,232,040
30-year T-bond futures	1,375	Put	September 2006	106	859.37	2,219,852	1,314,102
						\$ 7,480,805	\$ 4,585,239

Option Contracts Written

Underlying Interest	No. of Contracts	Option Type	Expiration Date	Strike Price per Contract	Current Price per Contract (USD)	Premium Received	Market Value
30-year T-bond futures	750	Call	September 2006	\$ 108	\$ 593.75	\$ (1,308,140)	\$ (495,232)

9. 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 \$13.9 million for working capital purposes under one tranche and US\$153.8 million under the second tranche for investment purposes. Both tranches can be availed at either 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, 2006, the Fund had a US dollar loan equivalent to \$143.8 million (US\$129.3 million) outstanding under this facility. During the six months ended June 30, 2006, the Fund realized a foreign exchange loss in the amount of \$3,636,929 (2005 – \$1,856,762) on the repayment of borrowings in US dollars, and borrowings in US dollars had an unrealized foreign exchange gain of \$1,415,928 (2005 – \$2,055,392). The credit facility is secured by a first-ranking and exclusive charge on all of the Fund's assets. For the six months ended June 30, 2006, the minimum and maximum amounts of borrowings were US\$129.3 million (2005 – US\$148.0 million) and US\$130.0 million (2005 – US\$154.8 million), respectively.

Costs incurred to establish the credit facility are deferred and amortized over its term. For the six months ended June 30, 2006, the Fund recorded amortization of these costs in the amount of \$2,487 (2005 – \$18,917).

The credit facility is used by the Fund for the purchase of additional investments and for general Fund purposes.

Corporate Information

Directors

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James W. Davie, BComm, MBA

P. Michael Nedham, BSc, MBA, CBV

Arthur R.A. Scace, QC, BA, MA,
LLB, LLD

Ken S. Woolner, BSc, PEng

Officers

Peter A. Braaten
Chairman

Raymond R. Pether
Chief Executive Officer

Mark A. Caranci
President

Craig T. Kikuchi
Chief Financial Officer

David E. Roode
Senior Vice President

Moyra E. MacKay
Vice President and Corporate Secretary

Lorne J. Zeiler
Vice President

Jessica Leung
Controller

Ann P. Wong
Controller

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Assistant Vice President

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Custodian

RBC Dexia Investor Services Trust

Auditors

PricewaterhouseCoopers LLP

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