BROMPTON FUNDS

Flaherty & Crumrine
INVESTMENT GRADE
FIXED INCOME FUND

FFI.UN

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

Management Report of Fund Performance

August 14, 2008

This interim management report of fund performance for Flaherty & Crumrine Investment Grade Fixed Income Fund (the "Fund") contains financial highlights but does not contain either the interim or annual 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 your request, at no cost, by calling 866-642-6001 or by sending a request to Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, P.O. Box 793, Toronto, Ontario, M5J 2T3, or by visiting our website at www.bromptongroup.com or SEDAR at www.sedar.com.

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

The Fund

Flaherty & Crumrine Investment Grade Fixed Income Fund is a closed-end investment trust managed by Brompton Funds Management Limited (the "Manager"). The units of the Fund trade on the Toronto Stock Exchange ("TSX") under the symbol FFI.UN. Flaherty & Crumrine Incorporated (the "Portfolio Manager") is a leading specialist in managing preferred and debt securities, and it manages the Fund's portfolio. For a more detailed description of Flaherty & Crumrine and 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 and RESP eligible.

Investment Objectives and Strategies

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

Risks

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

Recent Developments

Negative Impact of "Credit Crunch"

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

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

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

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 ("Published NAV"), which is exempted from the application of Canadian Institute of Chartered Accountants ("CICA") Section 3855, except for the figures presented in the Net Asset Value per Unit table, which can be found under Financial Highlights. In accordance with National Instrument ("NI") 81-106, the figures in this table must be derived from the financial statements ("GAAP NAV").

Results of Operations

Distributions

The following table provides, on a per unit basis, an approximate breakdown of the components which affected cash flow available for distribution for the six months ended June 30, 2008 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, 2008	Since Inception[1]
Revenues	$ **1.15**	$ 7.86
Expenses		
Management and Portfolio Manager fees	**(0.09)**	(0.82)
Other expenses	**(0.05)**	(0.35)
Interest and bank charges	**(0.21)**	(1.98)
Total expenses	**(0.35)**	(3.15)
Net investment income	**0.80**	4.71
Add: Management and Portfolio Manager fees paid in units	**—**	0.54
Cash flow available for distribution	**0.80**	5.25
Distributions to unitholders	**(0.75)**	(5.41)
Cash flow available for distributions in excess of (less than) distributions	$ **0.05**	$ (0.16)

[1] Period from December 15, 2004 (commencement of operations) to June 30, 2008.

For the period ended June 30, 2008, the cash flow available for distribution exceeded distributions paid to unitholders by $0.05 per unit, mainly due to lower interest rates, which reduced the interest costs of the Fund.

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

The Fund has a distribution reinvestment plan which allows participating unitholders to automatically reinvest monthly distributions in additional units of the Fund. For the period ended June 30, 2008, 2,182 units were acquired in the market pursuant to this plan at an average price of $15.91 per unit and no units were issued from treasury.

Changes in Net Asset Value

From December 31, 2007 to June 30, 2008, the net asset value per unit decreased from $17.41 per unit to $14.67 per unit, a decline of 15.7%. 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

	Six Months Ended June 30, 2008	Since Inception[1]
Opening NAV	**$ 17.41**	$ 23.63
Losses on portfolio investments[2]	**(2.79)**	(7.01)
Cost of safety net hedge	**(0.04)**	(1.16)
Cash flow available for distributions in excess of (less than) distributions	**0.05**	(0.16)
Cost of foreign exchange hedge	**(0.03)**	(0.15)
Reduction from management fees being paid in units	**—**	(0.54)
Reimbursement of overpayment of 2007 redemption	**0.07**	0.07
Rounding/timing adjustments	**—**	(0.01)
Total change	**(2.74)**	(8.96)
Closing NAV	**$ 14.67**	$ 14.67

(1) Period from December 15, 2004 (commencement of operations) to June 30, 2008.

(2) Excludes the impact of foreign exchange, which is included in the foreign exchange hedge.

The decline in the net asset value per unit of the Fund during the first half of 2008 was a consequence of the continuation of the "credit crunch" in the US. The value of the Fund's portfolio investments decreased (including net realized and unrealized gains) during the period by approximately $2.79 per unit. The Fund's portfolio has not suffered any credit losses and the decline in its value is largely attributable to the increasing credit spreads. The Fund will benefit from future credit spread compression that may occur.

During the period, the safety net hedge incurred a cost to the Fund of approximately $0.04 per unit. Interest rates on 30-year US Treasury bonds declined in the period. Consequently, the safety net hedge option contracts provided no benefit during this period and were a cost to the Fund.

The Fund has a hedging program in place for the Fund's foreign exchange risk. This has protected the Fund from the weakening US dollar since the Fund's inception. For the six-month period in 2008, the Fund incurred a cost of $0.03 per unit under the hedging strategy.

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

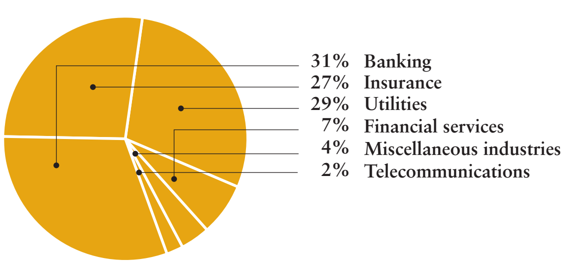
As a result of the Fund being provided with an incorrect valuation, the redemption price paid to investors who redeemed their units in November 2007 was more than if the correct net asset value had been used. The Fund was therefore reimbursed $0.07 per unit in 2008 for the amount of overpayment made.

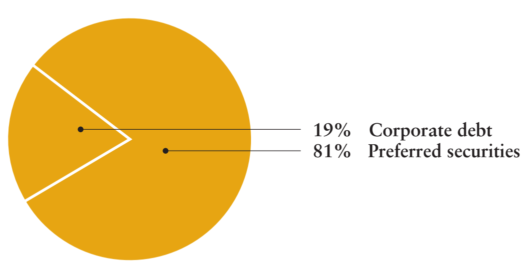
Although the net asset value per unit has declined by about $8.96 since inception, it is important for unitholders to remember that they have received $5.41 per unit in cash distributions over this period.

Investment Portfolio

All securities purchased by the Fund are rated investment grade at the time of investment. The portfolio is well diversified with 62 issues. The breakdown of the portfolio is shown in the accompanying pie charts. The Fund's credit quality remains investment grade and its units are currently rated P-2f by S&P.

Portfolio Sectors





Credit Quality
As at June 30, 2008, the Fund invested in debt and preferred securities with the following credit ratings. Credit ratings are obtained from S&P and Moody's.

Portfolio by Rating Category	% of Portfolio
AA	**1%**
A	**11%**
BBB	**73%**
Below BBB	**15%**
Total	**100%**

Hedging Strategies

Foreign Exchange Hedge
Units of the Fund are purchased and valued in Canadian dollars, but the Fund invests in US dollar denominated fixed income securities. Substantially all of the US dollar foreign exchange exposure of the Fund's portfolio is hedged by the Fund to the Canadian dollar at all times. As at June 30, 2008, about two-thirds of the portfolio was hedged using a combination of forward contracts with maturity dates of September 2008, November 2008 and November 2009, at approximately 18%, 41% and 41%, respectively, and the balance of the portfolio was hedged through the Fund's US dollar borrowings.

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

The second purpose of the safety net hedge is to generate additional income following a rapid increase in long-term interest rates. This can be achieved by investing realized gains from the put options in additional income-producing securities.

Liquidity and Capital Resources
As of June 30, 2008, the Fund had total borrowings of $52.2 million (US$51.5 million), which represented 41.9% of total assets, or 73.0% 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, 2008, the minimum and maximum amounts of borrowings were $51.3 million and $60.8 million, respectively.

To provide liquidity, units of the Fund are listed on the TSX under the symbol FFI.UN. The Fund's normal course issuer bid allows it to purchase its units on the TSX for cancellation if they trade below net asset value per unit. As a result, purchases under the issuer bid are accretive to the net asset value per unit of the Fund. A total of 129,300 units were purchased in the six months ended June 30, 2008, under this program at an average price of $15.67 per unit. Investors may also redeem their units annually, in November, in accordance with the Fund's redemption provisions. In the first half of 2008, units of the Fund traded at an average discount to their net asset value of 4.2%.

Related Party Transactions

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

Management Fees

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.35% per annum of the Published NAV of the Fund, plus applicable taxes. All of the management fee is used by the Manager to cover its general administration expenses and for profit. In addition, Flaherty & Crumrine Incorporated, the Portfolio Manager of the Fund, and Brompton Capital Advisors Inc. are entitled to receive an additional fee equal to 0.70% per annum of the Published NAV, plus applicable taxes. These fees may be paid in cash or units. To the extent that units are issued from treasury for this purpose, they are issued at the Published NAV per unit. During the six-month period ended June 30, 2008, 2,969 units were issued for payment of these fees.

The Fund also pays to the Manager a service fee equal to 0.30% per annum of the net asset value of the Fund. The service fee is in turn paid by the Manager to the investment dealers in proportion to the number of units held by clients of such dealers at the end of each calendar quarter. For the period ended June 30, 2008, $0.4 million ($0.09 per unit) was paid in management and advisory fees and $0.1 million ($0.02 per unit) was paid in service fees.

Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help readers understand the Fund's financial performance for the fiscal periods indicated. This information is derived from the Fund's audited annual 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 asset value per unit.* The increase (decrease) in net assets from operations is based on average units outstanding during the period, and all other numbers are based on actual units outstanding at the relevant point in time.

Net Asset Value per Unit

	For the Six Months Ended June 30, 2008	For the Year Ended December 31 2007	2006	2005	2004[1]
Net asset value, beginning of period/year[2][3]	**$ 17.34**	$ 22.01	$ 22.35	$ 23.23	$ 23.63
Increase (decrease) from operations:[4]					
Total revenue	**1.15**	2.24	2.30	2.14	0.07
Total expenses	**(0.35)**	(0.99)	(1.01)	(0.81)	(0.04)
Realized loss for the period/year	**(2.03)**	(0.04)	(0.34)	(0.11)	(0.11)
Unrealized gain (loss) for the period/year	**(0.83)**	(4.25)	0.29	(0.55)	(0.32)
Total increase (decrease) in net assets from operations	**$ (2.06)**	$ (3.04)	$ 1.24	$ 0.67	$ (0.40)
Distributions to unitholders:[3]					
From net investment income	**$ N/A[5]**	$ 0.84	$ 1.09	$ 0.22	$ —
From net realized gain on investments	**N/A[5]**	—	—	0.82	—
Return of capital	**N/A[5]**	0.66	0.44	0.59	—
Total distributions to unitholders	**$ 0.75**	$ 1.50	$ 1.53	$ 1.63	$ —
Net asset value, end of period/year[2]	**$ 14.60**	$ 17.34	$ 22.08	$ 22.35	$ 23.23

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

(2) The net asset value per unit from the beginning of 2007 is the GAAP NAV. The net asset value per unit for prior periods is based on the prior period financial statements and has not been adjusted for the new accounting standards adopted in 2007.

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

(4) The increase (decrease) in net assets from operations is based on the weighted average number of units outstanding over the fiscal period. Net asset value per unit and distributions per unit are based on the actual number of units outstanding at the relevant time.

(5) Allocations for the period ended June 30, 2008 are not determinable until year end.

Ratios and Supplemental Data (Based on Published NAV)

	June 30, 2008	December 31 2007	2006	2005	2004[1]
Net assets (in 000s)	**$ 71,532**	$ 87,061	$ 174,138	$ 268,420	$ 345,726
Number of units outstanding (in 000s)	**4,875**	5,001	7,886	12,011	14,882
Management expense ratio ("MER")[2]	**4.22%**	4.75%	4.47%	3.45%	9.21%
Portfolio turnover rate[3]	**28.06%**	82.01%	73.24%	131.75%	N/A
Trading expense ratio[4]	**0.02%**	0.04%	0.08%	0.12%	N/A
Closing market price	**$ 14.14**	$ 16.14	$ 22.37	$ 21.40	$ 24.95

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

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

(3) 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.

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

Expense Ratio

The MER of the Fund was 4.22% in the first half of 2008, compared to 4.75% the previous year, primarily due to a fall in LIBOR rates. The MER is exaggerated by the inclusion of interest expense on borrowings used to purchase additional portfolio investments to increase the distributions of the Fund.

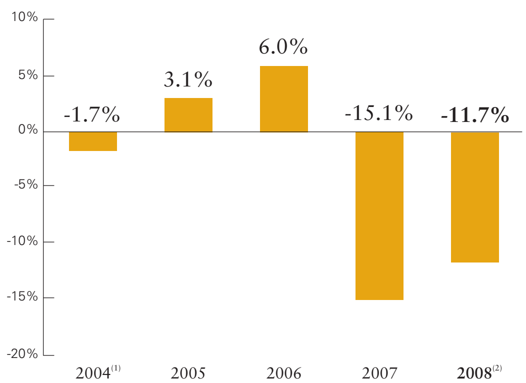
Excluding interest expenses and issuance costs, the MER was 1.68% for the period ending June 30, 2008, up from 1.58% in 2007. This latter MER is more representative of the ongoing efficiency of the administration of the Fund. The increase is due to the increased burden of fixed costs on the lower average 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 Published NAV per unit and assumes that distributions made by the Fund on its units in the periods shown were reinvested (at Published NAV per unit) in additional units of the Fund.

The bar chart shows the Fund's return for the six-month period ended June 30, 2008 and for each year since inception. 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, 2008 to June 30, 2008.

The following table shows the Fund's compound return for the six-month period ended June 30, 2008, and annual compound return since inception, 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, 2008	Since Inception[1]
Flaherty & Crumrine Investment Grade Fixed Income Fund[2]	**(11.7%)**	(5.9%)
Merrill Lynch Hybrid Preferred Securities Index	**(1.5%)**	(2.0%)

(1) Period from December 15, 2004 (commencement of operations) to June 30, 2008.

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

The Fund experienced further negative returns in the first half of 2008, as the fallout from the subprime mortgages and credit crunch in the US continued to affect the preferred securities market. Many US financial firms (banks, insurers and other financial services companies) issued new equity, including new preferred securities to increase capital against asset write-downs. New US preferred security issues, which totaled over $90 billion during the period, were issued at yields well above market, placing downward pressure on pricing of preferred securities, and resulted in a negative return for the Fund and the Merrill Lynch Index.

During the period, the Fund underperformed the Merrill Lynch Index due to significant losses concentrated in a small number of issuers, such as Ambac Financial and CIT, which were exacerbated by the Fund's strategy of employing leverage. These issuers, along with the portfolio as a whole, remain investment grade, and the Portfolio Manager remains comfortable with their credit quality and believes the pricing of these securities may correct upwards, along with the preferred securities market as a whole, when calm begins to return to the US market. Until that time, investors are being paid a high level of monthly income to wait. The costs of Fund administration as represented by the MER and the safety net hedge strategy also affect the Fund's performance relative to the Merrill Lynch Index.

As a result of the credit crunch and its ancillary effects on the hybrid preferred market, the costs of Fund administration and the Fund's strategy of employing leverage, the Fund has experienced a negative return since inception and has underperformed the Merrill Lynch Index.

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

Summary of Investment Portfolio

As at June 30, 2008

Total Published NAV	$ 71,532,209

Portfolio Composition	% of Portfolio	% of Published NAV
Preferred securities:		
Banking	30.1%	51.7%
Utilities	23.4%	40.3%
Insurance	21.0%	36.1%
Financial services	7.0%	12.1%
Telecommunication	1.8%	3.0%
	83.3%	143.2%
Corporate debt:		
Insurance	5.7%	9.7%
Utilities	4.8%	8.2%
Miscellaneous industries	4.4%	7.6%
Real estate investment trusts	0.3%	0.5%
Banking	0.2%	0.4%
Telecommunications	0.2%	0.3%
	15.6%	26.7%
Cash and short-term investments	2.4%	4.1%
Options	0.1%	0.1%
Currency forward contracts	(1.4%)	(2.3%)
Total investment portfolio	100.0%	171.8%
Other net liabilities		(71.8%)
Total net asset value		100.0%

Top 25 Holdings	% of Portfolio	% of Published NAV
PECO Energy Capital Trust IV, *5.75% June 15, 2033 Capital Security*	7.0%	11.9%
Liberty Mutual Insurance Co., *7.697% October 15, 2097*	5.6%	9.4%
AON Capital Trust A, *8.205% January 1, 2027 Capital Security*	4.5%	7.6%
First Empire Capital Trust II, *8.277% June 1, 2027 Capital Security*	4.2%	7.1%
Southern Union Company, *8.25% November 15, 2029*	3.9%	6.5%
CalEnergy Capital Trust III, *6.5% Pfd.*	3.9%	6.5%
Axis Capital Holdings Limited, *7.50% Pfd.*	3.7%	6.1%
Comerica Capital Trust II, *6.576% Capital Securities*	3.4%	5.7%
National City Preferred Capital Trust I, *12% Pfd.*	3.3%	5.4%
Everest Reinsurance Holdings Inc., *6.6% May 15, 2067*	3.2%	5.3%
Constellation Energy Group Inc., *8.625% due June 15, 2068*	3.2%	5.3%
Enbridge Energy Partners L.P., *8.05% due October 1, 2037*	2.8%	4.6%
Dominion Resources Capital Trust I, *7.83%, December 1, 2027*	2.8%	4.6%
Banco Santander, *6.8% Pfd.*	2.6%	4.3%
Delphi Financial Group, Inc., *7.376% May 15, 2037*	2.6%	4.2%
Cash and short-term investments	2.5%	4.1%
Sovereign Capital Trust VI, *7.908% June 13, 2036*	2.4%	4.0%
MetLife Capital Trust X, *9.25% due April 8, 2038*	2.3%	3.8%
Capital One Capital III, *7.686% August 15, 2036*	2.3%	3.8%
Schwab Capital Trust I, *7.5% due November 15, 2037*	2.0%	3.2%
Pulte Homes Inc., *6.375% May 15, 2033*	2.0%	3.2%
Banco Santander, *6.5% Pfd.*	1.9%	3.1%
Centaur Funding Corp., *9.08% April 21, 2020*	1.9%	3.0%
CIT Group, Inc., *6.1% March 15, 2067*	1.9%	3.0%
Wachovia Corp., *7.98% Pfd.*	1.8%	2.9%

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

FC Flaherty & Crumrine Incorporated

Portfolio Manager's Report

The market for preferred securities remains extraordinarily turbulent as weakness in the US economy and fallout from the dramatic decline of the US housing market continue to put downward pressure on portfolio valuations. Over long periods of time, the relationship between US dollar preferred security prices and prices of various other types of US dollar fixed income instruments has swung dramatically. However, as of this writing, preferred prices are as low relative to other fixed income market levels as at any time in memory.

While we can't be certain when this trend will reverse, there is little doubt that it eventually will – whenever an asset class gets too cheap, buyers always emerge. This pattern of weakness and recovery is familiar. And, while the recent period of weakness has been relatively long and dramatic, we believe that the financial companies impacted are taking the difficult steps necessary to restore confidence and create a healthy recovery.

As a general observation, the Fund is performing much like the broader US financial markets. While the investment performance has been negative for the entire portfolio, the worst performing positions are concentrated in the financials sector, which comprised 63% of the portfolio as of June 30, 2008. Someone unfamiliar with the Fund may wonder why we own *any* financial positions. Remember, since over 80% of the preferred securities universe is comprised of financial issuers, owning only preferred securities of non-financial issuers is not a viable option. With 37% of its assets in non-financial issuers, the Fund does own a disproportionately large percentage of non-financials, but it would not be possible to avoid financials and still maintain a diversified portfolio of quality holdings.

It became apparent some time ago that most financial companies (banks, brokers, insurance companies and the housing agencies) would be hurt by the US subprime mortgage crisis. The Fund had no direct exposure to subprime mortgages. Moreover, we tried to avoid companies that aggressively participated in the mortgage market, making huge (implicit or explicit) bets that housing prices would continue to rise. However, the collateral damage from the subprime implosion has been widespread and touched almost every financial company in the portfolio. In our opinion, every credit currently in the Fund is a viable going concern. But several of them are facing tremendous challenges, fixing problems of their own doing, as well as dealing with circumstances beyond their control.

It has become commonplace now for these companies to write down the value of assets on their balance sheet, and when these write-downs become large enough, to raise new capital. Often the new capital comes from selling preferred securities. Financial companies have issued over US$90 billion of preferred securities since the beginning of the year, typically with dividend or interest rates well above those available in the market (for perspective, these new issues have increased the size of the preferred market by over 25%). This is a staggering amount of new issue supply in a relatively short period of time, and, as a result, the prices of most preferred issues have fallen.

Recently, several financial companies sold common stock rather than preferred securities to replace capital depleted by write-downs. This is certainly a positive trend – common stock is the cushion below preferred, so the more there is the better. Although companies generally don't like to sell common stock (management typically thinks the market undervalues its shares), more and more are biting the bullet. We believe the steps taken by the financial companies currently in the portfolio will enable them to successfully weather the current credit storm.

Even the Fund's non-financial investments have been impacted by the weakness in financials. The higher yields now available on financial issues have induced some investors to sell holdings in non-financial credits. So, while on the whole non-financial preferred securities have outperformed those of financial issuers, their returns have still been disappointing.

The Fund's interest rate hedging strategy has had little impact on the Fund this year because it does not provide protection against the recent experience where the prices of long-term US Treasury bonds have remained relatively flat, while preferred security prices have declined dramatically. (Recall that the interest rate hedge is only designed to protect against substantial increases in yields on long-term US Treasury bonds or similar investments.) However, because of the present wide divergence between the prices of US Treasury bonds and preferred securities, it's appropriate to maintain the interest rate hedge.

Again, preferred security prices are not only *historically* valued lower relative to US Treasury bonds, but also compared with US corporate and municipal obligations. While the timing of any price recovery of preferred securities to other US fixed income instruments is uncertain, eventually it will occur. In the meantime, the Fund will continue to deliver a high level of current income.

Forward-Looking Statements

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

Statements of Net Assets (Unaudited)

As at	June 30, 2008	Dec. 31, 2007
Assets		
Investments, at market value[1]	$ 121,190,493	$ 140,451,962
Option contracts purchased, at market value (note 10)	98,284	131,851
Cash and short-term investments	2,899,179	4,174,743
Amounts receivable for investments sold	277,102	—
Income receivable	1,507,671	1,521,132
Total assets	125,972,729	146,279,688
Liabilities		
Unrealized loss on forward contracts (note 9)	1,680,227	40,534
Accounts payable and accrued liabilities	331,435	420,840
Distributions payable to unitholders (note 6)	609,331	625,160
Loans payable (note 11)	52,198,527	58,476,935
Total liabilities	54,819,520	59,563,469
Unitholders' equity		
Unitholders' capital (note 4)	114,874,439	117,876,946
Contributed surplus (note 4)	26,923,445	25,575,686
Deficit	(70,644,675)	(56,736,413)
Net assets representing unitholders' equity	$ 71,153,209	$ 86,716,219
Units outstanding (note 4)	4,874,648	5,001,279
Net asset value per unit	$ 14.60	$ 17.34

(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 Deficit (Unaudited)

For the six months ended June 30	2008	2007
Income		
Dividends (net of withholding taxes of nil; 2007 – $31,748)	$ 1,730,706	$ 3,780,974
Interest income	3,936,040	5,152,058
	5,666,746	8,933,032
Expenses		
Advisor fees (note 7)	243,450	604,689
Management fees (note 7)	190,243	323,558
Service fees (note 7)	113,205	251,937
Audit fees	16,904	16,152
Director and independent review committee fees	14,959	21,323
Trustee fees	6,000	11,275
Custodial fees	11,020	18,480
Legal fees	2,645	25,823
Unitholder reporting costs	21,441	4,907
Other administrative expenses	63,330	60,176
Interest and bank charges (note 11)	1,037,304	2,673,597
	1,720,501	4,011,917
Net investment income	3,946,245	4,921,115
Net realized loss on investments and foreign currency transactions (note 8)	(9,330,266)	(289,799)
Transaction costs (note 2)	(8,633)	(35,715)
Net realized gain (loss) on forward contracts and options (note 8)	(729,882)	629,498
Net change in unrealized gain/loss on investments and foreign currency transactions	(2,100,604)	(21,258,722)
Net change in unrealized gain/loss on forward contracts and options (notes 9 & 10)	(1,983,611)	13,393,710
Decrease in net assets from operations	(10,206,751)	(2,639,913)
Deficit, beginning of period	(56,736,413)	(22,938,574)
Distributions to unitholders (note 6)	(3,701,511)	(5,869,304)
Deficit, end of period	$ (70,644,675)	$ (31,447,791)
Decrease in net assets from operations per unit[1]	$ (2.06)	$ (0.34)

(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	2008	2007
Cash flows from operating activities:		
Decrease in net assets from operations	$ (10,206,751)	$ (2,639,913)
Adjustments to reconcile net cash provided by (used in) operations:		
Net realized (gain) loss on sale of investments, options and foreign currency transactions	9,591,543	(384,957)
Net change in unrealized gain/loss on investments and foreign currency transactions	2,114,774	21,257,033
Net change in unrealized gain/loss on forward contracts and options	1,983,611	(13,393,710)
Decrease (increase) in income receivable	13,461	467,308
Increase (decrease) in accounts payable and accrued liabilities, net of management fees and advisor fees paid in units	(37,722)	831,724
Purchase of investments (note 8)	(37,872,556)	(137,593,960)
Proceeds from sale of investments (note 8)	46,361,866	139,762,998
Cash provided by operating activities	11,948,226	8,306,523
Cash flows from financing activities:		
Increase (decrease) in loans payable	(7,800,019)	585,784
Distributions paid to unitholders (note 6)	(3,717,340)	(5,883,943)
Amounts paid for redemption and repurchase of units (note 4)	(1,706,431)	(3,368,831)
Cash used in financing activities	(13,223,790)	(8,666,990)
Net decrease in cash and short-term investments	(1,275,564)	(360,467)
Cash and short-term investments, beginning of period	4,174,743	638,627
Cash and short-term investments, end of period	$ 2,899,179	$ 278,160
Supplemental information:		
Interest paid	$ 1,133,120	$ 2,692,118

Statements of Changes in Net Assets (Unaudited)

For the six months ended June 30	2008	2007
Net assets, beginning of period (note 3)	$ 86,716,219	$ 173,545,456
Operations:		
Decrease in net assets from operations	(10,206,751)	(2,639,913)
Unitholder transactions:		
Distributions to unitholders (note 6)	(3,701,511)	(5,869,304)
Proceeds from issuance of units (note 4)	51,683	872,953
Redemption and repurchase of units (note 4)	(1,706,431)	(3,368,831)
Total unitholder transactions	(5,356,259)	(8,365,182)
Net decrease in net assets	(15,563,010)	(11,005,095)
Net assets, end of period	$ 71,153,209	$ 162,540,361
Distributions per unit (note 6)	$ 0.7500	$ 0.7500

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

Statement of Investments (Unaudited)

As at June 30, 2008		Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
Shares/Par Value US$	**Preferred Securities**					
	Banking					
$ 1,000,000	Astoria Capital Trust I, *9.75% November 1, 2029 Capital Security, Series B*	$ 1,170,000	$ 1,346,840	$ 1,034,400	$ 1,049,449	
136,950	Banco Santander, *6.8% Pfd.*	3,423,750	3,870,568	2,992,357	3,035,892	
104,800	Banco Santander, *6.5% Pfd.*	2,615,600	3,047,675	2,190,320	2,222,186	
22,000	Barclays Bank PLC, *8.125% Pfd.*	550,000	558,444	540,981	548,851	
$ 3,338,000	Capital One Capital III, *7.686% August 15, 2036*	3,378,881	3,719,839	2,670,868	2,709,725	
47,600	Citigroup Capital VIII, *6.95% Pfd.*	1,193,106	1,380,391	947,240	961,021	
117,500	Citizens Funding Trust I, *7.5% Pfd.*	2,943,625	3,296,959	1,245,500	1,263,620	
$ 6,360,000	Comerica Capital Trust II, *6.576% Capital Securities*	5,974,307	6,622,097	4,005,020	4,063,287	
$ 5,000,000	First Empire Capital Trust II, *8.277% June 1, 2027 Capital Security*	5,471,800	6,765,080	4,996,550	5,069,243	
$ 745,000	First Midwest Capital Trust I, *6.95% December 1, 2033 Capital Security*	817,012	1,010,565	579,349	587,778	
$ 2,000,000	First Tennessee Capital Trust I, *8.07% due January 6, 2027*	2,065,000	2,063,349	1,501,680	1,523,527	
$ 75,000	First Union Capital II, *7.85% January 1, 2027 Capital Security*	78,666	92,032	72,987	74,049	
7,200	KeyCorp Capital X, *8% March 15, 2068*	167,035	170,109	113,400	115,050	
$ 4,000,000	National City Preferred Capital Trust I, *12% Pfd.*	4,000,000	4,111,419	3,814,960	3,870,462	
$ 1,750,000	Regions Financing Trust II, *6.625% May 15, 2047*	1,689,953	1,862,090	1,196,143	1,213,545	
14,400	Sovereign Capital Trust V, *7.75% December 31, 2036*	365,760	407,473	271,584	275,535	
$ 3,500,000	Sovereign Capital Trust VI, *7.908% June 13, 2036*	3,524,609	3,443,829	2,795,696	2,836,369	
$ 2,200,000	Wachovia Corp., *7.98% Pfd.*	2,200,000	2,215,174	2,020,480	2,049,875	
$ 4,250,000	Washington Mutual Preferred Funding (Cayman) I Ltd., *6.534% March 15, 2011*	4,229,401	4,878,808	1,887,086	1,914,540	
$ 1,200,000	Webster Capital Trust IV, *7.65% June 15, 2037*	1,196,064	1,276,142	778,692	790,021	
$ 650,000	Wells Fargo Capital XIII, *7.7% Pfd.*	650,000	654,358	646,133	655,533	
		47,704,569	**52,793,241**	**36,301,426**	**36,829,558**	**30.5%**
	Financial Services					
35,700	Cabco – Goldman, *6% Series GS*	874,650	1,072,848	715,785	726,199	
$ 4,625,000	CIT Group, Inc., *6.1% March 15, 2067*	3,854,864	4,202,799	2,126,390	2,157,326	
47,100	Corporate Backed Trust Certificates Goldman Sachs Capital I, *6% Series 2004-4*	1,139,820	1,314,671	885,481	898,363	
82,450	Corporate Backed Trust Certificates, *6.3% Series GS*	2,081,863	2,553,618	1,743,818	1,769,188	
33,500	Morgan Stanley Capital Trust III, *6.25% Pfd.*	633,059	627,880	603,335	612,113	
9,100	Morgan Stanley Capital Trust IV, *6.25% due April 1, 2033*	178,471	177,884	161,525	163,875	
$ 2,500,000	Schwab Capital Trust I, *7.5% due November 15, 2037*	2,495,575	2,496,199	2,262,675	2,295,594	
		11,258,302	**12,445,899**	**8,499,009**	**8,622,658**	**7.1%**
	Insurance					
$ 3,925,000	Ambac Financial Group, Inc., *6.15% February 15, 2037*	3,233,087	3,316,742	630,041	639,207	
$ 5,455,000	AON Capital Trust A, *8.205% January 1, 2027 Capital Security*	6,089,672	7,165,614	5,329,535	5,407,072	
69,750	Arch Capital Group Ltd., *8% Pfd.*	1,798,599	2,076,851	1,611,923	1,635,374	
19,089	Axis Capital Holdings Limited, *7.25% Pfd.*	465,625	540,895	400,869	406,701	
90,845	Axis Capital Holdings Limited, *7.50% Pfd.*	5,202,856	5,896,285	4,301,131	4,363,706	
160,000	Delphi Financial Group, Inc., *7.376% May 15, 2037*	3,824,250	4,124,838	2,948,800	2,991,701	
$ 5,250,000	Everest Reinsurance Holdings Inc., *6.6% May 15, 2067*	5,156,660	5,727,158	3,745,665	3,800,159	
$ 650,000	MetLife Capital Trust IV, *7.875% due December 15, 2032*	650,247	652,623	636,994	646,261	
$ 2,500,000	MetLife Capital Trust X, *9.25% due April 8, 2038*	2,500,000	2,578,622	2,692,000	2,731,165	
$ 2,000,000	PartnerRe Finance II Inc., *6.44% due December 1, 2066*	1,675,000	1,653,309	1,588,740	1,611,854	
12,500	RenaissanceRe Holding, *6.60% Pfd.*	264,798	273,189	236,625	240,068	
$ 1,000,000	USF & G Capital, *8.312% due July 1, 2046*	1,193,560	1,296,503	1,057,840	1,073,230	
7,100	W.R. Berkley Capital Trust II, *6.75% Pfd.*	175,092	204,856	154,638	156,888	
		32,229,446	**35,507,485**	**25,334,801**	**25,703,386**	**21.2%**
	Telecommunications					
2,176	Centaur Funding Corp., *9.08% April 21, 2020*	2,494,643	2,817,801	2,143,360	2,174,543	
		2,494,643	**2,817,801**	**2,143,360**	**2,174,543**	**1.8%**
	Utilities					
100,000	CalEnergy Capital Trust III, *6.5% Pfd.*	4,864,850	5,353,159	4,550,000	4,616,196	
$ 1,900,000	Commonwealth Edison Co., *6.35% March 15, 2033*	1,952,630	2,382,505	1,499,537	1,521,353	
150,000	Constellation Energy Group Inc., *8.625% due June 15, 2068*	3,750,000	3,820,877	3,733,500	3,787,817	
$ 3,268,000	Dominion Resources Capital Trust I, *7.83%, December 1, 2027*	3,431,410	3,889,684	3,234,569	3,281,627	
$ 1,670,000	Dominion Resources Inc., *7.5% due June 30, 2066*	1,598,075	1,592,921	1,553,734	1,576,339	
$ 3,500,000	Enbridge Energy Partners L.P., *8.05% due October 1, 2037*	3,334,908	3,348,500	3,256,715	3,304,096	
$ 10,140,000	PECO Energy Capital Trust IV, *5.75% June 15, 2033 Capital Security*	9,910,532	12,116,601	8,343,394	8,464,779	
$ 250,000	Union Electric Co., *7.69% due December 15, 2036*	257,500	282,684	258,165	261,921	
$ 1,950,000	Wisconsin Energy Corp., *6.25% May 15, 2067*	1,944,607	2,151,265	1,677,273	1,701,675	
10,000	Xcel Energy Inc., *7.6% due January 1, 2068*	246,000	244,869	245,700	249,275	
		31,290,512	**35,183,065**	**28,352,587**	**28,765,078**	**23.7%**
	Total Preferred Securities	**$ 124,977,472**	**$ 138,747,491**	**$ 100,631,183**	**$ 102,095,223**	**84.3%**

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

Statement of Investments (Unaudited) (continued)

Shares/Par Value US$	As at June 30, 2008	Cost (USD)	Cost (CAD)	Fair Value (USD)	Fair Value (CAD)	% of Portfolio
	Corporate Debt Securities					
	Banking					
14,000	Colonial BancGroup Inc., *8.875% due March 15, 2038*	$ 340,900	$ 338,396	$ 251,440	$ 255,098	
		340,900	**338,396**	**251,440**	**255,098**	**0.2%**
	Insurance					
$ 300,000	Liberty Mutual Insurance Co., *7.8% March 15, 2037*	255,344	268,314	239,511	242,996	
$ 7,774,000	Liberty Mutual Insurance Co., *7.697% October 15, 2097*	7,918,484	9,097,159	6,596,006	6,691,968	
		8,173,828	**9,365,473**	**6,835,517**	**6,934,964**	**5.7%**
	Real Estate Investment Trust					
$ 500,000	Realty Income Corp., *5.875% March 15, 2035, Senior Unsecured Notes*	484,320	583,265	386,605	392,230	
		484,320	**583,265**	**386,605**	**392,230**	**0.3%**
	Telecommunications					
13,500	Corporate Backed Trust Certificates, *7% Sprint Capital Note-Backed Series 2003-17*	338,175	381,210	217,755	220,923	
		338,175	**381,210**	**217,755**	**220,923**	**0.2%**
	Utilities					
$ 1,230,000	Southern Union Company, *7.6% February 1, 2024*	1,315,731	1,501,308	1,215,214	1,232,894	
$ 4,343,000	Southern Union Company, *8.25% November 15, 2029*	5,474,086	6,781,667	4,575,308	4,641,872	
		6,789,817	**8,282,975**	**5,790,522**	**5,874,766**	**4.8%**
	Miscellaneous Industries					
$ 2,170,000	Pulte Homes Inc., *7.875% June 15, 2032*	2,344,477	2,660,581	1,855,350	1,882,343	
$ 2,880,000	Pulte Homes Inc., *6.375% May 15, 2033*	2,773,369	3,347,736	2,232,001	2,264,473	
67,507	Pulte Homes Inc., *7.375% June 1, 2046*	1,665,036	1,853,233	1,252,254	1,270,473	
		6,782,882	**7,861,550**	**5,339,605**	**5,417,289**	**4.5%**
	Total Corporate Debt Securities	**$ 22,909,922**	**$ 26,812,869**	**$ 18,821,444**	**$ 19,095,270**	**15.7%**
	Embedded Broker Commission (note 2)	(33,501)	(33,988)	—	—	
	Total	**$ 147,853,893**	**$ 165,526,372**	**$ 119,452,627**	**$ 121,190,493**	**100.0%**

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

Notes to the Financial Statements (Unaudited)

June 30, 2008 and 2007

1. OPERATIONS

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

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 December 31, 2007 annual audited financial statements.

a) Adoption of New Accounting Standards

Section 3862 – Financial Instruments – Disclosures

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

Section 3863 – Financial Instruments – Presentation

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

Section 3855 – Financial Instruments – Recognition and Measurement

Effective January 1, 2007, the Fund adopted CICA Section 3855, "Financial Instruments – Recognition and Measurement," which establishes standards for the fair valuation of investments as well as the accounting treatment of transaction costs. For investments that are traded in an active market where quoted prices are readily and regularly available, Section 3855 requires that bid prices (for investments held) and ask prices (for investments sold short) be used in determining the fair value of investments. Prior to the adoption of this new standard, fair value was commonly based on the closing price of an investment for the day. For financial reporting purposes, on January 1, 2007, the Fund adopted the amended valuation policy for actively traded securities held by the Fund without retroactive restatement of prior periods. The impact of the initial adoption of the valuation policy on January 1, 2007 has been disclosed in note 3.

Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of investments by the Fund be expensed in the period incurred. Prior to the adoption of Section 3855, transaction costs were capitalized and included in the cost of purchases or proceeds from sale of investments.

Section 1535 – Capital Disclosures

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

b) Valuation of Investments

Investments are deemed held for trading in accordance with Section 3855 and Accounting Guideline 18. The Fund's investments are valued at estimated fair value. Investments held long that are publicly traded are valued at their bid prices on the valuation date. Investments with no available bid price are valued at their closing price. Short-term investments and bonds are valued at the average bid quotations from recognized investment dealers. The cost of investments is based on their average cost.

c) Cash and Short-term Investments

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

d) Investment Transactions and Income Recognition

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

Option premiums paid or received by the Fund are, so long as the options are outstanding, reflected as an asset or liability, respectively, in the Statement of Net Assets and are valued at an amount equal to the current market value of an option that would have the effect of closing the position. Gains or losses realized upon expiration, repurchase or exercise of the option are included in net realized gains or losses on options.

e) Transaction Costs

Transaction costs, such as brokerage commissions incurred in the purchase and sale of securities, are expensed and are recognized in the Statement of Operations and Deficit.

f) Foreign Currency Forward Contracts

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

g) Foreign Exchange

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

h) Fair Value of Financial Instruments

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

i) Securities Lending

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

j) Other Assets and Liabilities

For the purposes of categorization in accordance with Section 3862, income receivable and amounts receivable for investments sold are designated as loans and receivables and recorded at cost or amortized cost. Similarly, accounts payable and accrued liabilities, distributions payable to unitholders and loans payable are designated as financial liabilities and reported at cost or amortized cost. Cost or amortized cost approximates fair value for these assets and liabilities due to their short-term nature.

k) Recent Accounting Pronouncements

The Canadian Accounting Standards Board ("AcSB") has confirmed its plan to adopt all International Financial Reporting Standards, 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 International Financial Reporting Standards.

l) Comparative Figures

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

3. RECONCILIATION OF NET ASSET VALUE

As a result of the adoption of Section 3855 on January 1, 2007, and in accordance with a decision dated September 28, 2006 by the Canadian securities regulatory authorities, an adjustment was required to the opening net asset value of the Fund, between the net asset value for financial reporting purposes (the "GAAP NAV") and the net asset value for reporting other than in the financial statements (the "Published NAV").

The decrease to the net asset value and increase in the deficit as at January 1, 2007 as a result of applying Section 3855 was $592,670. The reconciliation of net asset value is as follows:

	June 30, 2008		Dec. 31, 2007	
	Net Asset Value	**Net Asset Value per Unit**	Net Asset Value	Net Asset Value per Unit
Published NAV	**$ 71,532,209**	**$ 14.67**	$ 87,060,816	$ 17.41
Section 3855 adjustment	**(379,000)**	**(0.07)**	(344,597)	(0.07)
GAAP NAV	**$ 71,153,209**	**$ 14.60**	$ 86,716,219	$ 17.34

4. UNITS OF THE FUND

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

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

For the six months ended June 30, 2008, the Fund issued 2,969 (2007 – 39,260) units in respect of its management and advisor fees.

Notes to the Financial Statements (Unaudited) (continued)

Units may also be tendered for redemption at the option of unitholders at least 10 business days prior to the second last business day of each month, except for the month of November. Unitholders whose units are redeemed will receive a redemption price per unit equal to the lesser of (i) 96% of the weighted average trading price of the units for the ten trading days preceding the redemption date; and (ii) 100% of the closing market price of the units less associated costs of the redemption, including brokerage costs. For the six months ended June 30, 2008, 300 (2007 – 2,800) units were redeemed using the monthly redemption option at an average of $15.54 (2007 – $20.96) per unit.

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid program for the period from December 22, 2007 to December 21, 2008, which allows the Fund to purchase up to 500,400 units for cancellation. The Fund may only repurchase units when the Published NAV per unit exceeds its trading price. For the six months ended June 30, 2008, 129,300 units (2007 – 154,000) were purchased for cancellation.

As at June 30, 2008, the Fund had accumulated contributed surplus of $26,923,445 (2007 – $25,575,686). Contributed surplus is recorded when units of the Fund are redeemed or repurchased at prices per unit which are below the average cost per unit of unitholders' capital.

The weighted average number of units for the six months ended June 30, 2008 was 4,946,315 (2007 – 7,832,989).

5. CAPITAL MANAGEMENT

The Fund's objectives in managing its capital are to provide unitholders with a stable stream of monthly distributions, to mitigate the impact of significant and rapid long-term interest rate increases on the value of the portfolio through the use of the safety net hedge, 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.

6. DISTRIBUTIONS TO UNITHOLDERS

Distributions, as declared by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month. The distributions are payable by the tenth business day of the following month. For the six months ended June 30, 2008, the Fund declared total distributions of $0.7500 (2007 – $0.7500) per unit, which amounted to $3,701,511 (2007 – $5,869,304). 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, 2008, no units (2007 – 430) were issued by the Fund pursuant to the reinvestment plan.

7. MANAGEMENT, ADVISOR AND SERVICE FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.35% per annum of the Published NAV of the Fund, plus applicable taxes. The management fee may be paid in cash or units at the option of the Manager. To the extent that units are issued from treasury for this purpose, they will be issued at the Published NAV per unit. Flaherty & Crumrine Incorporated, the Portfolio Manager for the Fund, and Brompton Capital Advisors Inc. are entitled to receive an aggregate fee equal to 0.70% per annum of the Published NAV, plus applicable taxes. Both fees are calculated and payable monthly. For the six months ended June 30, 2008, 2,969 (2007 – 27,728) units were issued for the payment of advisor fees. The Fund also pays to the Manager a service fee equal to 0.30% per annum of the Published NAV of the Fund. The service fee is in turn paid by the Manager to the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter.

8. INVESTMENT TRANSACTIONS

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

	2008	2007
Proceeds from sale of investments and options	**$ 46,638,968**	$ 139,762,998
Less cost of investments sold:		
Investments and options at cost, beginning of period	**184,135,656**	276,259,169
Investments and options purchased during the period	**37,872,556**	137,788,882
Investments and options at cost, end of period	**(166,016,452)**	(267,024,902)
Cost of investments and options sold during the period	**55,991,760**	147,023,149
Net realized loss on sale of investment portfolio	**$ (9,352,792)**	$ (7,260,151)

Brokerage commissions on investments purchased and sold during the period ended June 30, 2008 amounted to $8,633 (2007 – $35,715). For the periods ended June 30, 2008 and 2007, there were no soft dollar amounts paid.

9. FOREIGN CURRENCY FORWARD CONTRACTS

The Fund uses foreign currency forward contracts to hedge foreign exchange risks associated with its US dollar investment portfolio. During the six months ended June 30, 2008, the Fund realized losses in the amount of $602,406 (2007 – gain of $492,050) on the close-out of certain contracts.

At June 30, 2008, the Fund had entered into the following foreign currency forward contracts with a Canadian chartered bank with an Aa2 rating:

Canadian Dollars Purchased	US Dollars Sold	Delivery Date	Forward Rate (USD/CAD)	Unrealized Gain (Loss)
$ 13,697,775	$ (13,500,000)	September 2008	$ 0.98556	$ (12,198)
31,011,896	(31,400,000)	November 19, 2008	1.01251	(882,682)
31,180,200	(31,400,000)	November 19, 2009	1.00704	(785,347)
$ 75,889,871	$ (76,300,000)			$ (1,680,227)

As at December 31, 2007

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

10. OPTION CONTRACTS

The Fund 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, 2008, 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	Fair Value
30-year T-bond futures	150	Put	September 2008	$ 112	$ 1.1200	$ 155,515	$ 66,580
30-year T-bond futures	400	Put	September 2008	108	0.8100	334,565	31,704
						$ 490,080	$ 98,284

As at December 31, 2007

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

11. LOANS PAYABLE

Pursuant to an agreement with a Canadian chartered bank, the Fund maintains a 364-day renewable revolving credit facility. The revolving credit facility provides for maximum borrowings of $3.3 million for working capital purposes under one tranche and US$62.5 million under the second tranche for investment purposes. Both tranches may be availed at the prime rate of interest, the bankers' acceptance rate plus a fixed percentage, the LIBOR rate plus a fixed percentage or by US base rate borrowings. At June 30, 2008, the Fund had a US dollar loan equivalent to $52.2 million (US$51.5 million) outstanding under this facility. During the six months ended June 30, 2008, the Fund realized a foreign exchange loss in the amount of $238,751 (2007 – gain of $7,645,108) on the repayment of borrowings in US dollars, and borrowings in US dollars had an unrealized foreign exchange gain of $606,991 (2007 – gain of $311,767). 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, 2008, the minimum and maximum amounts of borrowings were $51.3 million (2007 – $86.6 million) and $60.8 million (2007 – $100.0 million), respectively.

12. SECURITIES LENDING

The Fund entered into a securities lending program in August 2006 with its custodian, RBC Dexia Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or the United States Government or its agencies, or a permitted supranational agency as defined in NI 81-102. There were no securities on loan as at June 30, 2008 and 2007.

Notes to the Financial Statements (Unaudited) (continued)

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, 2008, and groups the securities by asset type and market segment. Significant risks that are relevant to the Fund are discussed below.

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

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

a) Interest Rate Risk

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

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

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

	Less than 1 Year	1–3 Years	3–5 Years	> 5 Years	Total
Preferred securities and corporate debt	$ —	$ 1,914,540	$ —	$ 119,275,953	$ 121,190,493
Option contracts	98,284	—	—	—	98,284
Loans payable	52,198,527	—	—	—	52,198,527

As at June 30, 2008, had prevailing interest rates increased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, net assets would have decreased by approximately $5.8 million or 8.2%. 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 $9.4 million or 13.3% of net asset value. The Fund's sensitivity to interest rate changes was estimated using the weighted average duration of the portfolio and the impact on annual interest expense for the loans payable. In practice, the actual trading results may differ, and the difference could be material.

b) Currency Risk

Currency risk is the risk that 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, 2008, the Fund's exposure to US dollar currency was substantially hedged through its US dollar denominated foreign currency forward contracts and loans.

c) Credit Risk

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

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

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

The Fund restricts its exposure to credit losses on the foreign currency forward contracts and option contracts purchased by entering into master netting arrangements with a counterparty. Master netting arrangements do not result in an offset of statements of balance sheet assets and liabilities as transactions are usually settled on a gross basis.

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

Portfolio by Rating Category	% of Portfolio
AA	**1%**
A	**11%**
BBB	**73%**
Below BBB	**15%**
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. The amount involved in monthly redemptions has been minimal. 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

Independent Review Committee

James W. Davie, BComm, MBA

Arthur R.A. Scace, QC, CM

Ken S. Woolner, BSc, PEng

Directors and Officers

Peter A. Braaten, BA, MBA
Director

Raymond R. Pether, BA, MBA
Director

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

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

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

Moyra E. MacKay, BA
Vice President and Corporate Secretary

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

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

Christopher Cullen, BASc, MBA, CFA
Vice President

Janet R. Toffolo
Assistant Vice President

Continuous Disclosure Manager

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

Trustee

Computershare Trust Company of Canada

Custodian

RBC Dexia Investor Services Trust

Auditors

PricewaterhouseCoopers LLP

Banker

Royal Bank of Canada

Website

www.bromptongroup.com

BROMPTON FUNDS

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

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