2009 ANNUAL REPORT

BROMPTON FUNDS

VALUE

INTEGRITY

PERFORMANCE

- the foundation for excellence

FFI.UN, FFI.WT.A

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

Management Report of Fund Performance

March 11, 2010

This annual management report of fund performance for Flaherty & Crumrine Investment Grade Fixed Income Fund (the "Fund") contains financial highlights but does not contain the audited annual financial statements of the Fund. The audited annual financial statements follow this report. You may obtain a copy of the interim or annual financial statements, at no cost, by calling 866-642-6001 or by sending a request to Investor Relations, Brompton Funds, Bay Wellington Tower, Brookfield Place, 181 Bay Street, Suite 2930, P.O. Box 793, Toronto, Ontario, M5J 2T3, or by visiting our website at www.bromptongroup.com or SEDAR at www.sedar.com. Unitholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, independent review committee's report, or quarterly portfolio disclosure.

In accordance with investment fund industry practice, all figures presented in this management report of fund performance are based on the Fund's calculation of its weekly Net Asset Value ("Net Asset Value"), which is exempted from the application of Canadian Institute of Chartered Accountants ("CICA") Section 3855, except for the figures presented in the Net Assets per Unit table, which can be found under Financial Highlights. In accordance with National Instrument ("NI") 81-106, the figures in this table must be derived from the financial statements.

The Fund

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

Investment Objectives and Strategies

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

The Fund suspended its safety net hedging strategy in November 2008, as the correlation between the Fund's portfolio and US Treasury bonds (the Fund's hedging instrument) declined substantially and the costs of employing the strategy increased significantly. The Fund did not reinstate the strategy in 2009 as correlations were very low throughout the year and hedging costs remained expensive.

Recent Developments

Warrants

February 2009 Issue

On February 10, 2009, the Fund issued 6.6 million warrants to unitholders on the basis of one warrant for each unit held, with each warrant entitling the holder to subscribe for one unit of the Fund at a subscription price of $6.65. By the closing date of the warrant offering on September 15, 2009, all the warrants were exercised, for gross proceeds of $43.8 million. The warrant offering was designed to provide the Fund with additional capital that can be used to take advantage of attractive investment opportunities, while also increasing the trading liquidity of the units and reducing the management expense ratio ("MER") of the Fund.

December 2009 Issue

On December 15, 2009, the Fund issued Class A warrants to unitholders on the basis of one-half of a Class A warrant for each unit held, with each Class A warrant entitling the holder to subscribe for one unit of the Fund at a subscription price of $9.07, if exercised before the expiry date of June 15, 2010. This offering remains open until the expiry date of June 15, 2010.

Risks

Risks associated with an investment in the units of the Fund are discussed in the Fund's 2009 annual information form, which is available on the Fund's website at www.bromptongroup.com or on SEDAR at www.sedar.com. A change to the Fund in 2009 that has materially affected the risks associated with an investment in the units of the Fund is set out below under Warrants.

Warrants

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

Results of Operations

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

Distributions

The following table provides, on a per unit basis, an approximate breakdown of the components which affected cash flow available for distribution for the year ended December 31, 2009 and since inception. These are approximate figures and are calculated using the weighted average number of units outstanding for the period.

	2009	Since Inception[1]
Revenues	$ **1.26**	$ 10.33
Expenses		
Management and Portfolio Manager fees	**(0.09)**	(0.97)
Other expenses	**(0.05)**	(0.44)
Interest and bank charges	**(0.08)**	(2.25)
Total expenses	**(0.22)**	(3.66)
Net investment income	**1.04**	6.67
Add: Management and Portfolio Manager fees paid in units	**—**	0.54
Cash flow available for distribution	**1.04**	7.21
Distributions to unitholders	**(1.22)**	(7.38)
Cash flow available for distributions in excess of (less than) distributions	$ **(0.18)**	$ (0.17)

[1] Period from December 15, 2004 (commencement of operations) to December 31, 2009.

During the year ended December 31, 2009, net investment income was less than the amount distributed to unitholders. In April, the Manager announced a reduction in the distribution rate from $0.125 to $0.11 per unit per month, as the cash flow available for distribution declined due to fewer income-producing securities in the portfolio, as the Portfolio Manager responded to the broad sell-off of US financial securities (particularly preferred securities) and sold portfolio investments in order to bring the Fund's level of leverage back within the targeted range.

In August, the distribution rate per unit was cut further, from $0.11 to $0.08. This reduction accounted for the anticipated effect of the exercise of the Fund's warrants in September 2009 and the reduction in cash flow available from the US dollar denominated income received by the Fund in light of the significant rise in the Canadian dollar. Based on the December 31, 2009 closing price of the Fund, the distribution rate of $0.08 represented a yield of 10.5% at year-end.

The Fund has a distribution reinvestment plan which allows participating unitholders to automatically reinvest monthly distributions in additional units of the Fund. For the year ended December 31, 2009, 8,016 units were acquired in the market pursuant to this plan at an average price of $7.85 per unit.

Changes in Net Asset Value

During the year ended December 31, 2009, the basic Net Asset Value per unit increased by 39.3%, from $6.59 per unit to $9.18 per unit. Assuming all the outstanding warrants are exercised, the diluted Net Asset Value per unit would be $9.09. 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

	2009	Since Inception[1]
Opening Net Asset Value	$ 6.59	$ 23.63
Gains (losses) on portfolio investments[2]	3.99	(11.12)
Cost of the safety net hedge	—	(1.16)
Cash flow available for distributions in excess of (less than) distributions	(0.18)	(0.17)
Cost of foreign exchange hedge	(0.06)	(0.43)
Reduction from management fees being paid in units	—	(0.54)
Dilution due to exercise of warrants	(1.16)	(1.16)
Reimbursement of overpayment of 2007 redemption	—	0.07
Rounding/timing adjustments	—	0.06
Total change	2.59	(14.45)
Closing Net Asset Value – basic	9.18	9.18
Dilution impact – outstanding unexercised warrants	(0.09)	(0.09)
Closing Net Asset Value – diluted	$ 9.09	$ 9.09

[1] Period from December 15, 2004 (commencement of operations) to December 31, 2009.

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

The increase in the Net Asset Value per unit of the Fund during 2009 was due to improvement in the US, non-government fixed income securities market, which occurred largely during the second quarter. During the year, the value of the Fund's portfolio investments (including realized and unrealized gains) increased by approximately $3.99 per unit.

There were no costs associated with the safety net hedge during the period as the strategy was suspended by the Portfolio Manager in November 2008 in response to the market conditions, as discussed in the Investment Objectives and Strategies section.

The Fund has a hedging program in place for the Fund's foreign exchange risk. Substantially all of the US dollar foreign exchange exposure of the Fund's portfolio is hedged by the Fund to the Canadian dollar at all times. As of December 31, 2009, about two-thirds of the portfolio was hedged using forward contracts maturing in February, May and November 2010, and the balance of the portfolio was hedged through the Fund's US dollar borrowings. For the year ended December 31, 2009, the Fund incurred a cost of $0.06 per unit under the hedging strategy.

Investment Portfolio

All securities purchased by the Fund are rated investment grade at the time of investment. The portfolio is well diversified with 55 issues as of December 31, 2009. The breakdown of the portfolio is shown in the accompanying pie charts. The Portfolio Manager is comfortable with the credit quality of all the securities held in the portfolio. The Portfolio Manager believes that most securities included in the portfolio that are below investment grade offer significant upside potential and generally are underrated by the credit rating agencies. The Fund's credit quality remains investment grade and its units are currently rated P-2f by S&P.

Portfolio Sectors

Credit Quality

As of December 31, 2009, the Fund invested in debt and preferred securities with the following credit ratings. Credit ratings are obtained from Standard & Poor's and/or Moody's.

Portfolio by Rating Category

	% of Portfolio
AA	1%
A	9%
BBB	53%
BBB-	19%
Below BBB-	18%
	100%

Liquidity and Capital Resources

As of December 31, 2009, the Fund had total borrowings of $46.1 million, which represented 36.4% of total assets, or 58.1% of Net Asset Value. The rate paid on these borrowings is adjusted regularly based on the London Interbank Offered Rate ("LIBOR"). The borrowings have been used to invest in additional portfolio investments to enhance the distributions paid by the Fund. During the year ended December 31, 2009, the minimum and maximum amounts of borrowings were $23.2 million and $57.7 million, respectively. To provide liquidity, units and warrants of the Fund are listed on the TSX under the symbols FFI.UN and FFI.WT.A, respectively.

The Fund's normal course issuer bid program allows it to purchase its units on the TSX for cancellation if they trade below Net Asset Value per unit. As a result, purchases under the issuer bid are accretive to the Net Asset Value per unit of the Fund. A total of 172,100 units were purchased in the year ended December 31, 2009 under this program at an average price of $7.51 per unit. Investors may also redeem their units annually, in November, in accordance with the Fund's redemption provisions. During 2009, units of the Fund traded at an average premium to their diluted Net Asset Value per unit of 1.0%.

Related Party Transactions

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

Management Fees

Effective January 1, 2009, pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.30% per annum of the Net Asset Value of the Fund, plus applicable taxes. The management fee is used by the Manager to cover its costs to obtain the Fund's assets, the cost to administer the Fund, and for profit. Prior to January 1, 2009, the management fee was 0.35% per annum. In addition, Flaherty & Crumrine Incorporated, the Portfolio Manager of the Fund, and Brompton Capital Advisors Inc. ("BCAI") are entitled to receive an additional fee equal to 0.70% per annum of the Net Asset Value, plus applicable taxes. The Fund also pays to the Manager a service fee equal to 0.40% per annum of the Net Asset Value of the Fund. The service fee is in turn paid by the Manager to the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter. For the year ended December 31, 2009, $0.7 million was paid in management and advisory fees and $0.2 million was paid in service fees.

Financial Highlights

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

Net Assets per Unit[1]

For the years ended December 31	**2009**	2008	2007	2006	2005
Net Assets, beginning of year[2][3][4]	$ **6.55**	$ 17.34	$ 22.01	$ 22.35	$ 23.23
Increase (decrease) from operations[5]					
Total revenue	**1.23**	2.30	2.24	2.30	2.14
Total expenses	**(0.20)**	(0.57)	(0.99)	(1.01)	(0.81)
Realized gain (loss) for the year	**(0.66)**	(11.59)	(0.04)	(0.34)	(0.11)
Unrealized gain (loss) for the year	**4.68**	0.14	(4.25)	0.29	(0.55)
Total increase (decrease) in Net Assets from operations	$ **5.05**	$ (9.72)	$ (3.04)	$ 1.24	$ 0.67
Distributions to unitholders:[4]					
From net investment income	$ **0.73**	$ 1.05	$ 0.84	$ 1.09	$ 0.22
From net realized gain on investments	**—**	—	—	—	0.82
Return of capital	**0.49**	0.45	0.66	0.44	0.59
Total distributions to unitholders	$ **1.22**	$ 1.50	$ 1.50	$ 1.53	$ 1.63
Net Assets, end of year[2][3][4]	$ **9.09**	$ 6.55	$ 17.34	$ 22.08	$ 22.35

(1) This information is derived from the Fund's audited annual financial statements. The Net Assets per unit presented in the financial statements differs from the Net Asset Value calculated for weekly Net Asset Value purposes. The difference is primarily a result of investments being valued at bid prices for financial statement purposes and closing prices for weekly Net Asset Value purposes.

(2) Represents basic Net Assets per unit.

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

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

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

Ratios and Supplemental Data (Based on Net Asset Value)

As at December 31	2009	2008	2007	2006	2005
Net Asset Value (in 000s)	**$ 79,408**	$ 43,414	$ 87,061	$ 174,138	$ 268,420
Number of units outstanding (in 000s)	**8,655**	6,591	5,001	7,886	12,011
Management expense ratio ("MER")[(1)]	**2.93%**	4.17%	4.75%	4.47%	3.45%
Trading expense ratio[(2)]	**—**	0.01%	0.04%	0.08%	0.12%
Portfolio turnover rate[(3)]	**82.46%**	66.00%	82.01%	73.24%	131.75%
Net Asset Value per unit – basic	**$ 9.18**	$ 6.59	$ 17.41	$ 22.08	$ 22.35
Net Asset Value per unit – diluted	**$ 9.09**	$ N/A	$ N/A	$ N/A	$ N/A
Closing market price – units	**$ 9.18**	$ 6.32	$ 16.14	$ 22.37	$ 21.40
Closing market price – Class A warrants	**$ 0.11**	$ N/A	$ N/A	$ N/A	$ N/A

(1) MER is based on the requirements of NI 81-106 and includes the total expenses (excluding commissions and other portfolio transaction costs) of the Fund for the stated period, including interest expenses and issuance costs, and is expressed as an annualized percentage of the average Net Asset Value of the period.

(2) The trading expense ratio represents total commissions expressed as an annualized percentage of daily average Net Asset Value of the Fund during 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. Portfolio turnover rate is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period.

Expense Ratio

The MER of the Fund declined to 2.93% for the year ended December 31, 2009, down from 4.17% in 2008, primarily due to lower borrowing rates in 2009. 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.

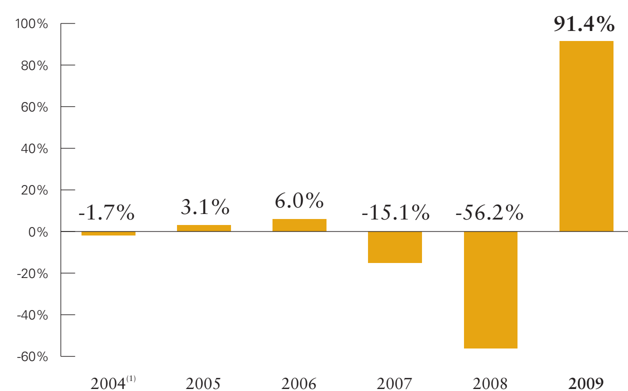
Excluding interest expenses and issuance costs of the warrants, the MER was 1.61% for 2009, down from 1.64% for 2008. This latter MER is more representative of the ongoing efficiency of the administration of the Fund.

Past Performance

The following chart and table show the past performance of the Fund. Past performance does not necessarily indicate how the Fund will perform in the future. The information shown is based on Net Asset Value per unit and assumes that cash distributions made by the Fund and deemed distributions based on the warrants' intrinsic value at the exercise date of the warrants in the periods shown were reinvested at Net Asset Value per unit in additional units of the Fund.

The bar chart shows the Fund's return for each year/period since inception to December 31, 2009. The chart shows, in percentage terms, how an investment held on the first day of each fiscal period would have changed by the last day of the fiscal period.

Year-by-Year Returns



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

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

Annual Compound Returns

	1 Year	3 Year	5 Year	Since Inception[1]
Flaherty & Crumrine Investment Grade Fixed Income Fund	91.4%	(10.7%)	(4.9%)	(5.2%)
Merrill Lynch Hybrid Preferred Securities Index	19.3%	(1.7%)	0.6%	0.7%

[1] Period from December 15, 2004 (commencement of operations) to December 31, 2009.

For the year ended December 31, 2009, the Fund provided an extremely high return of approximately 91.4%, significantly outperforming the Merrill Lynch Index, which provided a return of approximately 19.3% during the same period. Outperformance was due to careful security selection and the benefits of leverage, which enhances positive returns.

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

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

Summary of Investment Portfolio

As at December 31, 2009

Total Net Asset Value		$ 79,408,406
Portfolio Composition	**% of Portfolio**	**% of Net Asset Value**
Preferred securities:		
Insurance	38.8%	60.6%
Banking	35.4%	55.2%
Utilities	7.6%	11.8%
Financial services	4.9%	7.7%
Energy	3.3%	5.2%
	90.0%	140.5%
Corporate debt:		
Insurance	3.0%	4.6%
Miscellaneous industries	1.7%	2.7%
Financial services	1.1%	1.8%
Telecommunications	0.5%	0.7%
	6.3%	9.8%
Cash and short-term investments	3.7%	5.8%
Total investment portfolio	100.0%	156.1%
Currency forward contracts		1.5%
Other net liabilities		(57.6%)
Total Net Asset Value		100.0%

Top 25 Holdings	% of Portfolio	% of Net Asset Value
Axis Capital Holdings Limited *7.50% Pfd*	5.9%	9.3%
Comerica Capital Trust II *6.576% Capital Securities*	5.3%	8.4%
BB&T Capital Trust VI *9.6% Pfd*	4.9%	7.7%
PNC Preferred Funding Trust III *Pfd*	4.6%	7.2%
Dominion Resources Inc. *7.5%, due June 30, 2066*	4.1%	6.4%
Delphi Financial Group, Inc. *7.376% May 15, 2037*	4.0%	6.3%
Capital One Capital III *7.686% August 15, 2036*	3.9%	6.1%
Everest Reinsurance Holdings Inc. *6.6% May 15, 2067*	3.8%	6.0%
Cash and short-term investments	3.7%	5.8%
Enbridge Energy Partners L.P. *8.05%, due October 1, 2037*	3.3%	5.2%
Dominion Resources Capital Trust I *7.83%, December 1, 2027*	3.0%	4.7%
Liberty Mutual Insurance Co. *7.697% October 15, 2097*	3.0%	4.6%
MetLife Inc. *Variable rate, due August 15, 2039*	2.6%	4.1%
USF&G Capital I *8.5% December 15, 2045 Capital Security*	2.5%	3.9%
PartnerRe Finance II Inc. *6.44%, due December 1, 2066*	2.3%	3.6%
Aon Capital A *8.205%, due January 1, 2027*	2.2%	3.5%
Wells Fargo Capital XV *Variable rate Pfd*	2.2%	3.5%
Sovereign Capital Trust VI *7.908%, due June 13, 2036*	2.2%	3.4%
ACE Capital Trust II *9.7%, due April 1, 2030*	2.2%	3.4%
KeyCorp Capital X *Pfd*	2.1%	3.3%
AXA *Variable rate Series A Pfd*	2.1%	3.2%
XL Capital Ltd. *6.5% Pfd*	1.9%	3.0%
ZFS Finance (USA) Trust V *Variable rate, due May 9, 2037*	1.8%	2.8%
Wachovia Capital Trust I *7.64% Capital Security*	1.8%	2.8%
Pulte Homes Inc. *7.375% June 1, 2046*	1.7%	2.7%

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.

2009 Tax Information

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

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

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

The following table outlines the breakdown in the Fund's distributions declared in 2009 on a per unit basis.

Record Date	Payment Date	Return of Capital	Foreign Non-Business Income	Total Distribution
Jan. 30, 2009	Feb. 13, 2009	$ 0.05039	$ 0.07461	$ 0.125
Feb. 27, 2009	Mar. 13, 2009	0.05039	0.07461	0.125
Mar. 31, 2009	Apr. 15, 2009	0.05039	0.07461	0.125
Apr. 30, 2009	May 14, 2009	0.04434	0.06566	0.110
May 29, 2009	Jun. 12, 2009	0.04434	0.06566	0.110
Jun. 30, 2009	Jul. 15, 2009	0.04434	0.06566	0.110
Jul. 31, 2009	Aug. 17, 2009	0.04434	0.06566	0.110
Aug. 31, 2009	Sep. 15, 2009	0.03225	0.04775	0.080
Sep. 30, 2009	Oct. 15, 2009	0.03225	0.04775	0.080
Oct. 30, 2009	Nov. 13, 2009	0.03225	0.04775	0.080
Nov. 30, 2009	Dec. 14, 2009	0.03225	0.04775	0.080
Dec. 31, 2009	Jan. 15, 2010	0.03223	0.04777	0.080
Total		**$ 0.48976**	**$ 0.72524**	**$ 1.215**

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

Portfolio Manager

Flaherty & Crumrine Incorporated

Flaherty & Crumrine Incorporated is the oldest and most experienced firm specializing in preferred securities and has extensive additional experience in corporate debt instruments. The firm uses intensive credit analysis, thorough analysis of securities' terms and structures and active portfolio management, exploiting pricing inefficiencies in the fixed income markets to provide attractive rates of return on its funds.

Portfolio Manager's Report

Conditions in the US preferred securities market have improved markedly and the Fund's Net Asset Value has appreciated significantly since the historic lows of early last year. By late February 2009, prices of preferred securities had fallen to such a degree that the market was implicitly predicting that less than one-half of the issuers of preferred securities would survive.

The financial market recovery beginning in March was triggered by several events, including the US Treasury detailing its new financial assistance programs and reaffirming that its equity investment would rank *junior* to existing taxable preferred securities and *pari passu* with DRD-eligible preferred shareholders. These developments restored confidence in the preferred securities market, facilitating the restoration of private equity into these companies.

And while the severe economic downturn did claim its victims, the vast majority of companies appear to be on their way to recovery. By most measures, key aspects of the preferred market are returning to more normal levels: trading has improved, there has been a steady supply of new issues (almost 30 since last March, totaling over $16 billion), market participation appears widespread, and valuation levels appear more consistent with other market segments. Of course, the most important metric for determining a return to normal is price. In our opinion, prices on much of the universe of preferred securities remain attractive.

Although some new issues have been in exchange for older preferred securities, there has been substantial *net* new supply and investors appear to have an appetite for more. Another factor contributing to the rebound in the preferred market is the absence of alternative investments such as asset-backed securities, collateralized debt obligations and commercial mortgage-backed securities. Investors have returned to more traditional investments, like preferred securities, as the supply of "alternative" products has virtually disappeared.

Perceptions of credit quality have also improved. Bolstered by banks returning bailout funds to the US government, investor confidence is returning. In aggregate, US banks have repaid about $188 billion of the roughly $264 billion in preferred capital purchased from them by the US Treasury under the Troubled Asset Relief Program ("TARP"). This has turned out to be a significantly faster timetable for repayment than most market participants expected, and it highlights that (i) policies implemented to protect the US financial system were effective and (ii) the health of the US banking system is improving.

All of the US money-centre banks and most of the major trust banks have repaid their TARP capital. These institutions viewed repayment as important to their business. They believe that customers have a higher degree of confidence doing business – particularly when it involves counterparty risk – with a bank that has repaid the US Treasury.

On the other hand, most US regional and community banks have not yet repaid their TARP capital. That is not necessarily a bad thing for preferred investors. Although our assessment of their ability to repay TARP capital varies among regional and community banks, we believe that it is prudent for them to hold on to the capital at this time. While economic and financial conditions have improved, for many banks aggregate loan losses are still increasing. We expect loan losses to peak in 2010, but some geographic regions and loan categories (e.g., commercial real estate) are likely to turn around more slowly. Regional and community banks, particularly smaller ones, tend to have more geographic and, often, more loan-category concentration than larger money-centre banks, which makes them more exposed to those uncertainties.

If the economic recovery proceeds as expected and loan losses begin to trend down, we expect that most of the remaining banks will repay their TARP capital in 2010. This is certainly true for the larger regional banks held in the Fund's portfolio, which are beginning to see declines in loan delinquencies and in non-performing assets. While the smaller regional banks held by the Fund have completed sizeable secondary sales of their common stock, we don't anticipate them repaying their TARP capital until later in 2010. However, many banks not owned by the Fund with tough geographic footprints or concentrations of problem loans may not repay their TARP capital for several more years, and some will not survive at all.

As preferred investors, we care more about the quality of a bank's loan book, its business prospects, and the quantity and composition of its capital than whether or not it has repaid TARP. We are generally happy to see banks repay the US Treasury as long as they issue a meaningful amount of common equity to fund the repayment, which provides preferred security holders with additional coverage – something nearly all of the banks that have repaid TARP have done.

The market reacted positively to each announcement of TARP repayment, especially those of Bank of America and Citigroup. In addition to paying back the government, a number of banks raised new capital (common and preferred) in a sign that traditional financing sources are opening up again.

During the fourth quarter, the Fund reduced its allocation to utility preferreds. Because the utility industry's credit quality remained largely unaffected by the financial crisis and investors sought the perceived safety and diversification of this industry's securities, utilities had performed relatively well and had become expensive relative to other preferred market sectors. The Fund took advantage of this opportunity to reduce the Fund's commitment to utilities to only 8% of the total portfolio by quarter end.

In contrast, the Fund's commitment to both bank and insurance company preferreds was increased during the fourth quarter. Preferred securities issued by banks, which constitute the largest segment of the preferred securities market, increased to 39% of the Fund's investment portfolio as of December 31. Banks, as discussed above, have recovered to some extent from their distressed levels early last year. Preferred securities issued by insurance companies also comprise a sizeable segment of the preferred universe, and, during the fourth quarter, the Fund's investment in insurance company preferreds increased to 42% of its portfolio. The insurance industry itself has benefitted from the improved performance of its investments and very few natural catastrophes. A number of insurance companies repurchased a portion of their outstanding preferred securities in 2009; in turn, the market prices of the remaining securities rose substantially.

In recent months, national credit rating agencies, primarily Moody's, Standard & Poor's, and Fitch, have revised their methodology used to rate preferred securities, which resulted in a number of downgrades for certain preferred security holders. We rely primarily on our own research to evaluate credit quality, but the impact of public ratings can't be ignored. However, we were encouraged that, despite a number of downgrades, prices changed little, if at all, which demonstrates that confidence has returned to the preferred securities market.

In December, the Basel Committee on Banking Supervision proposed stricter guidelines for the way banks account for capital raised by issuing preferred securities. From our initial read of the proposed guidelines, it appears that, after a transition period, in order for banks to receive the most favorable regulatory treatment from preferred capital, the issues will have to look more like old-fashioned perpetual preferred stock. In addition, the US Congress is considering new regulations for financial institutions that will affect many of the issuers in the portfolios. Of course, we'll monitor these developments closely, but we are optimistic that these changes will be beneficial to preferred investors.

The preferred securities market, much like the broader stock and bond markets, took some severe hits during the financial crisis. We aren't surprised by the extent of the ongoing recovery, though the speed at which it has occurred has been greater than we anticipated. While some issuers of preferred securities, primarily financial companies, continue to face a difficult operating environment over the near term, the financial crisis appears to be behind us and the US federal government's actions provide assurance that the financial system will continue to function. Although preferred prices have recovered significantly since early March, they remain below long-term relationships, and we expect further recovery as market conditions continue to normalize.

The fact that the US government used preferred stock investments to provide capital to distressed companies is an indication of how important these securities are in the world of finance. Without preferred securities, the number of companies that failed during the financial crisis would likely have been far more significant.

Forward-Looking Statements

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

Management's Responsibility Statement

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

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

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

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

Signed

Mark A. Caranci
President and Chief Executive Officer
Brompton Funds Management Limited

Signed

Craig T. Kikuchi
Chief Financial Officer
Brompton Funds Management Limited

March 11, 2010

Auditors' Report

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

We have audited the statement of investments of Flaherty & Crumrine Investment Grade Fixed Income Fund (the "Fund") as at December 31, 2009, the statements of Net Assets as at December 31, 2009 and 2008 and the statements of operations and deficit, changes in Net Assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's Manager. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Fund's Manager, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations, changes in its Net Assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed

PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Toronto, Ontario

March 11, 2010

Statements of Net Assets

As at December 31	2009	2008
Assets		
Investments, at fair value[(1)]	**$ 118,626,329**	$ 81,760,684
Unrealized gain on forward contracts (note 10)	**1,223,383**	—
Cash and short-term investments	**4,523,046**	780,330
Income receivable	**1,505,996**	1,754,011
Total assets	**125,878,754**	84,295,025
Liabilities		
Unrealized loss on forward contracts (note 10)	**—**	12,459,874
Accounts payable and accrued liabilities	**361,063**	302,128
Distributions payable to unitholders (note 7)	**692,376**	784,950
Loans payable (note 11)	**46,127,396**	27,578,885
Total liabilities	**47,180,835**	41,125,837
Unitholders' equity		
Unitholders' capital (note 4)	**97,461,556**	105,628,577
Warrants (note 5)	**520,739**	—
Contributed surplus (note 4)	**58,891,531**	47,725,881
Deficit	**(78,175,907)**	(110,185,270)
Net Assets representing unitholders' equity	**$ 78,697,919**	$ 43,169,188
Units outstanding (note 4)	**8,654,700**	6,590,770
Net Assets per unit – basic (note 5)	**$ 9.09**	$ 6.55
Net Assets per unit – diluted (note 5)	**$ 9.04**	$ N/A

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

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

Signed

Peter A. Braaten
Director

Signed

Mark A. Caranci
Director

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

Statements of Operations and Deficit

For the years ended December 31	2009	2008
Income		
Dividends	$ 2,652,982	$ 3,007,985
Securities lending income (note 12)	469	—
Interest income	7,720,061	8,010,595
	10,373,512	11,018,580
Expenses		
Advisory fees (note 8)	463,908	457,545
Management fees (note 8)	218,409	241,845
Service fees (note 8)	191,534	170,706
Audit fees	27,110	24,003
Independent review committee fees	30,917	30,931
Trustee fees	12,600	14,324
Custodial fees	12,450	10,184
Legal fees	4,569	2,264
Unitholder reporting costs	31,642	32,095
Other administrative expenses	80,378	26,070
Interest and bank charges (note 11)	586,141	1,658,989
	1,659,658	2,668,956
Net investment income	8,713,854	8,349,624
Net realized loss on investments and foreign currency transactions (note 9)	(5,978,801)	(46,468,050)
Transaction costs (note 2)	(132)	(9,410)
Net realized gain (loss) on forward contracts (note 10)	426,955	(8,292,172)
Net change in unrealized gain/loss on investments and foreign currency transactions	30,497,066	7,635,018
Net change in unrealized gain/loss on forward contracts (note 10)	8,954,350	(7,642,555)
Increase (decrease) in Net Assets from operations	42,613,292	(46,427,545)
Deficit, beginning of year	(110,185,270)	(56,736,413)
Issuance costs on warrants (note 5)	(132,888)	—
Issuance of Class A warrants, net (note 5)	(670,739)	—
Distributions to unitholders (note 7)	(9,800,302)	(7,021,312)
Deficit, end of year	$ (78,175,907)	$(110,185,270)
Increase (decrease) in Net Assets from operations per unit – basic (note 5)[1]	$ 5.05	$ (9.70)
Increase (decrease) in Net Assets from operations per unit – diluted (note 5)[1]	$ 5.05	$ N/A

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

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

Statements of Cash Flows

For the years ended December 31	2009	2008
Cash flows from operating activities:		
Increase (decrease) in Net Assets from operations	**$ 42,613,292**	$ (46,427,545)
Adjustments to reconcile net cash provided by (used in) operations		
(2008 – net of effects of acquisition of Flaherty & Crumrine Investment Grade Preferred Fund):		
Net realized loss on sale of investments, options and foreign currency transactions	**5,341,904**	48,551,178
Net change in unrealized gain/loss on investments and foreign currency transactions	**(30,540,024)**	(7,619,131)
Net change in unrealized gain/loss on forward contracts	**(13,683,257)**	7,642,555
Decrease in income receivable	**248,015**	500,049
Increase (decrease) in accounts payable and accrued liabilities, net of management fees and advisory fees paid in units	**80,180**	(346,559)
Purchase of investments and options (note 9)	**(99,932,935)**	(38,877,234)
Proceeds from sale of investments and options (note 9)	**85,411,241**	102,605,472
Cash provided by (used in) operating activities	**(10,461,584)**	66,028,785
Cash flows from financing activities:		
Issuance costs on warrants (note 5)	**(282,888)**	—
Issuance costs on units issued for merger (note 4)	**—**	(67,056)
Increase (decrease) in loans payable	**21,402,680**	(53,069,555)
Distributions paid to unitholders (note 7)	**(9,892,876)**	(7,189,246)
Repurchase of units (note 4)	**(1,291,844)**	(3,611,880)
Proceeds from distribution reinvestment plan (note 7)	**35,632**	14,771
Proceeds from issuance of units upon exercise of warrants (note 5)	**43,123,039**	—
Amounts paid for redemption of units (note 4)	**(38,889,443)**	(6,031,941)
Cash provided by (used in) financing activities	**14,204,300**	(69,954,907)
Cash flows from investing activities:		
Cash acquired from acquisition of Flaherty & Crumrine Investment Grade Preferred Fund (note 1)	**—**	531,709
Cash provided by investing activities	**—**	531,709
Net increase (decrease) in cash and short-term investments	**3,742,716**	(3,394,413)
Cash and short-term investments, beginning of year	**780,330**	4,174,743
Cash and short-term investments, end of year	**$ 4,523,046**	$ 780,330
Supplemental information:		
Interest paid	**$ 490,932**	$ 1,787,783

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

Statements of Changes in Net Assets

For the years ended December 31	2009	2008
Net Assets, beginning of year	**$ 43,169,188**	$ 86,716,219
Operations:		
Increase (decrease) in Net Assets from operations	**42,613,292**	(46,427,545)
Unitholder transactions:		
Distributions to unitholders (note 7)		
Net investment income	**(5,849,847)**	(4,827,854)
Return of capital	**(3,950,455)**	(2,193,458)
Total	**(9,800,302)**	(7,021,312)
Issuance costs on warrants (note 5)	**(282,888)**	—
Proceeds from issuance of units (note 4)	**—**	51,683
Issuance of units upon Fund merger, net (note 4)	**—**	19,479,193
Proceeds from issuance of units upon exercise of warrants (note 5)	**43,123,039**	—
Proceeds from distribution reinvestment plan (note 7)	**35,632**	14,771
Repurchase of units (note 4)	**(1,291,844)**	(3,611,880)
Redemption of units (note 4)	**(38,868,198)**	(6,031,941)
Total unitholder transactions	**(7,084,561)**	2,880,514
Net increase (decrease) in Net Assets	**35,528,731**	(43,547,031)
Net Assets, end of year	**$ 78,697,919**	$ 43,169,188
Distributions per unit (note 7)	**$ 1.2150**	$ 1.5000

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

STATEMENT OF INVESTMENTS

As at December 31, 2009

Shares/Par Value US$	Preferred Securities	Cost (USD)	Cost (CDN)	Fair Value (USD)	Fair Value (CDN)	% of Portfolio
	Banking					
$ 1,750,000	Astoria Capital Trust I, *9.75% November 1, 2029 Capital Security, Series B*	$ 1,732,597	$ 2,019,669	$ 1,807,820	$ 1,895,228	
40,000	Barclays Bank PLC, *8.125% Pfd Series V*	930,000	985,890	990,000	1,037,866	
$ 1,000,000	Barclays Bank PLC, *6.278% Pfd Series I*	745,000	796,595	739,380	775,129	
203,905	BB&T Capital Trust VI, *9.6% Pfd.*	5,284,810	5,690,133	5,772,550	6,051,652	
$ 5,000,000	Capital One Capital III, *7.686% August 15, 2036*	3,794,377	4,246,118	4,600,000	4,822,410	
$ 7,810,000	Comerica Capital Trust II, *6.576% Capital Securities*	5,868,527	6,634,276	6,247,999	6,550,090	
$ 500,000	Cooperative Centrale Raiffeisen-Boerenleenbank B.A., *variable rate Pfd*	500,000	547,897	609,625	639,100	
$ 1,000,000	Fifth Third Capital Trust IV, *variable rate due April 15, 2037*	602,500	673,388	725,000	760,054	
$ 2,000,000	First Tennessee Capital Trust I, *8.07% due January 6, 2027*	1,682,832	1,770,403	1,619,619	1,697,928	
$ 75,000	First Union Capital II, *7.85% January 1, 2027 Capital Security*	78,666	92,032	71,036	74,471	
$ 500,000	First Union Capital II, *7.95% due November 15, 2029 Series A*	435,302	514,562	485,815	509,304	
$ 1,268,000	HSBC USA Capital Trust II, *8.38% due May 15, 2027*	1,210,940	1,299,585	1,210,991	1,269,542	
113,800	KeyCorp Capital X, *Pfd.*	2,387,306	2,609,877	2,524,084	2,646,123	
10,400	KeyCorp Capital VIII, *7% Pfd.*	214,240	224,117	205,400	215,331	
$ 5,295,000	PNC Preferred Funding Trust III, *Pfd.*	4,007,563	4,545,089	5,421,868	5,684,015	
$ 3,000,000	Sovereign Capital Trust VI, *7.908% due June 13, 2036*	2,220,000	2,537,027	2,580,660	2,705,435	
$ 2,250,000	Wachovia Capital Trust I, *7.64% Capital Security*	1,980,000	2,145,527	2,127,330	2,230,186	
$ 5,150,000	Washington Mutual Preferred Funding (Cayman) I Ltd., *6.534% March 15, 2011*	4,230,121	4,879,689	6,180	6,479	
$ 500,000	Washington Mutual Preferred Funding Trust IV, *9.75% Pfd.*	400	490	7,500	7,863	
$ 1,900,000	Webster Capital Trust IV, *7.65% due June 15, 2037*	1,448,782	1,585,670	1,197,000	1,254,875	
$ 2,445,000	Wells Fargo Capital XV, *variable rate Pfd.*	2,483,356	2,658,149	2,616,150	2,742,641	
		41,837,319	**46,456,183**	**41,566,007**	**43,575,722**	**36.7%**
	Energy					
$ 4,200,000	Enbridge Energy Partners L.P., *8.05% due October 1, 2037*	3,152,312	3,476,941	3,904,572	4,093,358	
		3,152,312	**3,476,941**	**3,904,572**	**4,093,358**	**3.5%**
	Financial Services					
$ 1,457,000	Ameriprise Financial Inc., *7.518% due June 1, 2066*	1,138,665	1,224,414	1,282,160	1,344,152	
29,000	Cabco – Goldman, *6% Series GS*	710,500	871,501	623,790	653,950	
53,300	Corporate Backed Trust Certificates Goldman Sachs Capital I, *6% Series 2004-4*	1,142,890	1,331,563	1,111,838	1,165,595	
82,450	Corporate Backed Trust Certificates, *6.3% Series GS*	2,081,863	2,553,618	1,802,357	1,889,501	
$ 1,000,000	Schwab Capital Trust I, *variable rate Pfd.*	870,000	941,345	968,840	1,015,683	
		5,943,918	**6,922,441**	**5,788,985**	**6,068,881**	**5.1%**
	Insurance					
$ 2,269,000	ACE Capital Trust II, *9.7% due April 1, 2030*	1,951,340	2,117,293	2,548,132	2,671,334	
$ 2,580,000	Aon Capital A, *8.205% due January 1, 2027*	2,457,450	2,637,570	2,618,700	2,745,314	
20,863	Arch Capital Group Ltd., *8% Pfd.*	518,566	602,600	521,993	547,231	
2,500	Arch Capital Group Ltd., *7.875% Pfd.*	53,000	61,149	62,275	65,286	
$ 3,100,000	AXA, *variable rate Series A Pfd.*	1,732,500	2,006,864	2,402,500	2,518,661	
$ 600,000	AXA, *variable rate Series B Pfd.*	243,600	294,940	480,000	503,208	
90,445	Axis Capital Holdings Limited, *7.50% Pfd.*	7,958,463	9,299,796	7,015,468	7,354,666	
267,500	Delphi Financial Group, Inc., *7.376% May 15, 2037*	5,099,888	5,692,416	4,734,750	4,963,675	
$ 6,080,000	Everest Reinsurance Holdings Inc., *6.6% May 15, 2067*	4,379,491	4,923,148	4,438,399	4,652,996	
$ 500,000	Great-West Life & Annuity Insurance Capital LP II, *variable rate Pfd.*	415,000	441,828	440,000	461,274	
$ 1,500,000	Liberty Mutual Group Inc., *variable rate Series C due June 15, 2058*	1,097,500	1,275,514	1,590,000	1,666,876	
$ 2,000,000	MetLife Capital Trust IV, *7.875% Pfd.*	1,860,000	1,971,780	1,990,000	2,086,216	
$ 1,000,000	MetLife Capital Trust X, *variable rate due April 8, 2038*	759,583	868,432	1,130,000	1,184,635	
$ 2,500,000	MetLife Inc., *variable rate due August 15, 2039*	2,497,957	2,887,325	3,078,575	3,227,424	
$ 3,910,000	PartnerRe Finance II Inc., *6.44% due December 1, 2066*	2,473,127	2,619,450	2,725,504	2,857,282	
82,500	RenaissanceRe Holding, *6.08% Pfd, Series C*	1,269,675	1,555,098	1,600,500	1,677,884	
$ 3,120,000	USF&G Capital I, *8.5% December 15, 2045 Capital Security*	2,969,039	3,636,478	2,909,711	3,050,396	
$ 1,000,000	USF&G Capital, *8.312% due July 1, 2046*	1,193,560	1,296,502	912,760	956,892	
$ 3,000,000	XL Capital Ltd, *6.5% Pfd.*	1,923,437	2,091,514	2,265,000	2,374,513	
$ 2,500,000	ZFS Finance (USA) Trust V, *variable rate due May 9, 2037*	2,006,250	2,145,378	2,112,500	2,214,639	
		42,859,426	**48,425,075**	**45,576,767**	**47,780,402**	**40.3%**
	Utilities					
12,000	Constellation Energy Group Inc., *8.625% due June 15, 2068*	228,000	279,254	309,960	324,947	
$ 3,519,000	Dominion Resources Capital Trust I, *7.83%, December 1, 2027*	3,528,066	4,052,772	3,524,982	3,695,415	
$ 5,000,000	Dominion Resources Inc., *7.5% due June 30, 2066*	3,882,265	4,182,176	4,850,000	5,084,497	
$ 250,000	Union Electric Co., *7.69% due December 15, 2036*	257,500	282,684	237,745	249,240	
		7,895,831	**8,796,886**	**8,922,687**	**9,354,099**	**7.9%**
	Total Preferred Securities	**$101,688,806**	**$114,077,526**	**$105,759,018**	**$110,872,462**	**93.5%**

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

Statement of Investments (continued)

Shares/Par Value US$	As at December 31, 2009	Cost (USD)	Cost (CDN)	Fair Value (USD)	Fair Value (CDN)	% of Portfolio
	Corporate Debt Securities					
	Financial Services					
64,600	SATURNS Goldman Sachs Group, Inc. *Debenture Backed Series 2004-2, 5.75%*	$ 956,080	$ 1,171,007	$ 1,324,300	$ 1,388,330	
		956,080	**1,171,007**	**1,324,300**	**1,388,330**	**1.2%**
	Insurance					
$ 4,070,000	Liberty Mutual Insurance Co., *7.697% October 15, 2097*	3,692,549	4,289,477	3,484,042	3,652,495	
		3,692,549	**4,289,477**	**3,484,042**	**3,652,495**	**3.0%**
	Telecommunications					
30,000	Corporate Backed Trust Certificates, *7% Sprint Capital Note-Backed Series 2003-17*	474,300	547,936	525,300	550,698	
		474,300	**547,936**	**525,300**	**550,698**	**0.5%**
	Miscellaneous Industries					
110,953	Pulte Homes Inc., *7.375% June 1, 2046*	2,218,972	2,531,694	2,062,616	2,162,344	
		2,218,972	**2,531,694**	**2,062,616**	**2,162,344**	**1.8%**
	Total Corporate Debt Securities	**$ 7,341,901**	**$ 8,540,114**	**$ 7,396,258**	**$ 7,753,867**	**6.5%**
	Embedded Broker Commission (note 2)	(9,178)	(9,622)	—	—	
	Total	**$109,021,529**	**$122,608,018**	**$113,155,276**	**$118,626,329**	**100.0%**

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

Notes to the Financial Statements

December 31, 2009 and 2008

1. OPERATIONS

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

At a special meeting held on December 1, 2008, unitholders of Flaherty & Crumrine Investment Grade Preferred Fund ("FAC") approved an extraordinary resolution to merge FAC into the Fund. On December 31, 2008, the Fund issued 2,934,959 units to the unitholders of FAC.

The following table summarizes the fair values of assets acquired and liabilities assumed.

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Adoption of New Accounting Standards

Basis of Fair Value Measurement

Effective January 1, 2009, the Fund adopted the amendments to Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, "Financial Instruments – Disclosures," which require additional disclosure about the estimated fair value of financial instruments.

The amendments to Section 3862 require the Fund to classify its investments and derivative assets/liabilities into three categories based on the nature of the inputs used to determine their fair value. The categories and the nature of the inputs used in each category are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgement or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

EIC-173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

On January 20, 2009, the Canadian Accounting Standards Board ("AcSB") issued Emerging Issues Committee Abstract 173: Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 supplements CICA Handbook Section 3855 wherein it states that fair value takes into account the credit quality of a financial instrument. The EIC affirms that an entity's own credit risk (in the case of financial liabilities) and a counterparty's credit risk (in the case of financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.

The Manager has reviewed its policies over valuation of assets and liabilities, and believes that the fair values ascribed to financial assets and financial liabilities in these financial statements incorporate appropriate levels of credit risk.

Notes to the Financial Statements (continued)

b) Valuation of Investments

Investments are deemed held for trading in accordance with Section 3855. The Fund's investments are valued at estimated fair value. Investments held long that are publicly traded are valued at their bid price 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. Securities for which quotations are not readily available are valued at their fair value primarily based on the results of valuation techniques using observable market inputs. The cost of investments is based on their average cost.

c) Cash and Short-term Investments

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

d) Investment Transactions and Income Recognition

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

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

e) Transaction Costs

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

f) Foreign Currency Forward Contracts

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

g) Income Taxes

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

h) Foreign Exchange

The fair 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. Investments and loan transactions, and income and expenses denominated in foreign currencies are translated at the rate of exchange prevailing at the time of such transactions.

i) Securities Lending

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

j) Other Assets and Liabilities

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

k) Future Accounting Changes

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

The Fund has developed a plan to meet the timetable published by the CICA for changeover to IFRS. Key elements of the plan include the determination of the qualitative impact and the quantitative impact, if any, on the Fund's financial statements in accordance with IFRS. The Fund has presently determined that there will be no impact to Net Assets per unit from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the area of additional note disclosures and, potentially, different presentation of unitholders' equity in the financial statements of the Fund.

3. RECONCILIATION OF NET ASSETS TO NET ASSET VALUE

In accordance with National Instrument ("NI") 81-106, a reconciliation is required, between the Net Assets for financial reporting purposes (the "Net Assets") and the Net Asset Value for reporting other than in the financial statements (the "Net Asset Value"). The reconciliation is as follows:

As at December 31			2009		2008
	Total – Basic	**Per Unit – Basic**	**Per Unit – Diluted**	Total	Per Unit
Net Asset Value	**$ 79,408,406**	**$ 9.18**	**$ 9.09**	$ 43,413,875	$ 6.59
Section 3855 adjustment	**(710,487)**	**(0.09)**	**(0.05)**	(244,687)	(0.04)
Net Assets	**$ 78,697,919**	**$ 9.09**	**$ 9.04**	$ 43,169,188	$ 6.55

4. UNITS OF THE FUND

Authorized

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

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

Units may also be tendered for redemption at the option of unitholders at least 10 business days prior to the second last business day of each month, except for the month of November. Unitholders whose units are redeemed will receive a redemption price per unit equal to the lesser of (i) 96% of the weighted average trading price of the units for the 10 trading days preceding the redemption date; and (ii) 100% of the closing market price of the units less associated costs of the redemption, including brokerage costs.

The Fund received approval from the Toronto Stock Exchange for a normal course issuer bid program for the period from December 22, 2008 to December 23, 2009, which allowed the Fund to purchase up to 366,500 units for cancellation. The Fund renewed the issuer bid for the period from December 24, 2009 to December 23, 2010, which allows the Fund to purchase up to 864,100 units for cancellation. The Fund may only repurchase units when the Net Asset Value per unit exceeds its trading price. During the year ended December 31, 2009, 172,100 units (2008 – 283,900) were purchased for cancellation.

Issued

		2009		2008
	Number of Units	**Amount**	Number of Units	Amount
Units, beginning of year	**6,590,770**	**$ 105,628,577**	5,001,279	$ 117,876,946
Issuance of units for service	**—**	**—**	2,969	51,683
Issuance of units upon Fund merger, net (note 1)	**—**	**—**	2,934,959	19,479,193
Issuance of units upon exercise of warrants (note 5)	**6,583,670**	**43,123,039**	—	—
Redemption of units	**(4,353,189)**	**(49,031,421)**	(1,066,126)	(25,118,890)
Repurchase of units	**(172,100)**	**(2,294,271)**	(283,900)	(6,675,126)
Units issued under the distribution reinvestment plan	**5,549**	**35,632**	1,589	14,771
Units, end of year	**8,654,700**	**$ 97,461,556**	6,590,770	$ 105,628,577

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

For the year ended December 31, 2009, the Fund issued 6,583,670 units upon the exercise of warrants and no (2008 – 2,969) units in respect of its management and advisor fees.

On November 27, 2009, 4,350,594 units were redeemed at a price of $8.93 per unit. For the year ended December 31, 2009, 2,595 (2008 – 300) units were redeemed using the monthly redemption option at an average price of $6.53 (2008 – $15.54) per unit.

As at December 31, 2009, the Fund had accumulated contributed surplus of $58,891,531 (2008 – $47,725,881). Contributed surplus is recorded when units of the Fund are redeemed or repurchased at prices per unit which are below the average cost per unit of unitholders' capital.

The basic and diluted weighted average numbers of units for the year ended December 31, 2009 were 8,426,015 and 8,426,015, respectively (2008 – 4,784,196 and 4,784,196).

Notes to the Financial Statements (continued)

5. WARRANTS

Unitholders received warrants on the basis of one warrant for each unit held on February 10, 2009. A warrant entitled the holder to subscribe for one unit of the Fund at a subscription price of $6.65. Warrants not exercised prior to September 15, 2009 were void and of no value. Upon the exercise of a warrant, the Fund paid a fee equal to $0.10 per warrant to the dealer whose client was exercising the warrant.

The Fund issued 6,583,670 warrants to unitholders of record on February 10, 2009. During the year ended December 31, 2009, 6,583,670 warrants were exercised for net proceeds of $43,123,039. The fair value of each warrant on the date of issuance was estimated to be nil. Costs associated with the issuance of these warrants amounted to $132,888.

Unitholders received Class A warrants on the basis of one-half of one warrant for each unit held on December 15, 2009. A Class A warrant entitles the holder to subscribe for one unit of the Fund at a subscription price of $9.07. Class A warrants not exercised prior to June 15, 2010 will be void and of no value. Upon the exercise of a Class A warrant, the Fund will pay a fee equal to $0.14 per warrant to the dealer whose client is exercising the warrant.

The Fund issued 4,327,350 Class A warrants to unitholders of record on December 15, 2009. No Class A warrants were exercised during the year ended December 31, 2009. Based on the closing price of the first trading day, the fair value of each warrant on the date of issuance was $0.16 per warrant. Costs associated with the issuance of these warrants amounted to $150,000.

Diluted Net Assets per unit is calculated when the closing price on the Toronto Stock Exchange of the Fund's units on a valuation date is greater than the subscription price. To calculate diluted Net Assets per unit, Net Assets are increased by the net proceeds received from the exercise of all warrants and units are increased by the number of units issued from the exercise of all outstanding warrants. The closing price of the Fund on December 31, 2009 was $9.18 per unit.

Diluted increase (decrease) in Net Assets from operations per unit is calculated using the treasury stock method. The average closing price of the Fund for the period from December 15, 2009 to December 31, 2009 was $9.06 per unit.

6. CAPITAL MANAGEMENT

The Fund's objectives in managing its capital are to provide unitholders with a stable stream of monthly distributions, to mitigate the impact of significant and rapid long-term interest rate increases on the value of the portfolio, and to preserve the Net Asset Value per unit. The Fund's capital includes unitholders' equity and loans payable. The Fund manages its capital taking into consideration the risk characteristics of its holdings. In order to manage its capital structure, the Fund may adjust the amount of distributions paid to unitholders, return capital to unitholders, increase or decrease its level of borrowing, or purchase units for cancellation.

7. DISTRIBUTIONS TO SHAREHOLDERS

Distributions, as declared by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month. The distributions are payable by the tenth business day of the following month. For the year ended December 31, 2009, the Fund declared total distributions of $1.215 (2008 – $1.50) per unit, which amounted to $9,800,302 (2008 – $7,021,312). Under the Fund's distribution reinvestment plan, unitholders may elect to reinvest monthly distributions in additional units of the Fund, which may be issued from treasury or purchased on the open market. For the year ended December 31, 2009, 5,549 units (2008 – 1,589) were issued by the Fund pursuant to the reinvestment plan.

8. MANAGEMENT, ADVISOR AND SERVICE FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.30% per annum of the Net Asset Value of the Fund, plus applicable taxes. Prior to January 1, 2009, the rate was 0.35% per annum. The management fee may be paid in cash or units at the option of the Manager. To the extent that units are issued from treasury for this purpose, they will be issued at the Net Asset Value per unit. Flaherty & Crumrine Incorporated, the Portfolio Manager for the Fund, and Brompton Capital Advisors Inc. are entitled to receive an aggregate advisory fee equal to 0.70% per annum of the Net Asset Value, plus applicable taxes. Fees are calculated and payable monthly. For the year ended December 31, 2009, no (2008 – 2,969) units were issued for the payment of management or advisor fees. The Fund also pays to the Manager a service fee equal to 0.30% per annum of the Net Asset Value of the Fund. The service fee is in turn paid by the Manager to the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter.

9. INVESTMENT TRANSACTIONS

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

	2009	2008
Proceeds from sale of investments	**$ 85,411,241**	$ 102,605,472
Less cost of investments sold:		
Investments at cost, beginning of year	**115,957,481**	184,135,656
Investments purchased during the year	**99,932,935**	38,877,234
Investments transferred in upon the Fund merger	**—**	35,914,762
Investments at cost, end of year	**(122,608,018)**	(115,957,481)
Cost of investments sold during the year	**93,282,398**	142,970,171
Net realized loss on sale of investments	**$ (7,871,157)**	$ (40,364,699)

For the years ended December 31, 2009 and 2008, there were no soft dollar amounts paid.

10. FOREIGN CURRENCY FORWARD CONTRACTS

The Fund uses foreign currency forward contracts to hedge foreign exchange risks associated with its US dollar investment portfolio. During the year ended December 31, 2009, the Fund realized gains in the amount of $426,955 (2008 – loss of $8,292,172) on the close-out of certain contracts.

At December 31, 2009, the Fund had entered into the following foreign currency forward contracts with a Canadian chartered bank with an AA rating:

Option Contracts Written

Canadian Dollars Purchased	US Dollars Sold	Delivery Date	Forward Rate (USD/CAD)	Unrealized Gain
$ 25,968,003	$ (24,400,000)	Feb. 19, 2010	0.93959	$ 415,314
25,968,003	(24,400,000)	May 19, 2010	0.93959	411,821
25,968,003	(24,400,000)	Nov. 19, 2010	0.93959	396,248
$ 77,904,009	$ (73,200,000)			$ 1,223,383

As at December 31, 2008:

Canadian Dollars Purchased	US Dollars Sold	Delivery Date	Forward Rate (USD/CAD)	Unrealized Loss
$ 51,852,181	$ (52,300,000)	Nov. 19, 2009	1.00863	$(12,459,874)

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$50.0 million under the second tranche for investment purposes. Both tranches may be availed at the prime rate of interest, the bankers' acceptance rate plus a fixed percentage, the LIBOR rate plus a fixed percentage or by US base rate borrowings. At December 31, 2009, the Fund had a US dollar loan equivalent to $46.1 million (US$44.0 million) outstanding under this facility. During the year ended December 31, 2009, the Fund realized a foreign exchange gain in the amount of $2,529,253 (2008 – loss of $8,186,479) on the repayment of borrowings in US dollars, and borrowings in US dollars had an unrealized foreign exchange gain of $526,730 (2008 – gain of $201,814). The credit facility is secured by a first-ranking and exclusive charge on all of the Fund's assets. For the year ended December 31, 2009, the minimum and maximum amounts of borrowings were $23.2 million (2008 – $15.0 million) and $57.7 million (2008 – $60.8 million), respectively.

12. SECURITIES LENDING

The Fund has entered into a securities lending program with its custodian, RBC Dexia Investor Services Trust. The aggregate market value of all securities loaned by the Fund cannot exceed 50% of the assets of the Fund. The Fund will receive collateral of at least 102% of the value of the securities on loan. Collateral will generally be comprised of cash and obligations of, or guaranteed by, the Government of Canada or a province thereof, or the United States Government or its agencies, or a permitted supranational agency as defined in NI 81-102. There were no securities on loan as at December 31, 2009 and 2008.

13. FINANCIAL RISK MANAGEMENT

The Fund's investment activities expose it to a variety of financial risks. The Statement of Investments presents the securities held by the Fund as at December 31, 2009, and groups the securities by asset type and market segment. Significant risks that are relevant to the Fund are discussed below.

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

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

a) Interest Rate Risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

The table below summarizes the Fund's exposure to interest rate risk as at December 31, 2009 by remaining term to maturity.

	Less than 1 year	1–3 years	3–5 years	>5 years	Total
Preferred securities and corporate debt	$ —	$ —	$ —	$ 118,626,329	$ 118,626,329
Loans payable	46,127,396	—	—	—	46,127,396

As at December 31, 2008:

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

As at December 31, 2009, had prevailing interest rates increased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have decreased by approximately $6.4 million or 8.1% (2008 – $2.3 million or 5.4%). Similarly, had prevailing interest rates decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, Net Assets would have increased by $7.7 million or 9.8% (2008 – $2.3 million or 5.4%) of Net Asset Value. The Fund's sensitivity to interest rate changes was estimated using the weighted average duration of the portfolio and the impact on annual interest expense for the loans payable. In practice, the actual trading results may differ, and the difference could be material.

b) Currency Risk

Currency risk is the risk that financial instruments that are denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, will fluctuate due to changes in exchange rates. The investment portfolio is comprised primarily of US dollar denominated corporate debt and preferred securities. As at December 31, 2009, the Fund's exposure to US dollar currency of US$117.6 million was substantially hedged through its US dollar denominated foreign currency forward contracts of US$73.3 million notional and loans of US$44.0 million.

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 December 31, 2009. The carrying amount of the Fund's other assets also represents the maximum credit risk exposure, as they will be settled in the short term.

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

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

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

As at December 31, 2009, the Fund invested in debt and preferred securities with the following credit ratings. Credit ratings are obtained from Standard & Poor's, and Moody's.

Portfolio by Rating Category

	% of Portfolio
AA	**1%**
A	**9%**
BBB	**53%**
BBB-	**19%**
Below BBB-	**18%**
Total	**100%**

As at December 31, 2008:

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

d) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to settle or meet its obligations on time or at a reasonable price. The Fund is exposed to liquidity risk through its monthly and annual redemptions and loans payable. For the annual redemption, the Fund receives notice at least 20 business days prior to the date of redemption and has up to 10 business day 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.

All of the Fund's financial liabilities had maturities of less than three months.

14. FAIR VALUE DISCLOSURES

The Fund's assets and liabilities recorded at fair value have been categorized in accordance with the amendments to Section 3862 (see note 2) as follows:

Assets at fair value as at December 31, 2009	Level 1	Level 2	Level 3	Total
Preferred securities and corporate debt	$ 25,340,413	$ 93,285,916	$ —	$ 118,626,329
Foreign currency forward contracts	—	1,223,383	—	1,223,383
Total	**$ 25,340,413**	**$ 94,509,299**	**$ —**	**$ 119,849,712**

There were no transfers among the levels during the year.

15. INCOME TAXES

The Fund had accumulated capital losses of $62,123,972 (2008 – $57,410,185) as at December 31, 2009. The capital losses can be carried forward for an indefinite period.

Corporate Information

Independent Review Committee

James W. Davie, BComm, MBA

Arthur R.A. Scace, QC, CM

Ken S. Woolner, BSc, PEng

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Raymond R. Pether, BA, MBA
Director

Mark A. Caranci, BComm, CA
Director, President and
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
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Custodian

RBC Dexia Investor Services Trust

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PricewaterhouseCoopers LLP

Banker

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