Flaherty & Crumrine

INVESTMENT GRADE FIXED INCOME FUND

VALUE INTEGRITY PERFORMANCE

INTERIM REPORT 2006

Management Report of Fund Performance

August 10, 2006

This interim management report of fund performance for Flaherty & Crumrine Investment Grade Fixed Income Fund (the "Fund") contains financial highlights but does not contain the complete interim financial statements. The complete interim financial statements are appended to this report.

Unitholders may obtain a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure, at no cost, by calling 866-642-6001, or by sending a request to Suite 2930, P.O. Box 793, Bay Wellington Tower, BCE Place, 181 Bay Street, Toronto, Ontario, M5J 2T3.

Investment Objectives and Strategies

Flaherty & Crumrine Investment Grade Fixed Income Fund is a closed-end investment trust that is listed on the Toronto Stock Exchange ("TSX") under the symbol FFI.UN and is managed by Brompton Funds Management Limited (the "Manager"). Flaherty & Crumrine Incorporated (the "Portfolio Manager") is a leading North American specialist in managing preferred and debt securities and manages the Fund's portfolio. For a more detailed description of Flaherty & Crumrine and its Portfolio Manager's Report on the Fund, please see the "Portfolio Manager" section. 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.

The Fund invests in a portfolio of fixed income securities consisting primarily of US dollar denominated corporate debt and hybrid preferred securities 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 units of the Fund are currently rated P-2f by Standard & Poor's and the Fund is RRSP, DPSP, RRIF and RESP eligible as Canadian property.

Risks

There are risks associated with an investment in units of the Fund. The prospectus that was issued in connection with the initial public offering of the Fund's units, as well as the Fund's annual information form, contains a discussion of these risks. These documents are available on the Fund's website at www.bromptongroup.com or on SEDAR at www.sedar.com. Below is a discussion of some of the more significant risks affecting the Fund during the first half of 2006.

Decline in the Net Asset Value of the Fund

The net asset value and the cash flow available for distribution of the Fund will vary according to, among other things, the value of and the yield provided by the securities held in the Fund's portfolio, which depend, in part, upon the performance of the issuers of such securities, the performance of the preferred securities and debt markets generally, interest rates and foreign currency exposure. Fluctuations in the market values of the securities held in the portfolio may occur for a number of reasons beyond the control of the Portfolio Manager. It is possible that, due to declines in the market values of such securities in the portfolio, the Fund may not be able to preserve the net asset value per unit.

The Fund is widely diversified which mitigates the exposure to the performance of any one issuer. The Fund also employs interest rate and foreign currency hedging strategies to reduce the risk of a change in these factors on the net asset value of the Fund. During the first half of 2006, the 30-year Treasury bond rate increased by 65 basis points to 5.19%, which had a negative impact on the Fund's net asset value. This negative impact was exacerbated by the Fund's use of leverage but was also mitigated by the use of the safety net hedge.

Interest Rate Exposure and Leverage

The Fund has borrowed amounts on a floating rate basis to invest in additional portfolio investments to increase the overall distributions of the Fund. If short-term interest rates increase during a period when leverage is utilized, increased interest costs will reduce income or cash available to be distributed. During the first half of 2006, short-term US interest rates rose as the US Federal Reserve Bank increased its overnight rate from 4.25% at the beginning of the year to 5.25% by the end of June.

Leverage can also impact the net asset value of the Fund as it will enhance the net asset value during a period when the Fund's investments have appreciated and will exacerbate the decline of net asset value during a falling market. The greater the amount of leverage, the greater the impact on net asset value of a rise or decline in market prices of the Fund's investments.

Foreign Currency Exposure

The net asset value is measured in Canadian dollars and payments to unitholders are made in Canadian dollars; however, the investments in the portfolio are securities denominated in US dollars. Accordingly, the net asset value and the Fund's ability to make payments to unitholders may be affected by fluctuations in the value of the Canadian dollar relative to the US dollar. The Fund hedges this exposure using a combination of foreign currency forward contracts and borrowing in US dollars. During the six months ended June 30, 2006, the Fund's foreign currency hedging generated realized and unrealized net gains of $9.1 million which largely offset the foreign currency reduction in the value of the Fund's portfolio.

Call Risk

Call risk is the risk that an issuer of a fixed income security held in the Fund's portfolio will exercise its right to repay the principal of a security prior to its maturity. This may happen when there is a decline in interest rates and the issuer can refinance at a lower interest rate. Under these circumstances, the Fund may be unable to recoup all of its initial investment (if it paid a premium price over the call value) and may have to reinvest the proceeds from such called security in lower yielding investments. Preferred securities frequently have call features that allow the issuer to redeem the security prior to its stated maturity. The Portfolio Manager actively manages the portfolio including call risk and it seeks to identify those preferred and debt securities that provide optimal return characteristics relative to risks. Using proprietary models, the Portfolio Manager evaluates the specific terms of each issue and is generally willing to forgo high income over the short-term to hold securities with more favourable call terms providing more sustainable income.

Significant Redemptions and Units Trading at a Discount

Units of the Fund are traded on the TSX and, subject to the applicable notice provisions, are also redeemable, at the option of the unitholder, based on their net asset value per unit on the second last business day of November each year. It is not uncommon for closed-end funds to trade at a discount to their net asset value per unit. The purpose of the annual redemption right is to reduce the likelihood that units of the Fund trade at a substantial discount to net asset value per unit. While the redemption right provides unitholders the option of annual liquidity for their units based on net asset value per unit, the Fund may trade at a discount during the year. In addition, if a significant number of units are redeemed, the trading liquidity of the units could be significantly reduced and, expenses of the Fund would be spread over fewer units resulting in a higher management expense ratio ("MER") for the Fund.

Recent Developments

Amalgamation of the Managers of Brompton Funds

On June 1, 2006, Brompton FFI Management Limited, the Manager of the Fund at the time, and 12 management companies of other Brompton Funds were amalgamated with Brompton Funds Management Limited. The amalgamation did not impact the operations or management of the Fund and did not change any of the terms of its management agreement.

The board of directors of Brompton Funds Management Limited is comprised largely of the same directors as Brompton FFI Management Limited and includes Peter A. Braaten, Chairman; James W. Davie; P. Michael Nedham; Arthur R.A. Scace; and Ken S. Woolner. The amalgamation did not affect the composition of the independent board members, nor the audit and corporate governance committees, which continue to be represented by Messrs. Davie, Scace and Woolner.

New Accounting Standard for Fiscal 2007

The Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") has issued CICA Section 3855: Financial Instruments – Recognition and Measurement. The new standards address the accounting and disclosure for financial instruments and were developed to harmonize accounting standards for financial instruments with those previously issued by the International Accounting Standards Board. Starting January 1, 2007, these new standards will impact the manner in which the net asset value of the Fund is determined. The new standards will change the way that fair value is determined for financial instruments; in particular, securities traded in an active market must be valued using a bid price. Currently, the Fund generally values exchange-traded securities at their closing prices and securities that are traded over-the-counter are generally valued at the average of the latest bid and ask prices. In addition, the new accounting standards will require that brokerage commissions be expensed and presented on the Statement of Operations. Currently, brokerage commissions are added to the adjusted cost base when a security is purchased or they are deducted from the proceeds of disposition when a security is sold. The new accounting standards will be applied prospectively and will not require the restatement of prior year financial statements. The change in the fair value of the securities held on January 1, 2007 will be recorded as an adjustment to opening retained earnings. The valuation methodology set out in the Fund's Declaration of Trust will be amended to comply with these new accounting standards.

Results of Operations

Distributions

The following table provides, on a per unit basis, an approximate breakdown of the components which affected cash available for distribution over three different periods of investment – for the period from inception of the Fund on December 15, 2004 to December 31, 2005, for the period covering the first six months of 2006 and for the period covering the entire life of the Fund to June 30, 2006. These are approximate figures as the results for each period are affected by different weighted average number of units outstanding.

	From Inception[1] to Dec. 31, 2005	For the Six Months Ended June 30, 2006	From Inception[1] to June 30, 2006
Income	$ 2.21	$ 1.11	$ 3.32
Expenses			
Management and advisor fees	(0.26)	(0.12)	(0.38)
Interest and bank charges	(0.48)	(0.32)	(0.80)
Other expenses	(0.11)	(0.05)	(0.16)
Total expenses	(0.85)	(0.49)	(1.34)
Net investment income	1.36	0.62	1.98
Add: Management and advisor fees paid in units	0.13	0.12	0.25
Cash flow available for distribution	1.49	0.74	2.23
Distributions to unitholders	(1.62)	(0.78)	(2.40)
Distributions exceeding cash flow available for distribution	(0.13)	(0.04)	(0.17)
Net realized gains (losses)	(0.22)	1.71	1.49
Total distributions exceeding (less than) cash flow available for distribution and net realized gains	$ (0.35)	$ 1.67	$ 1.32

[1] The Fund commenced operations on December 15, 2004.

Since the commencement of the Fund, there have been three major factors that have put pressure on the Fund's ability to sustain distributions at its original targeted rate:

(i) lower long-term interest rates than the original plan during the period of investment. While some margin for reduced spread was factored into the original economics, long-term rates declined beyond the cushion that was built in;

(ii) timing differences arising from the rapid decline in the US dollar exchange rate relative to the Canadian dollar which reduced US dollar interest income in Canadian dollar terms. Over time, the Fund was able to mitigate a large amount of this impact by investing gains on its foreign currency hedges and redeploying the proceeds therefrom in additional fixed income securities; and

(iii) while generally long-term interest rates declined during much of the period, short-term interest rates, which affect the cost of the Fund's borrowings, increased by 4.25% since the inception of the Fund (as a result of 17 increases in the Fed Funds rate). While the cost of borrowing is still less than the return earned in the Fund's investment portfolio, and thereby the leverage of the Fund continues to contribute to the amount of cash flow available for distribution, this contribution is less than originally projected.

To mitigate these pressures on distributable cash flow, the Fund took additional steps, including migrating the Fund's portfolio towards higher yielding preferred securities as corporate spreads widened, and the Manager and the Portfolio Manager agreed to take all of their fees in units of the Fund. Notwithstanding these steps, the Fund had to reduce its monthly distribution rate in April 2006 from $0.1354 per unit to $0.125 per unit. At this new distribution level, the yield on the Fund units based on its July 31, 2006 closing price was 7.4%. The Manager estimates that based on current borrowing costs and the level of management and advisor fees taken in units, the current level of distribution is sustainable.

Under the terms of the Fund's constating documents and in order to maintain its tax exempt status, the Fund must payout all of its taxable income including realized gains on its investments. As a result, as the above table indicates since the inception of the Fund, it has paid out in regular monthly cash distributions, amounts greater than the Fund has generated strictly from cash flow available for distribution.

During the first half of 2006, the Fund realized significant gains from its foreign exchange hedging program and from the safety net hedge. To the extent possible, the Fund will try to realize losses to offset a portion of these gains. Gains that the Fund is not able to shelter with losses or other deductions such as issue costs will be distributed to unitholders by the end of the year using a combination of cash and unit distributions. The additional cash distribution should approximately cover the income tax that would be payable on the additional cash and unit distributions.

The Fund has a distribution reinvestment plan which allows participating unitholders to automatically reinvest monthly distributions in additional units of the Fund. For the six months ended June 30, 2006, 3,154 units were acquired in the market pursuant to this plan at an average price of $21.17 per unit.

Changes in Net Asset Value

Investors who purchased units of the Fund at the time of the initial public offering paid a price of $25.00 per unit. On closing, a total of $1.37 per unit was paid for issue costs resulting in an initial opening net asset value of $23.63 per unit. Issue costs included with itemed such items as agency fees, legal costs and printing costs.

From December 15, 2004 (commencement of operations) to June 30, 2006, the net asset value has decreased from $23.63 per unit to $20.87 per unit, which is a decline of 11.7%. The table below provides an approximate breakdown of the various factors which have contributed to the decline in net asset value per unit over this period. These are approximate figures as the results for each period are affected by different weighted average numbers of units outstanding.

Changes in Net Asset Value on a Per Unit Basis

	From Inception[1] to Dec. 31, 2005	For the Six Months Ended June 30, 2006	From Inception[1] to June 30, 2006
Opening net asset value per unit	$ 23.63	$ 22.35	$ 23.63
Gains (losses) on portfolio investments[2]	(0.49)	(2.32)	(2.81)
Gain from cost of the safety net hedge	(0.98)	1.24	0.26
Distributions exceeding cash flow available for distribution	(0.13)	(0.04)	(0.17)
Foreign exchange hedge	0.40	(0.27)	0.13
Reduction from management and advisor fees paid in units	(0.13)	(0.12)	(0.23)
Rounding and timing adjustments	0.08	0.03	0.06
Total change	(1.28)	(1.48)	(2.76)
Ending net asset value per unit	$ 22.35	$ 20.87	$ 20.87

(1) The Fund commenced operations on December 15, 2004.

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

Since the Fund's inception to December 31, 2005, long-term US Treasury rates remained relatively flat decreasing from approximately 4.71% to 4.55%. The values of the Fund's portfolio investments (including net realized and unrealized gains) decreased during the period by approximately $0.49 per unit. From December 31, 2005 to June 30, 2006, US long-term Treasury rates increased to approximately 5.19% and these rising rates resulted in the Fund's net asset value per unit decreasing by approximately $2.32 per unit. Since inception to June 30, 2006, the net asset value of the Fund's units declined by approximately $2.51 per unit as a result of increasing long-term interest rates.

While long-term interest rates remained relatively flat from the inception of the Fund to December 31, 2005, there were no benefits to be realized from the safety net hedge. The costs of implementing the hedging strategy during the period totalled approximately $0.98 per unit. During the first six months of 2006, long-term interest rates rose quickly and the safety net hedge provided some positive returns for the Fund which totalled approximately $1.24 per unit after all costs. Since inception of the Fund until June 30, 2006, the safety net hedge has had a small profit of approximately $0.26 per unit.

Since the commencement of operations, the Fund has distributed approximately $0.17 per unit more than its cash flow available for distribution. Of this, only $0.04 relates to the six-month period to June 30, 2006, which included three months at the previous higher distribution rate. Please refer to the discussion in the section "Distributions" above.

The currency hedge has had only a minor ($0.13 per unit) impact on the Fund's net asset value since inception. The currency hedge has done its job considering the 9.7% increase in the Canadian dollar, relative to the US dollar, since the Fund's inception. The significant gains that have been realized in 2006 partially offset unrealized losses due to the appreciation of the Canadian dollar that were inherent in the portfolio investments.

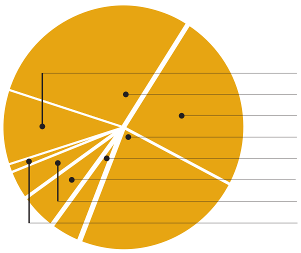
When the Manager and Portfolio Manager agree to take their fees in units of the Fund, additional cash is available for distributions. The Manager has been taking its fee in units since the inception of the Fund. At the end of 2005, the Manager and Portfolio Manager agreed to take all of their fees in units (1.05% of net asset value per annum) to help offset the decline in cash flow available for distribution discussed above. The disadvantage of taking 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. If the Manager and Portfolio Manager continue to take all of their fees in units for the next year, the net asset value per unit will decline from what it otherwise would be by about $0.22 per unit (1.05% of net asset value per annum). However, unitholders will receive an equivalent benefit of $0.22 per unit of additional distributable income.

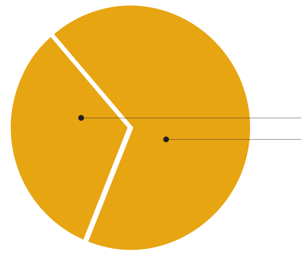
Although the net asset value per unit has declined by about $2.76 since inception, it is important for unitholders to remember that they have received $2.40 per unit in cash distributions over this period.

Investment Portfolio

All securities purchased by the Fund are rated investment grade at the time of investment. The portfolio is well diversified with 122 issues. Approximately 86% of the portfolio is invested in the banking, finance, insurance and utilities sectors, which are industries that are subject to regulatory oversight. 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 Standard and Poor's.

Portfolio Sectors





Hedging Strategies

Foreign Exchange Hedge

Units of the Fund are purchased and valued in Canadian dollars, but the Fund invests in US corporate debt and US preferred securities. Substantially all of the US dollar foreign exchange exposure of the Fund's portfolio is hedged by the Manager to the Canadian dollar at all times. Since the Fund's inception and for the six months ended June 30, 2006, the Canadian dollar has appreciated by 9.7% and 4.3%, respectively.

Presently, about two-thirds of the portfolio is hedged using a combination forward contracts with maturity dates of July 2006, January 2007, January 2008 and January 2009, at approximately 17% each and one-third of the portfolio is hedged naturally through the Fund's US dollars borrowings.

Safety Net Hedge

Due to the negative effect that a long-term interest rate increase can have on a long-duration portfolio, the Portfolio Manager employs a safety net hedge strategy. 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 and rapid rise in long-term US interest rates. The Fund purchases out-of-the-money put options on US treasury futures whose price movements 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 an increasing proportion of the decline in the value of the Fund's investments. The safety net hedge has worked well so far in 2006 as it has helped insulate the Fund from a more significant decline in net asset value resulting from the rapid rise in long-term rates which has occurred during the six months ended June 30, 2006.

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. The additional income to be earned as a result of the Fund's gains realized in 2006 will provide support for the Fund's current distribution rate with any excess income being retained by the Fund to increase the net asset value.

Liquidity and Capital Resources

As of June 30, 2006, the Fund had total borrowings of $143.8 million (US$129.3 million), which represented 36.3% of total assets. The rate paid on these borrowings is adjusted monthly based on the London-Inter bank 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, 2006, the minimum and maximum amounts of borrowings of the Fund were US$148.0 million and US$154.8 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 when 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 308,200 units were purchased in the six months ended June 30, 2006 under this program at an average price of $20.56 per unit.

Related Party Transactions

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.35% per annum of the net asset value of the Fund, plus applicable taxes. In addition, 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 are issued at the net asset value per unit. During the six months ended June 30, 2006, the entire management fee was paid in units resulting in the issuance of 17,007 units. Flaherty & Crumrine Incorporated, the Portfolio Manager for the Fund, and Brompton Capital Advisors Inc. are entitled to receive an additional fee equal to 0.70% per annum of the net asset value, plus applicable taxes. During the six months ended June 30, 2006, another 40,971 units were for the payment of their 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. For the six months ended June 30, 2006, management, advisor and service fees amounted to $0.5 million, $0.9 million and $0.4 million, respectively.

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 and unaudited interim financial statements. The information in the following tables is presented in accordance with National Instrument ("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, 2006	For the Years Ended December 31 2005	2004[1]
Net asset value, beginning of period[2]	$ **22.35**	$ 23.23	$ 23.63
Increase (decrease) from operations:[3]			
Total revenue	**1.11**	2.14	0.07
Total expenses	**(0.49)**	(0.81)	(0.04)
Realized gain (loss) for the period	**1.71**	(0.11)	(0.11)
Unrealized gain (loss) for the period	**(3.06)**	(0.55)	(0.32)
Total increase (decrease) in net assets from operations	(0.73)	0.67	(0.40)
Distributions to unitholders:[2]			
From net investment income	$ **N/A**	$ 0.22	$ —
From net realized gain on investments	**N/A**	0.82	—
Return of capital	**N/A**	0.59	—
Total distributions to unitholders	$ **0.78**	$ 1.63	$ —
Net asset value, end of period	$ **20.87**	$ 22.35	$ 23.23

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

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

(3) The increase (decrease) in net assets from operations is based on the weighted average number of units outstanding over the fiscal period.

Ratios and Supplemental Data

	For the Six Months Ended June 30, 2006	For the Years Ended December 31 2005	2004
Net assets (in 000s)	$ **244,928**	$ 268,420	$ 345,726
Number of units outstanding (in 000s)	**11,737**	12,011	14,882
Management expense ratio ("MER")[1][2]	**4.47%**	3.45%	9.21%
MER excluding interest expense and issuance costs[1][3]	**1.53%**	1.48%	1.52%
Portfolio turnover rate[4]	**37.79%**	131.75%	N/A
Trading expense ratio[5]	**0.09%**	0.12%	N/A
Closing market price	$ **19.91**	$ 21.40	$ 24.95

(1) Annualized for the period from December 15, 2004 (commencement of operations) to December 31, 2004 and for the six months ended June 30, 2006.

(2) Management expense ratio 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, and is expressed as an annualized percentage of the average net assets of the period.

(3) MER excluding interest expense and issuance costs has been presented separately as it expresses only the ongoing management and administrative expenses of the Fund as a percentage of average net assets. Issuance costs are one-time costs incurred at inception, and the inclusion of interest expense does not consider the additional revenues that have been generated from the investment of the leverage in income-generating assets.

(4) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor 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 is not provided when a fund is 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.

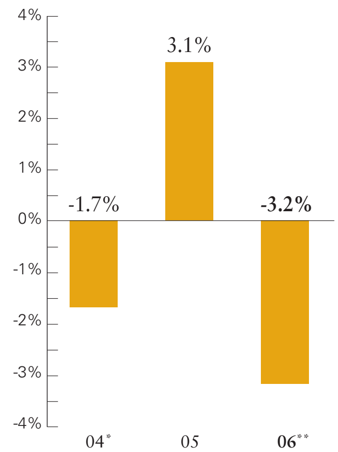
(5) The trading expense ratio represents total commissions expressed as an annualized percentage of daily average net assets of the Fund during the period. This disclosure was a new requirement in 2005 under NI 81-106 and was not applied retroactively.

Past Performance

The following chart and table show the past performance of the Fund and will not necessarily indicate how the Fund will perform in the future. The information shown is based on net asset value per unit and assumes that distributions made by the Fund in the periods shown were reinvested (at net asset value per unit) in additional units of the Fund.

Year-by-Year Returns

The bar chart shows the Fund's return (based on net asset value per unit) and includes distributions made in each year since inception to June 30, 2006. The chart shows, in percentage terms, how an investment held on the first day of each fiscal period would have increased or decreased by the last day of the fiscal period.



* For the period from December 15, 2004 (commencement of operations) to December 31, 2004.

** For the period from January 1, 2006 to June 30, 2006.

Annual Compound Returns

The following table shows the Fund's compound return for the six months ended June 30, 2006 and the annual compound return since inception, compared with the return for the Lipper Domestic (US) Investment Grade Bond Funds ("Lipper Benchmark"). The Lipper Benchmark includes all US government bond, mortgage bond and term trust and investment grade bond funds in Lipper's closed-end fund database at each point in time and provides a fixed income fund benchmark for the Fund although, generally, the investment grade bond funds in the Lipper Benchmark do not hedge long-term interest rate exposure.

	Six Months Ended June 30, 2006	Since Inception[1]
Flaherty & Crumrine Investment Grade Fixed Income Fund	**(3.2)%**	(1.2)%
Lipper Domestic (US) Investment Grade Bond Funds	**0.0%**	2.7%

[1] For the period from December 15, 2004 (commencement of operations) to June 30, 2006.

Summary of Investment Portfolio

As at June 30, 2006

Total net asset value	$ 244,928,230

Portfolio Composition	**% of NAV**
Preferred securities:	
Banking	43.4%
Insurance	30.0%
Utilities	12.1%
Financial services	9.5%
Oil and gas	5.7%
Telecommunication	1.6%
Miscellaneous industries	0.2%
	102.5%
Corporate debt:	
Utilities	22.8%
Real estate investment trusts	8.2%
Insurance	7.3%
Miscellaneous industries	5.5%
Financial services	5.5%
Telecommunication	0.3%
Oil and gas	0.2%
	49.8%
Currency forward contracts	3.0%
Options	1.7%
Cash and short-term investments	2.3%
Total investment portfolio	159.3%
Other net liabilities	(59.3%)
Total net asset value	100.0%

Top 25 Holdings	**% of NAV**
Southern Union Company, *8.25% November 15, 2029*	5.1%
Morgan Stanley Capital Trust VI, *6.6% Pfd.*	4.9%
Liberty Mutual Insurance Co., *7.697% October 15, 2097*	4.8%
KN Capital Trust III, *7.63% April 15, 2028 Capital Security*	4.8%
EOP Operating L.P., *7.5% April 19, 2029, Senior Unsecured Notes*	4.3%
Barclays Bank PLC, *6.278% December 15, 2034*	4.2%
Duquesne Light Holdings, Inc., *6.25% August 15, 2035, Senior Notes*	4.1%
Westar Energy Inc., *5.95% January 1, 2035*	4.1%
TXU Corp., *6.5% November 15, 2024, Senior Notes*	4.0%
PECO Energy Capital Trust IV, *5.75% June 15, 2033 Capital Security*	3.9%
Great-West Life & Annuity Insurance Capital LP II	3.3%
Citigroup Capital VIII, *6.95% Pfd.*	3.3%
Commonwealth Edison Co., *6.35% March 15, 2033*	3.1%
Washington Mutual Preferred Funding (Cayman) I Ltd., *6.534% March 15, 2011*	3.0%
Cash and short-term investments	2.9%
Webster Capital Trust I, *9.36% January 29, 2027 Capital Security*	2.9%
Aegon NV, *6.375% Pfd.*	2.8%
Axis Capital Holdings Limited, *7.5% Pfd.*	2.8%
General Motors Acceptance Corporation, *8% November 1, 2031, Senior Bonds*	2.8%
Lehman Capital Trust VI, *6.24% Pfd.*	2.6%
HBOS Capital Funding, *6.85% March 23, 2049*	2.4%
GreenPoint Capital Trust I, *9.1% June 1, 2027 Capital Security*	2.4%
First Empire Capital Trust II, *8.277% June 1, 2027 Capital Security*	2.4%
Wachovia Capital Trust V, *7.965% June 1, 2027 Capital Security*	2.3%
Royal Bank of Scotland PLC, *6.35% Pfd.*	2.3%

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 with 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 and 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.

Flaherty & Crumrine's two oldest funds (NYSE: PFD and NYSE: PFO) have received Morningstar 4 star overall ratings, respectively, and have outperformed an index of Lipper Domestic US Investment Grade Bond Funds, while providing low levels of volatility. To achieve this, Flaherty & Crumrine employs a "safety net" hedging strategy in the management of all its funds, mitigating the risk of significant rapid increases in long-term interest rates, but allowing the net asset value of the funds to increase if interest rates decline. As a result, the hedge permits distributions paid by the funds to increase if long-term interest rates increase significantly, while being relatively resistant to declining interest rates.

Portfolio Manager's Report

The investment environment has been challenging over the past year. In June 2005, 30-year US Treasury bond yields reached their lowest level since we began keeping this data series in 1978[1]. While long-term interest rates have been on the rise since last summer, the trend accelerated this year. At the beginning of 2006, yields on 30-year US Treasuries were just above 4.5%; by the end of June, these yields equalled 5.25%. When an interest rate move is of this magnitude and begins at such a low level, the impact on bond valuations is dramatic – long-term US Treasury bonds declined in price by almost 10% during the six months ending June 30, 2006.

It is precisely for times like these that the Fund employs its "safety net" hedging strategy. Rising long-term interest rates cause the value of most fixed income investments including the Fund's to decline, but the interest rate hedge helps moderate the impact, limiting the decline in the Fund's net asset value (NAV).

Recall that our hedge positions are analogous to an insurance policy. We make regular "premium" payments to buy protection against rising long-term interest rates. In order to keep the cost of these payments down, we typically structure the hedge with a "deductible," meaning some portion of the loss must be absorbed by the Fund before we can collect on the policy. If long-term interest rates increase significantly, the hedge position will help offset the decline in the value of the portfolio. This was the experience during both the Second Quarter and calendar year-to-date.

In addition to helping protect the value of the portfolio in weak fixed-income markets, a second purpose of the safety-net hedge is to generate additional income following a significant increase in long-term interest rates. This can be achieved by investing realized gains from the interest rate hedge in additional income producing securities. If long-term interest rates increase sufficiently, the additional income received helps support and possibly increase the Fund's monthly dividend rate.

One method to better understand the performance of the Fund's NAV this year is to begin with the total return on the Fund's US dollar denominated securities portfolio, and progressively adjust for the impact of interest rate hedging, expenses, currency hedging and leverage to arrive at the total return based on NAV (which includes all of these factors). While the securities in the portfolio performed much better than long-term US Treasury bonds this year, the Fund's securities portfolio still produced a negative total return of (2.3)% during the second Quarter, and (3.5)% over the calendar year-to-date prior to factoring in the interest rate hedge.

The bright spot so far this year has been the degree to which the interest rate hedge helped insulate the Fund's portfolio from a more significant decline due to the recent rise in long-term interest rates. During the Second Quarter, the hedge improved results by 1.1%, and over the year-to-date, by 3.5%.

Since the inception of the Fund, the currency hedge has been effective in fully protecting the Fund's Canadian dollar denominated NAV from the substantial decline in the value of the US dollar. However, during the Second Quarter and year-to-date periods, the currency hedge offset most of, but did not compensate fully for, the weakening US dollar. In addition, the leveraged portion of the portfolio tends to generate sufficient incremental income to offset the expenses of the Fund. Since the Fund's borrowing costs are based on short-term interest rates, which increased significantly in 2006, the Fund earned less incremental income from leverage and it was insufficient to fully offset the Fund's expenses. As a result, the Fund's total returns on NAV, including the impact of the currency hedge, leverage and expenses, was slightly lower than the return on the investment portfolio (including the favourable contribution of the safety net hedge) at (3.2)% for the quarter and (3.2)% for the year-to-date.

Some investors have wondered if it's prudent to continue to leverage the Fund in view of how flat the US Treasury yield curve has become. While the use of borrowed funds to improve the Fund's return (with a corresponding increase in risk) clearly made sense when short-term interest rates were lower, does it still make sense to do so now?

The answer is yes. Provided that short-term US Treasury interest rates are not dramatically above long-term rates, the Fund continues to benefit from the use of leverage. Generally, the rate paid on the Fund's bank borrowing is well below the rate the Fund can earn on the investment portfolio, and the additional cash flow generated by leverage enhances the income available for distribution to unitholders.

Even in the case of a flat or an inverted yield curve (short-term rates are higher than long-term rates) the Fund should continue to benefit from the use of leverage. An inverted yield curve typically describes the relationship between short-term and long-term US Treasury interest rates. Preferred securities trade at yields higher than Treasuries, the difference commonly referred to as the "credit spread." So, although the Treasury curve may be inverted, the preferred securities in the portfolio will ordinarily continue to have a higher return than the short-term rates the Fund pays for its leverage.

As we have discussed previously, the preferred market in the United States has been in flux following the various rating agency attempts over the past year to clarify their equity capital treatment of preferred securities. Neither fish nor fowl, with characteristics of both debt and equity, preferred securities can serve a wide range of financing needs. At the same time, these mixed characteristics leave room for differing opinions on how to view preferreds.

Whether investor or issuer, credit agency or regulator, accountant or the IRS – all have different approaches for treating preferred securities. While the rating agency attempts at clarification have prompted significant growth in the market, confusion still reigns as reflected in the volatility of preferred securities' prices.

However, in confusion lies opportunity as the turmoil contributes to the preferred market's inefficiency. We attempt to add value by exploiting these opportunities, and will continue to try and take advantage of future market inefficiencies.

Further information on the specific holdings in the Fund can be found by visiting a website maintained by Flaherty & Crumrine – www.preferredstockguide.com – using the "search" function.

Flaherty & Crumrine Incorporated

[1] Actually, June 30, 2005 wasn't quite the lowest level. On June 13, 2003, 30-year US Treasury yields were 2 basis points lower.

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 upon what management believes to be reasonable assumptions, we cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

Notice

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

(Signed)

Raymond R. Pether
Chief Executive Officer
August 10, 2006

(Signed)

Craig T. Kikuchi
Chief Financial Officer

Statements of Net Assets (Unaudited)

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

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

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

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

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

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

Statements of Cash Flows (Unaudited)

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

Statements of Changes in Net Assets (Unaudited)

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

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

Statement of Investments (Unaudited)

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

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

Statement of Investments (Unaudited) (continued)

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

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

Statement of Investments (Unaudited) (continued)

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

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

Notes to the Financial Statements (Unaudited)

June 30, 2006

1. OPERATIONS

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

3. UNITS OF THE FUND

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

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

Units may also be tendered for redemption at the option of unitholders at least 10 business days prior to the second last business day of each month, except for the month of November. Unitholders whose units are redeemed will receive a redemption price per unit equal to the lesser of (i) 96% of the weighted average trading price of the units for the 10 trading days preceding the redemption date, and (ii) 100% of the closing market price of the units less associated cost of the redemption, including brokerage costs. For the six months ended June 30, 2006, 24,476 units were redeemed using the monthly redemption option at an average of $20.79 per unit.

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

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

As at June 30, 2006, the Fund had accumulated contributed surplus of $5,147,193 (2005 – $29,541) since inception. Contributed surplus is recorded when units of the Fund are redeemed or repurchased at prices per unit which are below the average cost per unit of unitholders' capital.

The weighted average number of units outstanding for the six months ended June 30, 2006 was 11,892,681 (2005 – 14,890,461).

4. DISTRIBUTIONS TO UNITHOLDERS

Distributions, as declared by the Manager, are made on a monthly basis to unitholders of record on the last business day of each month. The distributions are payable by the tenth business day of the following month. For the six months ended June 30, 2006, the Fund declared total distributions of $0.7812 (2005 – $0.8124) per unit, which amounted to $9,275,927 (2005 – $12,096,099). Under the Fund's distribution reinvestment plan, unitholders may elect to reinvest monthly distributions in additional units of the Fund which may be issued from treasury or purchased on the open market. For the six months ended June 30, 2006, no units (2005 – 1,268) were issued by the Fund pursuant to the reinvestment plan.

Notes to the Financial Statements (Unaudited) (continued)

5. MANAGEMENT, ADVISOR AND SERVICE FEES

Pursuant to a management agreement, the Manager provides management and administrative services to the Fund, for which it is paid a management fee equal to 0.35% per annum of the net asset value of the Fund, plus applicable taxes. The management fee may be paid in cash or units at the option of the Manager. To the extent that units are issued from treasury for this purpose, they will be issued at the net asset value per unit. For the six months ended June 30, 2006, the entire management fee was paid in units. Flaherty & Crumrine Incorporated, the Portfolio Manager for the Fund, and Brompton Capital Advisors Inc. are entitled to receive an aggregate fee equal to 0.70% per annum of the net asset value, plus applicable taxes. Both fees are calculated and payable monthly. During 2006, 40,971 units were issued for the payment of the advisor fees. The Fund also pays to the Manager a service fee equal to 0.30% per annum of the net asset value of the Fund. The service fee is in turn paid by the Manager to the investment dealers in proportion to the number of units held by clients of each dealer at the end of each calendar quarter.

6. INVESTMENT TRANSACTIONS

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

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

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

7. FOREIGN CURRENCY FORWARD CONTRACTS

The Fund uses foreign currency forward contracts to hedge foreign exchange risks associated with its US dollar investment portfolio. During the six months ended June 30, 2006, the Fund realized gains in the amount of $18,523,792 (2005 – $440,319) on the close-out of certain contracts.

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

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

8. OPTION CONTRACTS

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

Option Contracts Purchased

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

Option Contracts Written

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

9. LOANS PAYABLE

Pursuant to an agreement with a Canadian chartered bank, the Fund maintains a 364-day renewable revolving credit facility. The revolving credit facility provides for maximum borrowings of $13.9 million for working capital purposes under one tranche and US$153.8 million under the second tranche for investment purposes. Both tranches can be availed at either the prime rate of interest, the bankers' acceptance rate plus a fixed percentage, the LIBOR rate plus a fixed percentage or by US base rate borrowings. At June 30, 2006, the Fund had a US dollar loan equivalent to $143.8 million (US$129.3 million) outstanding under this facility. During the six months ended June 30, 2006, the Fund realized a foreign exchange loss in the amount of $3,636,929 (2005 – $1,856,762) on the repayment of borrowings in US dollars, and borrowings in US dollars had an unrealized foreign exchange gain of $1,415,928 (2005 – $2,055,392). The credit facility is secured by a first-ranking and exclusive charge on all of the Fund's assets. For the six months ended June 30, 2006, the minimum and maximum amounts of borrowings were US$129.3 million (2005 – US$148.0 million) and US$130.0 million (2005 – US$154.8 million), respectively.

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

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

Corporate Information

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P. Michael Nedham, BSc, MBA, CBV

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

Ken S. Woolner, BSc, PEng

Officers

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Chairman

Raymond R. Pether
Chief Executive Officer

Mark A. Caranci
President

Craig T. Kikuchi
Chief Financial Officer

David E. Roode
Senior Vice President

Moyra E. MacKay
Vice President and Corporate Secretary

Lorne J. Zeiler
Vice President

Jessica Leung
Controller

Ann P. Wong
Controller

Debbie M. Chin
Assistant Vice President

Christopher Cullen
Assistant Vice President

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Trustee

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Custodian

RBC Dexia Investor Services Trust

Auditors

PricewaterhouseCoopers LLP

Transfer Agent

Computershare Trust Company of Canada

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