



Financial Statements

Marret Investment Grade Bond Fund

December 31, 2009

March 31, 2010

PricewaterhouseCoopers LLP
Chartered Accountants
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Auditors' Report

To the Unitholders of Marret Investment Grade Bond Fund (the Fund)

We have audited the statement of investment portfolio of the Fund as at December 31, 2009, the statement of net assets as at December 31, 2009 and the statements of operations, changes in net assets and cash flows for the period from October 23, 2009 (commencement of operations) to December 31, 2009. 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 audit.

We conducted our audit 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 management, 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 the results of its operations, the changes in its net assets and its cash flows for the period from October 23, 2009 to December 31, 2009, in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

Statement of Net Assets

As at December 31, 2009	2009
Assets	
Forward purchase agreement, at fair value (note 3)	\$ 327,079,094
Cash and cash equivalents	69,339
Total assets	327,148,433
Liabilities	
Accrued liabilities	359,549
Distributions payable to unitholders	1,407,500
Total liabilities	1,767,049
Unitholders' equity	
Unitholders' equity	322,053,816
Retained earnings	3,327,568
Net Assets representing unitholders' equity	\$ 325,381,384
Units outstanding (note 4)	28,150,000
Net Assets per unit (note 2)	\$ 11.56

Approved on behalf of the Trustee, Marret Asset Management Inc.

(signed)

(signed)

Barry Allan
President & Chief Executive Officer

Lara Misner
Vice President & Chief Financial Officer

See accompanying notes which are an integral part of these financial statements.

Statement of Operations

For the period from October 23, 2009, date of commencement, to December 31, 2009

2009

Income	\$	-
Expenses		
Management fees (note 5)		81,937
Audit fees		13,125
Custodial fees		6,352
Trustee fees		5,250
Legal fees		4,962
Regulatory fees		12,743
Transfer agent fees		2,382
Counterparty fees (note 5)		155,775
Total expense		282,526
Net investment loss		(282,526)
Net realized gain on forward purchase agreement		46,356
Change in unrealized appreciation on forward purchase agreement		3,563,738
Increase in Net Assets from operations	\$	3,327,568
Increase in Net Assets from operations per unit ⁽¹⁾	\$	0.12
Retained earnings, beginning of period	\$	-
Increase in Net Assets from operations		3,327,568
Retained earnings, end of period	\$	3,327,568

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

See accompanying notes which are an integral part of these financial statements.

Statement of Changes in Net Assets

For the period from October 23, 2009, date of commencement, to December 31, 2009		2009
Net Assets, beginning of year	\$	-
Operations:		
Increase in Net Assets from operations		3,327,568
Unitholder transactions:		
Distribution to unitholders		
Return of capital		(3,223,184)
Proceeds from issuance of units		337,800,000
Issuance costs		(12,523,000)
Total unit transaction		322,053,816
Increase in Net Assets		325,381,384
Net Assets, end of year	\$	325,381,384

See accompanying notes which are an integral part of these financial statements.

Statement of Cash Flows

For the period from October 23, 2009, date of commencement, to December 31, 2009

2009

Cash flows from operating activities:

Net investment income	\$ (282,526)
Proceeds from disposition of investments	1,800,000
Purchase of investments	(325,269,000)
Net change in working capital	225,296

Cash used in operating activities	(323,526,230)
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Cash flows from financing activities:

Proceeds from issuance of units	337,800,000
Issuance costs	(12,388,747)
Distributions paid to unitholders	(1,815,684)

Cash provided by financing activities	323,595,569
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Net increase in cash and short-term investments	69,339
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Cash and short-term investments, beginning of the year	-
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Cash and short-term investments, end of the year	\$ 69,339
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See accompanying notes which are an integral part of these financial statements.

Statement of Investment Portfolio

As at December 31, 2009

	Average Cost (\$)	Fair Value (\$)
Forward Purchase Agreement (note 3) (100.52%)	323,515,356	327,079,094
Other assets, less liabilities (-0.52%)		(1,697,710)
Total Net Assets (100.00%)		325,381,384

See accompanying notes which are an integral part of these financial statements.

Marret Investment Grade Bond Fund

Notes to the Financial Statements

December 31, 2009

1. Fund Activities

Marret Investment Grade Bond Fund (the “Fund”) is a closed-end investment fund established under the laws of the Province of Ontario and is governed by a Declaration of Trust dated September 29, 2009. Marret Asset Management Inc. (the “Manager”) is the manager of the Fund and provides all administrative services required by the Fund.

The Fund's investment objectives are:

- (i) to provide Unitholders with attractive monthly tax advantaged cash distributions, initially targeted to be 5% per annum on the original issue price of \$12.00 per Unit; and
- (ii) to maximize the total return for Unitholders, consisting primarily of tax-advantaged distributions, while reducing risk and preserving capital.

The Fund will obtain exposure to an actively managed portfolio (the “Portfolio”) of North American Investment Grade Bonds held by Marret IGB Trust (described below).

Units of the Fund commenced trading on October 23, 2009 on the Toronto Stock Exchange. Net proceeds of \$325.3 million (net of issue costs of \$12.52 million) were raised in the initial public offering and exercise of the Over-Allotment Option to brokers, on the issuance of 28,150,000 units.

To provide the Fund with the means to meet its investment objectives, the Fund used the net proceeds of its initial public offering to prepay its obligations under a forward purchase and sale agreement (the “Forward Purchase Agreement”) with The Bank of Nova Scotia (the “Counterparty”) all as described in note 3. Such net proceeds were invested by the Counterparty in Marret Investment Grade Bond Trust (“Marret IGB Trust”). The cash received from the Counterparty was used by Marret IGB Trust to purchase the Portfolio Securities.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements requires management to make estimates and assumptions that may impact the reported amounts of assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from these estimates. The significant accounting policies followed in the preparation of these financial statements are summarized below:

Forward Purchase Agreement

The fair value of the Forward Purchase Agreement (note 3) is the value with respect thereto that would be realized if, as of any date, the Forward Purchase Agreement was settled in accordance with its terms, in which case the value shall be based on the current market value of the Portfolio Securities of Marret IGB Trust using closing sale prices. If no sale has taken place that day, valuation will be at the average of the bid and ask price. The value takes into account amounts equal to other assets including cash, prepaids and distributions receivable, less the liabilities of, Marret IGB Trust and other liabilities attributed to the Forward Purchase Agreement on such date.

The unrealized appreciation on the Forward Agreement, which is the difference between the fair value of the forward agreement and the fair value of the Marret IGB Trust, and the realized gains on partial settlements on the Forward Agreement are included in the Statement of Operations.

Income Recognition

Interest income is recorded on an accrual basis.

Translation of foreign currencies

The fair value of foreign investments and other assets and liabilities are translated into Canadian dollars at the exchange rate prevailing on the valuation date. Purchases and sales of foreign securities and the related income are translated into Canadian dollars at the exchange rate prevailing on the respective dates of such transactions.

Net Assets per Unit

The Net Assets is calculated by subtracting the aggregate amount of the liabilities from the total assets of the Fund. The Net Assets per Unit is calculated by dividing the Net Assets by the number of Units outstanding.

Increase (decrease) in Net Assets from Operations per Unit

Increase (decrease) in Net Assets from Operations per Unit in the Statements of Operations represents the increase (decrease) in net assets from operations attributable to the Fund, divided by the weighted average number of units of the Fund outstanding during the period.

Financial Instruments

The Fund's financial instruments include derivatives, receivables for accrued interest, and payables for other accrued expenses. The derivatives are classified as held for trading and carried at fair value. Receivables for accrued interest are designated as loans and receivables and reported at amortized cost. Payables for accrued expenses are designated as financial liabilities and reported at amortized cost.

Issuance Costs

Issue costs associated with the offering have been recorded as a reduction to Unitholders' equity during the period. The amount represents a one-time charge and was paid out of the gross proceeds of the offering.

3. Forward Purchase Agreement

Pursuant to the Forward Purchase Agreement, the Counterparty will acquire, on or before October 14, 2014 ("the Termination Date"), the Canadian Securities Portfolio ("Canadian Securities") having a value based on the economic return provided by the Portfolio from inception to the Termination Date. The Portfolio is held by Marret IGB Trust. Under the Forward Purchase Agreement, the Counterparty will deliver, on the Termination Date, a specified portfolio of Canadian Securities with an aggregate value equal to the redemption proceeds of all of the corresponding units of Marret IGB Trust, net of any amount then owing by the Fund to the Counterparty. The Fund will partially settle the Forward Purchase Agreement prior to the Termination Date in order to fund (i) redemptions and repurchases of Units; and (ii) operating expenses and other liabilities of the Fund. Settlement of the Forward Purchase Agreement is unconditionally guaranteed by The Bank of Nova Scotia, a company with a current credit rating of AA as rated by the Dominion Bond Rating Service.

The fair value of the Fund's Forward Purchase Agreement is equal to the net asset value of Marret IGB Trust calculated at closing sale prices. As at December 31, 2009, the net asset value of Marret IGB Trust was \$327,079,094. For financial statement reporting purposes, the net assets of Marret IGB Trust includes the Portfolio Securities measured in accordance with Section 3855 of the CICA Handbook, which for

publicly listed securities is based on closing bid prices for securities held long and on closing ask prices for securities held short, on a recognized stock exchange on which the investments are listed or principally traded. The following reconciles the net assets of Marret IGB Trust to the fair value of the Forward Purchase Agreement:

As at December 31, 2009	
Net Assets of Marret IGB Trust	\$ 325,566,324
Valuation adjustment to Portfolio Securities to closing sale prices	1,512,770
Forward Purchase Agreement, at fair value	\$ 327,079,094

4. Unitholders' Capital

Pursuant to the Declaration of Trust, the Fund is authorized to issue an unlimited number of transferable, redeemable Fund Units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. All Units have equal rights and privileges. Each whole Unit is entitled to one vote at all meetings of Unitholders and is entitled to participate equally with respect to any and all distributions made by the Fund and distributions upon the termination of the Fund.

Annual Redemptions

The Annual Redemption Date is on the last business day in November of each year beginning in 2010. Units may be redeemed at the option of Unitholders on the Annual Redemption Date of each year. Units so redeemed will be redeemed at a redemption price equal to the Net Asset Value per Unit on the Annual Redemption Date, less any costs associated with the redemption, including commissions and other such costs, if any, related to the partial settlement of the Forward Agreement to fund such redemption.

The Net Asset Value per Unit for the purposes of processing Unitholder redemptions is calculated in a similar manner to the calculation of the Net Asset Value per Unit except that, for the purposes of calculating the net assets of the Fund, the value of the Forward Agreement will be determined on the basis that any bonds, debentures and other debt obligations that are owned by Marret IGB Trust will be valued by taking the bid price on the Valuation Date and any short position of Marret IGB Trust will be valued by taking the ask price on the Valuation Date, calculated on a fully diluted basis, if applicable.

The Units must be surrendered for redemption at least ten Business Days prior to the Annual Redemption Date. Payment of the proceeds of redemption will be made on or before the 15th Business Day of the following month.

Monthly Redemptions

The Monthly Redemption Date is the second last Business Day of each month, other than November. Units may be redeemed at the option of Unitholders on a Monthly Redemption Date, subject to certain conditions and, in order to effect such a redemption, the Units must be surrendered on the date which is the last Business Day of the month preceding the Monthly Redemption Date. Payment of the redemption price will be made on or before the 10th Business Day of the following month, subject to the Manager's right to suspend redemptions in certain circumstances.

Unitholders surrendering a Unit for redemption will receive a redemption price equal to the lesser of (i) 94% of the Market Price of a Unit and (ii) 100% of the Closing Market Price of a Unit on the applicable Monthly Redemption Date less, in each case, any costs associated with the redemption (the "Monthly Redemption Amount").

The issued and outstanding Units as at December 31, 2009 consist of:

Units outstanding - beginning of period	-
Unit issued	28,150,000
Units outstanding - end of period	28,150,000

5. Fees and Expenses

The Fund pays a Management Fee equal to 0.125% per annum of the net asset value of the Fund (or 0.50% in total when combined with the Management Fee paid to Marret by Marret IGB Trust), calculated and payable monthly in arrears, plus applicable taxes.

The Fund will pay to the Counterparty an additional purchase amount under the Forward Agreement, calculated daily and payable quarterly in arrears, of 0.25% per annum of the notional amount of the Forward Agreement (being effectively equal to the Net Asset Value of Marret HYS Trust).

All other reasonable expenses in connection with the administration of the Fund, including trustee fees and custodian fees, are paid by the Fund. The Fund is also responsible for the costs of portfolio transactions and any extraordinary expenses that may be incurred from time to time.

6. Income Taxes

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). A mutual fund trust is subject to tax on its net investment income for the year, including any net realized capital gains, which is not paid or payable to its Unitholders. The financial statements of the Fund do not include a provision for income taxes because under the terms of the Declaration of Trust, net investment income and net realized capital gains are distributed each year to Unitholders and is taxable in the Unitholders' hands.

The Fund did not realize any income, gain or loss as a result of entering into the Forward Purchase Agreement and no amount is expected to be included in the Fund's income by virtue of the acquisition of the Canadian Securities through partial pre-settlements or final settlement of the Forward Purchase Agreement. The cost to the Fund of such Canadian Securities will be that portion of the aggregate amount paid by the Fund under the Forward Purchase Agreement attributable to the Canadian Securities. The resulting gains or losses realized by the Fund on the sale of Canadian Securities acquired pursuant to the Forward Purchase Agreement is expected to be taxed as capital gains or capital losses.

The Fund has non-capital losses available to offset future income for tax purposes. The non-capital loss amounts by year of expiry are as follows:

Year of Expiry	Non-Capital Loss
2029	\$ 712,264

7. Related Party Information

The Fund retained Marret Asset Management Inc., under an administration agreement (the "Administration Agreement") dated September 29, 2009 to administer all of the ongoing operations of the Fund. In

consideration for the services provided by Marret Asset Management Inc. as administrator, the Fund pays a management fee to the Fund Manager. The total management fees paid to Marret Asset Management Inc. for the year ended December 31, 2009 was \$81,937, of which \$36,748 remained payable at December 31, 2009.

8. Capital Management

The Fund's capital consists of the Unitholders' equity. As administrator, Marret Asset Management Inc. is responsible for managing the Fund's Portfolio in line with its mandate and the affairs of the Fund, including receipt of cash from partial unwinds of the Forward Purchase Agreement primarily to fund operating expenses, annual and monthly redemptions (note 4), and monthly distributions.

9. Financial Instrument Risk Management

In the normal course of business, the Fund is exposed to a variety of financial risks: market risk (including price risk, interest rate risk and currency risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on compliance and execution of the Fund's investment objectives.

The Manager seeks to minimize potential adverse effects of these risks on the Fund's performance by employing professional, experienced portfolio advisers, daily monitoring of the Fund's positions and market events and by diversifying the investment portfolio within the constraints of the investment strategy. To assist in managing risks, the Manager also uses internal guidelines that identify the target exposure for each type of risk, maintains a governance structure that oversees the Fund's investment activities and monitors compliance with the Fund's stated investment strategy and securities regulations

Price Risk

Price Risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in a market or market segment.

By virtue of the Forward Purchase Agreement, the Price Risk for the Fund is derived from the value of the equity securities held by Marret IGB Trust. The value of the Portfolio Securities can fluctuate on a daily basis as a result of factors outside of the Fund's control, including financial performance of the issuers of the Portfolio Securities, operational risks relating to the specific business activities of the respective issuers, quality of assets owned by respective issuers, commodity prices, exchange rates, interest rates, environmental risks, political risks, issues relating to government regulation and taxation, composition of the Portfolio and other financial market conditions.

The Fund did not have significant price risk as at December 31, 2009 since the Portfolio Securities in Marret IGB Trust are substantially all bonds.

Interest Rate Risk

Interest rate risk arises from changes in the prevailing levels of market interest rates, resulting in fluctuations in the value of interest bearing financial instruments.

By virtue of the Forward Purchase Agreement, the Fund is exposed to changes in the value of Marret IGB Trust's interest bearing securities.

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

	Less than 1 year	1 - 3 years	3 - 5 years	> 5 years	Total
Bonds	-	20,646,800	60,378,927	304,873,070	385,898,797

If interest rates had increased or decreased by 1% at December 31, 2009, with all other variables remaining constant, net assets of the Fund would have decreased or increased by approximately \$29,557,858, or 9.08%. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

Currency Risk

Currency risk is the risk that the value of investments will fluctuate due to changes in foreign exchange rates. This risk arises when financial instruments (including cash and cash equivalents) are denominated in a currency other than Canadian dollars, which represents the Fund's functional currency.

The Portfolio Securities of Marret IGB Trust, to which the Fund is exposed through the Forward Agreement, are comprised in part of US dollar denominated securities. The table below indicates the currencies to which the Trust had significant exposure as at December 31, 2009, on its trading monetary and non-monetary assets and liabilities as well as the underlying notional amount of forward currency contracts.

	Currency risk Investments	Currency risk Due to broker	Total Exposure	As a % of Net Assets
US Dollar	12,142,842	(11,923,520)	219,322	0.07%

As at December 31, 2009, Marret IGB Trust did not have significant sensitivity to foreign currencies.

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The main concentration of credit risk would be investments in debt instruments and derivatives. The Fund is fully exposed to the credit risk of the Bank of Nova Scotia due to the prepaid Forward Agreement. The Fund is also exposed to the credit risk of the Portfolio Securities held by Marret IGB Trust. The fair value includes consideration of the credit worthiness of the issuer and therefore represents the maximum credit exposure of the Fund.

As at December 31, 2009, Marret IGB Trust invested in debt securities with the following credit ratings:

Debt securities by debt rating	As a % of Net Assets
AAA	6.06%
AA	0.00%
A	36.07%
BBB	76.46%
Below BB	0.00%
Total	118.60%

Liquidity Risk

The Fund is only exposed to annual and monthly cash redemptions. By virtue of the Forward Purchase Agreement, the Fund invests a substantial portion of its assets in investments that are traded in an active market and can be readily disposed of. There can be no assurance that an adequate market for the Portfolio

Securities will exist at all times, or that the prices at which the Portfolio Securities trade, accurately reflect their net asset values. Partially pre-settling of the Forward Purchase Agreement prior to the Termination Date is used to fund redemptions, operating expenses, and other liabilities of the Fund.

Fair Value Hierarchy

Canadian Institute of Chartered Accountants Handbook Section 3862 ("Section 3862"), Financial Instruments - Disclosures, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Inputs may be based on independent market data ("observable inputs") or they be internally developed ("unobservable inputs"). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the hierarchy are as follows:

Level (1) - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level (2) - investments that trade in markets that are not considered to be active, but whose values are based on inputs such as quoted market prices, dealer quotations or valuations provided by alternative pricing sources supported by observable inputs.

Level (3) - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

The following is a summary of the inputs used as of December 31, 2009 in valuing the Trust's investments and derivatives carried at fair values:

	Level 1	Level 2	Level 3	Total
Forward purchase agreement	\$ -	\$ 327,079,094	\$ -	\$ 327,079,094
Total Investments	\$ -	\$ 327,079,094	\$ -	\$ 327,079,094