



**BND.UN \$ 75,000,000**

*Financial Statements of*

# **BOND TRUST**

*(Unaudited)*

*December 31, 2007*

**PBK.UN \$ 26,934,730 BND.UN**

**26,934,730 BND.UN \$ 75,000,000**

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	<b>(Unaudited)</b>

## Financial Statements

### STATEMENT OF NET ASSETS (Unaudited)

	As at December 31, 2007	As at June 30, 2007
<b>ASSETS</b>		
Cash and short-term investments	\$ -	\$ 234,003
Interest receivable	265,144	285,777
Investments at market value (Note 6) (Cost December 31, 2007 - \$65,461,128; June 30, 2007 - \$64,308,302)	64,821,600	68,019,120
	<b>65,086,744</b>	<b>68,538,900</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Due to manager (Note 4)	15,703	122,484
Interest payable	265,144	285,777
	<b>280,847</b>	<b>408,261</b>
<b>NET ASSETS AND UNITHOLDERS' EQUITY (Notes 5 and 8)</b>	<b>\$ 64,805,897</b>	<b>\$ 68,130,639</b>
<b>NUMBER OF UNITS OUTSTANDING (Note 5)</b>	<b>7,200,000</b>	<b>7,200,000</b>
<b>NET ASSET VALUE PER UNIT (Note 8)</b>	<b>\$ 9.00</b>	<b>\$ 9.46</b>

APPROVED BY THE TRUSTEE,

(signed) Wayne L. Pushka  
Director

(signed) Thomas I. A. Allen  
Director

The accompanying notes are integral to these financial statements.

## Financial Statements

continued

**STATEMENT OF OPERATIONS**  
**(Unaudited)**

<b>For the six months ended December 31,</b>	<b>2007</b>	<b>2006</b>
<b>INCOME</b>		
Interest	\$ 2,179,283	\$ 2,178,091
Accretion on strip bonds	1,152,826	1,089,260
	<b>3,332,109</b>	<b>3,267,351</b>
<b>EXPENSES</b>		
Management fees (Note 4)	59,625	59,061
Accounting and audit fees	16,602	39,329
Custody, valuation and transfer fees	9,156	7,387
Administrative expenses	25,122	16,165
Regulatory and listing expenses	-	2,972
	<b>110,505</b>	<b>124,914</b>
<b>NET INVESTMENT INCOME</b>	<b>3,221,604</b>	<b>3,142,437</b>
<b>PARTIAL SETTLEMENT OF SWAP CONTRACTS</b> <b>(Note 6b)</b>	<b>-</b>	<b>(2,701,264)</b>
<b>CHANGES IN UNREALIZED APPRECIATION</b> <b>(DEPRECIATION) OF INVESTMENTS</b>	<b>(4,329,129)</b>	<b>5,464,004</b>
<b>INCREASE (DECREASE) IN NET ASSETS FROM</b> <b>OPERATIONS</b>	<b>\$ (1,107,525)</b>	<b>\$ 5,905,177</b>
<b>INCREASE (DECREASE) IN NET ASSETS FROM</b> <b>OPERATIONS PER UNIT</b>	<b>\$ (0.15)</b>	<b>\$ 0.82</b>

The accompanying notes are integral to these financial statements.

## Financial Statements

continued

## STATEMENT OF CHANGES IN NET ASSETS

(Unaudited)

For the six months ended December 31,	2007	2006
NET ASSETS BEGINNING OF PERIOD	\$ 68,130,639	\$ 66,638,423
INITIAL ADOPTION OF NEW ACCOUNTING POLICY (Note 2)	(21,217)	-
	<b>68,109,422</b>	66,638,423
INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	(1,107,525)	3,727,177
DISTRIBUTIONS TO UNITHOLDERS (Note 7)	(2,196,000)	(2,178,000)
NET ASSETS, END OF PERIOD	\$ 64,805,897	\$ 70,365,600

The accompanying notes are integral to these financial statements.

## Financial Statements

continued

STATEMENT OF INVESTMENTS  
As at December 31, 2007 (Unaudited)

BOND PAR VALUE	DESCRIPTION	COUPON	MATURITY	AVERAGE COST	MARKET VALUE	% OF NET ASSETS
<b>Capital Repayment Portfolio (Par Value in CAN \$ except as noted)</b>						
\$ 16,000,000	Ontario Hydro	0.000%	15/04/2012	\$ 12,520,482	\$ 13,340,402	20.6
2,494,000	Ontario Hydro	0.000%	06/02/2013	1,949,441	2,006,470	3.1
4,200,000	Ontario Hydro	0.000%	18/02/2013	3,140,640	3,372,613	5.2
1,500,000	Province of British Columbia	0.000%	18/06/2012	1,158,227	1,241,151	1.9
4,500,000	Province of British Columbia	0.000%	23/08/2012	3,441,723	3,710,592	5.7
4,000,000	Province of Ontario	0.000%	02/12/2012	3,022,018	3,247,272	5.0
13,900,000	Province of Ontario	0.000%	13/01/2013	10,421,930	11,189,344	17.3
7,200,000	Province of Quebec	0.000%	01/04/2012	5,653,759	6,012,581	9.3
1,600,000	US Credit Suisse First Boston	6.500%	15/01/2012	2,517,384	1,664,718	2.6
800,000	US Goldman Sachs Group	5.700%	01/09/2012	1,211,072	812,317	1.3
1,600,000	US Morgan Stanley Dean Witter	6.600%	01/04/2012	2,549,853	1,659,216	2.6
12,584,000	UBS Default Contingency Zero Swap (Note 6a)	0.000%	31/12/2012	4,021,385	8,088,505	12.4
				51,607,914	56,345,181	86.9
<b>Distribution Portfolio (Par Value in U.S. \$)</b>						
738,000	Anthem Inc. (Wellpoint Inc.)	6.800%	01/08/2012	1,250,420	795,058	1.2
165,000	AOL Time Warner Inc.	6.875%	01/05/2012	258,741	171,479	0.3
729,000	AON Corp.	7.375%	14/12/2012	1,240,147	801,559	1.2
217,000	Arvinmeritor Inc.	8.750%	01/03/2012	396,057	199,712	0.3
154,000	CIT Group Inc.	7.750%	02/04/2012	255,724	152,782	0.2
512,000	Coca Cola Enterprises Inc.	6.125%	15/08/2011	858,202	526,860	0.8
374,000	Computer Associates International Inc	6.500%	15/04/2008	614,190	368,197	0.6
164,000	Disney (Walt) Co.	6.375%	01/03/2012	264,449	171,854	0.3
802,000	Electronic Data Systems	7.125%	15/10/2009	1,223,645	817,120	1.3
247,000	Falconbridge Ltd.	7.350%	05/06/2012	388,623	264,730	0.4
618,000	Ford Motor Credit Co.	7.375%	01/02/2011	853,451	546,201	0.8
256,000	General Electric Capital Corp.	4.625%	15/09/2009	396,168	253,913	0.4
749,000	Safeco Corp.	7.250%	01/09/2012	1,255,401	796,589	1.2
931,000	Sprint Capital Corp.	8.375%	15/03/2012	1,259,266	955,137	1.5
722,000	Sun Microsystems Inc.	7.650%	15/08/2009	1,251,207	740,162	1.1
633,000	Teco Energy Inc.	7.200%	01/05/2011	836,430	668,295	1.0
778,000	Thompson Corp.	5.750%	01/04/2008	1,251,093	767,639	1.2
				13,853,214	9,037,287	13.9
	<b>Derivative contract (Note 6b)</b>				(560,868)	(0.8)
				13,853,214	8,476,419	13.1
<b>TOTAL INVESTMENTS</b>				\$ 65,461,128	64,821,600	100.0
<b>OTHER ASSETS LESS LIABILITIES</b>					(5,703)	0.0
<b>TOTAL NET ASSETS</b>					\$ 64,815,897	100.0

The accompanying notes are integral to these financial statements.

## Notes to the Financial Statements

### December 31, 2007 (Unaudited)

#### 1. THE BOND TRUST

The Bond Trust (the “Fund”) is a special purpose investment trust established under the laws of the Province of Ontario on January 28, 2003 (date of inception). The outstanding units are owned by UBS AG (Canada Branch). Crown Hill Investment Corporation (formerly Hollister Capital Corporation) is the manager (the “Manager”) of the Fund.

Reference is made to the Fund’s prospectus dated January 29, 2003 for a complete description of the objectives, investment guidelines and purpose of the Fund.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual amounts could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

*a) Investment valuation*

*Change in accounting policy*

Effective July 1, 2007, the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855, Financial Instruments: Recognition and Measurement, requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for securities held short. Prior to this new section, the fair value was based on the last traded price for the day, when available.

Effective July 1, 2007, Section 3855 also requires that transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities be charged to net income in the period. Prior to this new section, these costs if any, would have been added to the cost of the securities purchased or deducted from the proceeds of sale. This change has no impact on the Fund since the Fund does not pay brokerage commissions.

On July 1, 2007, the Fund adopted Section 3855 on a retroactive basis (that is, without retroactive restatement of prior periods) for financial reporting purposes. The effect of the initial adoption of this new accounting policy, using the closing bid price as at June 30, 2007, is a decrease of \$21,217 in the net assets of the Fund at the beginning of the period.

Debt securities are valued at their bid price provided by independent security pricing services. Investments for which market quotations are not readily available are valued at the Manager’s best estimate of fair value. The difference between market value and average cost, as recorded in the accounts, is shown as an unrealized gain (loss) on investments. Average cost is used to determine the gain or loss on portfolio securities sold. Short-term investments are valued at cost plus accrued interest which approximates market value.

Strip bonds are valued at their bid price on the valuation date. The discount on the strip bond is recorded as interest income over the life of the bond using the effective interest rate method and added to the cost of the strip bond. The difference between the market value and the accreted cost of the strip bond is recorded as part of the unrealized gain (loss) on investments on the Statement of Operations.

**December 31, 2007 (Unaudited)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***b) Foreign currency translation*

Investments at market value and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange applicable on the valuation date. Investment transactions and income and expenses are translated at the rate of exchange on the date of such transactions.

*c) Derivative contracts*

Derivative contracts are valued by UBS AG (London Branch) at the gain or loss that would arise as a result of closing out the contract on the valuation date.

*d) Interest income*

Interest income is accounted for on the accrual basis and includes amounts earned under the derivative contracts.

*e) Net asset value per unit*

The net asset value per unit of the Fund is computed by dividing the net assets of the Fund on the valuation date by the number of units outstanding on the valuation date.

**3. TAXATION**

The Fund qualifies as a unit trust and a financial institution within the meaning of the Income Tax Act (Canada). The Fund is subject to applicable federal and provincial taxes on the amount of its net income for tax purposes for the year, to the extent such net income for tax purposes has not been paid or made payable to Unitholders in the year. No provision for income taxes has been recorded in the accompanying financial statements as all income is distributed or distributable to the Unitholders.

**4. RELATED PARTY TRANSACTIONS***a) Manager*

The Fund has entered into a trust agreement (the "Declaration of Trust") dated January 28, 2003. Under the terms of the Declaration of Trust, the Manager provides all administrative services required by the Fund and receives a fee of approximately \$9,375 per month plus applicable taxes.

*b) Trustee*

Under the terms of the Declaration of Trust, Hollister Capital Corporation, now called Crown Hill Investment Corporation, the Manager, was appointed Trustee of the Fund. All expenses of the Fund are paid for by the Manager, which is then reimbursed by the Fund in a reasonable amount of time. All assets are currently held in custody by UBS AG.

*c) Unitholder*

Interest income includes \$2,178,000 (2006 - \$2,178,000) from UBS AG under the terms of the swap agreement described in Note 6(b).

## Notes to the Financial Statements

continued

## December 31, 2007 (Unaudited)

## 5. UNITHOLDERS' EQUITY

The Fund is authorized to issue an unlimited number of transferable, redeemable trust units of one class, each of which represents an equal, undivided interest in the net assets of the Fund. Unitholders are entitled to redeem their units outstanding in December of each year. Units will be redeemed at the net asset value per unit on the redemption date. On February 28, 2003, the Fund issued 7,200,000 units for cash proceeds of \$68,199,998.

## 6. DERIVATIVE CONTRACTS

- (a) The Fund has entered into the UBS Default Contingency Zero Swap derivative contract with UBS AG. The swap has a notional and stated maturity value of \$12,584,000, adjusted for credit events in certain debt securities, and has the economic effect of creating a synthetic strip bond with exposures to Credit Suisse First Boston, Goldman Sachs Group and Morgan Stanley Dean Witter, held in the investment portfolio.
- (b) The Fund has also entered into a derivative contract with UBS AG (the "swap transaction"). The swap transaction has a notional amount and a termination value of \$72,000,000, adjusted for credit events in certain debt securities (the "final settlement amount"). At the termination or expiry date, the swap transaction requires delivery of all securities in the capital repayment portfolio to the Counterparty in exchange for the final settlement amount. The swap transaction also has three additional purposes: a) to provide a currency hedge; b) to smooth the uneven cash flows arising from bond maturities and receipt of interest; and c) to enhance yield by gaining exposure to other credits. The other credits are those listed in the distribution portfolio with the exception of Coca-Cola Enterprises Inc., and includes Bombardier Inc., Comcast Corp., Capital One Financial Corp., Dow Chemical Co., Supervalu Inc., Hilton Hotels Corp., Motorola Inc., Noranda Inc., Phelps Dodge Corp., Park Place Entertainment Corp., Sears Roebuck Acceptance Corp., Toys R Us Inc., Tyco International Ltd., Tyson Foods Inc., Visteon Corp., Valero Energy Corp. and Weyerhaeuser Co. ("additional credits").

Further, through the derivative contract, the Fund's risk profile is modified such that it has an initial exposure of 3.6% to each of the credits in the distribution portfolio as well as the additional credits. This percentage will decrease over time as coupons from the distribution portfolio are paid. The contract matures on December 31, 2012.

## Partial Settlement of Swap Contract

Six months ended December 31,		2007		2006
Cost of investments beginning of period	\$	64,308,302	\$	67,040,171
Cost of investments end of period		65,461,128		65,428,167
Decrease (increase) in cost of investments		(1,152,826)		1,612,004
Add: Increase in bond cost due to accretion for the period		1,152,826		1,089,260
Cost of investments disposed of under partial settlement of swap contract	\$	-	\$	2,701,264

## Notes to the Financial Statements

continued

**December 31, 2007 (Unaudited)****7. DISTRIBUTIONS**

The Fund was designed to provide the unitholder with a stable stream of semi-annual distributions starting June 30, 2003. It has done so since inception and intends to continue to do so.

During the six month period ended December 31, 2007, the Fund made distributions to the unitholder of \$2,196,000 on December 31, 2007 (2006 - \$2,178,800 on December 31, 2006).

**8. NET ASSET VALUE RECONCILIATION**

On July 1, 2007 the Fund adopted Section 3855 on a retroactive basis (that is, without retroactive restatement of prior periods) for financial reporting purposes. However, the Canadian Securities Administrators have granted temporary relief to investment funds from complying with Section 3855, for the purposes of calculating and reporting of NAV (other than for financial reporting purposes) until September 30, 2008 to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements, such as the purchase and redemption of an investment fund.

A reconciliation of net assets and net asset value per unit at the current period's last traded price for the day ('Transactional') and at the current period's bid price according to GAAP ("GAAP"), as at December 31, 2007, is provided below:

		Net assets		Net asset value per unit
Transactional	\$	64,805,897	\$	9.00
Difference as a result of adopting Section 3855 (Note 2)		-		-
GAAP	\$	64,805,897	\$	9.00