



Financial Statements of

BOND TRUST

(Unaudited)

December 31, 2008

TABLE OF CONTENTS

1	Statements of Net Assets
2	Statements of Operations
3	Statements of Changes in Net Assets
4	Statement of Investments
5 - 10	Notes to the Financial Statements

Financial Statements

STATEMENTS OF NET ASSETS (Unaudited)

	As at December 31, 2008	As at June 30, 2008
ASSETS		
Cash and short-term investments	\$ 76,980	\$ 201,978
Interest receivable	302,303	248,442
Investments at fair value (Cost December 31, 2008 - \$66,001,938; June 30, 2008 - \$64,781,831)	51,248,340	59,204,376
	51,627,623	59,654,796
LIABILITIES AND UNITHOLDER'S EQUITY		
Due to manager (Note 4)	48,681	50,941
Interest payable	302,303	248,442
	350,984	299,383
NET ASSETS AND UNITHOLDER'S EQUITY (Notes 5 and 8)	\$ 51,276,639	\$ 59,355,413
NUMBER OF UNITS OUTSTANDING (Note 5)	7,200,000	7,200,000
NET ASSET VALUE PER UNIT (Note 8)	\$ 7.12	\$ 8.24

APPROVED BY THE TRUSTEE,

(signed) Wayne L. Pushka
Director

(signed) Terry Jackson
Director

The accompanying notes are integral to these financial statements.

Financial Statements

continued

STATEMENTS OF OPERATIONS
(Unaudited)

For the six months ended December 31,	2008	2007
INCOME		
Interest	\$ 1,971,337	\$ 2,179,283
Accretion on strip bonds	1,220,107	1,152,826
	3,191,444	3,332,109
EXPENSES		
Management fees (Note 4)	63,539	59,625
Administrative expenses	27,885	25,122
Audit fees	15,304	15,502
Accounting fees	2,535	1,100
Custody, valuation and transfer fees	11,657	9,156
Regulatory and listing expenses	2,064	-
	122,984	110,505
NET INVESTMENT INCOME	3,068,460	3,221,604
CHANGES IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS	(9,176,143)	(4,350,346)
DECREASE IN NET ASSETS FROM OPERATIONS	\$ (6,107,683)	\$ (1,128,742)
DECREASE IN NET ASSETS FROM OPERATIONS PER UNIT ⁽¹⁾	\$ (0.85)	\$ (0.15)

⁽¹⁾ Based on the weighted average number of Units outstanding during the period

The accompanying notes are integral to these financial statements.

Financial Statements

continued

STATEMENTS OF CHANGES IN NET ASSETS**(Unaudited)**

For the six months ended December 31,	2008	2007
NET ASSETS, BEGINNING OF PERIOD	\$ 59,355,413	\$ 68,130,639
DECREASE IN NET ASSETS FROM OPERATIONS	(6,107,683)	(1,128,742)
DISTRIBUTIONS TO UNITHOLDER (Note 7)	(1,971,090)	(2,196,000)
NET ASSETS, END OF PERIOD	\$ 51,276,639	\$ 64,805,897

The accompanying notes are integral to these financial statements.

Financial Statements

continued

STATEMENT OF INVESTMENTS
As at December 31, 2008 (Unaudited)

BOND PAR VALUE	DESCRIPTION	COUPON	MATURITY	AVERAGE COST	FAIR VALUE	% OF NET ASSETS
Capital Repayment Portfolio (Par Value in CAN \$ except as noted)						
\$ 16,000,000	Ontario Hydro	0.000%	15/04/2012	\$ 13,257,303	\$ 14,648,466	28.6
2,494,000	Ontario Hydro	0.000%	06/02/2013	2,040,100	2,211,036	4.3
4,200,000	Ontario Hydro	0.000%	18/02/2013	3,323,723	3,723,074	7.3
1,500,000	Province of British Columbia	0.000%	18/06/2012	1,227,309	1,363,468	2.7
4,500,000	Province of British Columbia	0.000%	23/08/2012	3,646,281	4,075,920	8.0
4,000,000	Province of Ontario	0.000%	02/12/2012	3,199,253	3,583,894	7.0
13,900,000	Province of Ontario	0.000%	13/01/2013	11,035,649	12,368,753	24.1
7,200,000	Province of Quebec	0.000%	01/04/2012	5,984,695	6,595,517	12.9
1,600,000	US \$ Credit Suisse First Boston	6.500%	15/01/2012	2,517,384	2,020,260	3.9
800,000	US \$ Goldman Sachs Group	5.700%	01/09/2012	1,211,072	941,713	1.8
1,600,000	US \$ Morgan Stanley Dean Witter	6.600%	01/04/2012	2,549,853	1,909,606	3.7
12,584,000	UBS Default Contingency Zero Swap (Note 6a)	0.000%	31/12/2012	4,021,385	8,988,146	17.5
				54,014,007	62,429,853	121.8
Distribution Portfolio (Par Value in U.S. \$)						
738,000	Anthem Inc. (Wellpoint Inc.)	6.800%	01/08/2012	1,250,420	900,583	1.8
165,000	AOL Time Warner Inc.	6.875%	01/05/2012	258,741	195,687	0.4
729,000	AON Corp.	7.375%	14/12/2012	1,240,147	888,913	1.7
217,000	Arvinmeritor Inc.	8.750%	01/03/2012	396,057	144,659	0.3
154,000	CIT Group Inc.	7.750%	02/04/2012	255,724	151,652	0.3
512,000	Coca Cola Enterprises Inc.	6.125%	15/08/2011	858,202	633,982	1.3
164,000	Disney (Walt) Co.	6.375%	01/03/2012	264,449	215,716	0.4
802,000	Electronic Data Systems	7.125%	15/10/2009	1,223,645	1,006,529	2.0
247,000	Falconbridge Ltd.	7.350%	05/06/2012	388,623	316,756	0.6
618,000	Ford Motor Credit Co.	7.375%	01/02/2011	853,451	580,172	1.1
256,000	General Electric Capital Corp.	4.625%	15/09/2009	396,168	319,599	0.6
749,000	Safeco Corp.	7.250%	01/09/2012	1,255,401	842,058	1.6
931,000	Sprint Capital Corp.	8.375%	15/03/2012	1,259,266	919,456	1.8
722,000	Sun Microsystems Inc.	7.650%	15/08/2009	1,251,207	869,026	1.7
633,000	Teco Energy Inc.	7.200%	01/05/2011	836,430	732,642	1.4
				11,987,931	8,747,430	17.0
	Swap Contract (Note 6b)				(19,928,943)	(38.9)
				11,987,931	(11,181,513)	(21.9)
TOTAL INVESTMENTS				\$ 66,001,938	51,248,340	99.9
OTHER ASSETS LESS LIABILITIES					28,299	0.1
TOTAL NET ASSETS					\$ 51,276,639	100.0

The effective interest rates of the bonds range from 4.55% to 8.75%.

The accompanying notes are integral to these financial statements.

Notes to the Financial Statements

December 31, 2008 (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) (the “Unitholder”). Crown Hill Investment Corporation was the manager (the “Manager”) of the Fund until June 6, 2008, at which time it was replaced by Crown Hill Capital Corporation.

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 (“GAAP”), 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) Change in Accounting Policy

Effective January 1, 2008, the Fund adopted the following new standards issued by the Canadian Institute of Chartered Accountants (“CICA”): Section 3862, Financial Instruments – Disclosure which is designed to enhance disclosure requirements related to the nature and extent of risks arising from financial instruments and how the Fund manages those risks; Section 3863, Financial Instruments – Presentation, which carries forward unchanged presentation standards from Section 3861; and Section 1535, Capital Disclosures, which requires disclosure of information that enables users of financial statements to evaluate the Fund’s objectives, policies and processes for managing capital. Adoption of these standards did not have an impact on the comparative financial statements.

b) Investment Valuation

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 fair 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 fair 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 fair value and the accreted cost of the strip bond is recorded as part of the unrealized gain (loss) on investments on the Statements of Operations.

December 31, 2008 (Unaudited)**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***c) 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.

d) 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.

e) Interest Income

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

f) 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.

g) Future Accounting Changes

The CICA Accounting Standards Board formally adopted the strategy of replacing Canadian GAAP with International Financial Reporting Standards ("IFRS") for Canadian enterprises with public accountability. These new standards are effective for the Fund beginning July 1, 2001. The Fund is currently assessing the impact of IFRS on financial reporting.

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 the Unitholder 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 Unitholder.

December 31, 2008 (Unaudited)**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. All other expenses of the Fund are initially paid by the Manager and the Manager is reimbursed by the Fund. The amount owing to the Manager at December 31, 2008 is \$48,681 (2007 - \$15,703).

b) Trustee

Under the terms of the Declaration of Trust, Hollister Capital Corporation, now called Crown Hill Investment Corporation, was appointed Trustee of the Fund. Crown Hill Investment Corporation was replaced by Crown Hill Capital Corporation on June 6, 2008. All assets are currently held in custody by UBS AG.

c) Unitholder

Interest income includes \$1,971,090 (2007 - \$2,178,000) from UBS AG under the terms of the Swap Contract described in Note 6(b).

5. UNITHOLDER'S 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. The Unitholder is entitled to redeem its 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. This 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 (the "Swap Contract") with UBS AG (the "Counterparty"). The Swap Contract has a notional amount and a termination value of \$65,160,000, adjusted for credit events in certain debt securities (the "final settlement amount"). At the termination or expiry date, the Swap Contract requires delivery of all securities in the capital repayment portfolio to the Counterparty in exchange for the final settlement amount. The Swap Contract 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").

Notes to the Financial Statements

continued

December 31, 2008 (Unaudited)**6. DERIVATIVE CONTRACTS (continued)**

Further, through the Swap 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. As of December 31, 2008 this exposure has been reduced to 1.65% of the notional amount. The contract matures on December 31, 2012.

On January 7, 2008, the Counterparty paid \$6,162,635 as partial settlement of the Swap Contract so as to reduce the notional value of the Swap Contract by 9.5% from \$72,000,000 to \$65,160,000.

Partial Settlement of Swap Contract

Period ended December 31,		2008		2007
Cost of investments beginning of period	\$	64,781,831	\$	64,308,302
Cost of investments end of period		<u>66,001,938</u>		<u>65,461,128</u>
Increase in cost of investments		(1,220,107)		(1,152,826)
Add: Increase in bond cost due to accretion for the period		<u>1,220,107</u>		<u>1,152,826</u>
Cost of investments disposed of under partial settlement of swap contract	\$	<u>-</u>	\$	<u>-</u>

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.

During the six-month period ended December 31, 2008, the Fund made distributions to the Unitholder of \$1,971,090 on December 31, 2008 (2007 - \$2,196,000 on December 31, 2007).

8. NET ASSETS RECONCILIATION

On July 1, 2007 the Fund adopted Section 3855 on a retroactive basis without restatement of prior periods for financial reporting purposes. However, the Canadian Securities Administrators have granted relief to investment funds from complying with Section 3855, for the purposes of calculating and reporting of Net Assets and Net Asset Value ("NAV") per Unit (other than for financial reporting purposes).

As at June 30, 2008 and 2007 and at December 31, 2007 and 2008, there was no difference between Net Assets and NAV per Unit calculated at the current year's last traded price for the day ("Transactional") and at the current year's bid price for the day ("GAAP"). Any adjustment to the fair value of the securities in the investment portfolio by changing from Transactional Net Assets to GAAP Net Assets was offset by a change in the fair value of the Swap Contract.

Notes to the Financial Statements*continued***December 31, 2008 (Unaudited)****9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Fund's investment activities expose it to various types of risk associated with the financial instruments in which it invests directly. In addition to the risks of investing in the equity markets generally, the Fund is also subject to other risks, including interest rate risk, currency risk, credit risk and liquidity risk. These risks and related risk management practices employed by the Fund are discussed below:

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The investments of the Fund are subject to normal market fluctuations and the risks inherent in investment in financial markets. The maximum risk resulting from financial instruments held by the Fund is determined by the fair value of the financial instruments. The Manager moderates this risk through a careful selection of securities and the Fund's market price risk is managed through diversification of the investment portfolio. The Manager monitors the Fund's overall market positions on a weekly basis and positions are maintained within established ranges.

The most significant exposure to market risk is from bond securities. As at December 31, 2008, had the prices on the respective stock exchanges for these securities raised (lowered) by 1%, with all other variables held constant, net assets would not have changed; the fair value of securities (other than the derivative contracts) would have increased (decreased) by approximately \$620,000 (approximately 1.2% of total net assets) and would be offset by a decrease (increase) in the derivative contracts.

Currency Risk

Currency risk is the risk that the value of investments denominated in currencies, other than the functional currency of the Fund, will fluctuate due to changes in foreign exchange rates. The Statement of Investments identifies all investments denominated in foreign currencies. Equities in foreign markets are exposed to currency risk as the prices denominated in foreign currencies are converted to the Fund's functional currency in determining fair value.

The Fund invests approximately 27% of the investment portfolio in U.S. securities. At December 31, 2008, if the Canadian dollar had strengthened (weakened) by 1%, with all other variables held constant, net assets would not have changed; the fair value of securities (other than the derivative contracts) would have decreased (increased) by approximately \$136,000 (approximately 0.3% of total net assets) and would be offset by an increase (decrease) in the derivative contracts.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Fund invests in interest-bearing financial instruments.

The Fund invests in bond securities. At December 31, 2008, if the interest rates had risen (fallen) by 1%, with all other variables held constant, net assets would not have changed; the fair value of securities (other than the derivative contracts) would have decreased (increased) by approximately \$2,000,000 (approximately 3.9% of total net assets) and would be offset by an increase (decrease) in the derivative contracts.

Notes to the Financial Statements

continued

December 31, 2008 (Unaudited)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit Risk

Credit risk is the risk that an issuer or a counter party will be unable or unwilling to meet a commitment that it has entered into with the Fund. All transactions in listed securities are settled for upon delivery using approved brokers.

For the bonds held at December 31, 2008 82% are rated AA or better; 13% are rated A or BBB; and 5% are rated below BBB.

As well, the Swap Contract, as described in note 6(b) explains the additional credits that the Fund is exposed to.

The risk of derivative contracts arises from the potential inability of the Counterparty to meet the terms of its contracts and from future movement in currency and interest rates. The credit rating of the Counterparty is currently AA- (as per Standard & Poor's). The maximum credit risk exposure is the aggregate of all derivative contracts with a positive value as disclosed on the Statement of Investments.

Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial obligations. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active market and can be readily disposed.

The Fund's investments are considered readily realizable and highly liquid. Therefore, as at December 31, 2008, the Fund's liquidity risk is considered minimal.

10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current period.