



BND.UN \$ 75,000,000

Financial Statements of

BOND TRUST

Audited

For the year ended June 30, 2007

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

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

TABLE OF CONTENTS

1	Auditors' Report
2	Statements of Net Assets
3	Statements of Operations
4	Statements of Changes in Net Assets
5	Statement of Investments
6 - 9	Notes to the Financial Statements

Auditors' Report

To the Unitholder of
Bond Trust

We have audited the statements of net assets of Bond Trust (the "Fund") as at June 30, 2007 and 2006, the statement of investment portfolio at June 30, 2007 and the statements of operations and changes in net assets for the years then ended. These financial statements are the responsibility of the Fund manager. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the net assets of the Fund as at June 30, 2007 and 2006, its investments at June 30, 2007 and the results of its operations and changes in net assets for the years then ended in accordance with Canadian generally accepted accounting principles.

"Deloitte & Touche LLP"

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
September 12, 2007

Financial Statements

STATEMENTS OF NET ASSETS

As at June 30,	2007	2006
ASSETS		
Cash and short-term investments	\$ 234,003	\$ 234,019
Interest receivable	285,777	367,833
Investments at market value (Cost 2007: \$64,308,302; 2006: \$67,040,171)	68,019,120	66,513,600
	68,538,900	67,115,452
LIABILITIES AND UNITHOLDERS' EQUITY		
Due to manager (Note 4)	122,484	109,196
Interest payable	285,777	367,833
	408,261	477,029
NET ASSETS AND UNITHOLDERS' EQUITY (Note 5)	\$ 68,130,639	\$ 66,638,423
NUMBER OF UNITS OUTSTANDING (Note 5)	7,200,000	7,200,000
NET ASSET VALUE PER UNIT	\$ 9.46	\$ 9.26

APPROVED BY THE TRUSTEE,

(signed) Wayne L. Pushka
Director

(signed) Terry A. Jackson
Director

The accompanying notes are integral to these financial statements.

Financial Statements

continued

STATEMENTS OF OPERATIONS

For the year ended June 30,	2007	2006
INCOME		
Interest	\$ 4,356,090	\$ 4,356,164
Accretion on strip bonds	2,209,851	2,088,010
	6,565,941	6,444,174
EXPENSES		
Management fees (Note 4)	119,247	120,318
Accounting and audit fees	69,326	31,800
Custody, valuation and transfer fees	15,821	19,264
Administrative expenses	40,027	1,914
Regulatory and listing expenses	2,973	1,179
	247,394	174,475
NET INVESTMENT INCOME	6,318,547	6,269,699
PARTIAL SETTLEMENT OF SWAP CONTRACT (Note 6b)	(4,941,720)	(4,079,195)
CHANGES IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS	4,237,389	(5,165,615)
RESULTS FROM OPERATIONS GAIN (LOSS)	\$ 5,614,216	\$ (2,975,111)
RESULTS FROM OPERATIONS PER UNIT	\$ 0.78	\$ (0.41)

The accompanying notes are integral to these financial statements.

Financial Statements

continued

STATEMENTS OF CHANGES IN NET ASSETS

For the year ended June 30,		2007	2006
RESULTS FROM OPERATIONS	\$	5,614,216	\$ (2,975,111)
DISTRIBUTIONS TO UNITHOLDERS (Note 7)		(4,122,000)	(4,186,800)
INCREASE (DECREASE) IN NET ASSETS DURING THE YEAR		1,492,216	(7,161,911)
NET ASSETS, BEGINNING OF YEAR		66,638,423	73,800,334
NET ASSETS, END OF YEAR	\$	68,130,639	\$ 66,638,423

The accompanying notes are integral to these financial statements.

Financial Statements

continued

STATEMENT OF INVESTMENTS

As at June 30, 2007

BOND PAR VALUE	DESCRIPTION	COUPON	MATURITY	AVERAGE COST	MARKET VALUE	% OF NET ASSETS
Capital Repayment Portfolio (Par Value in CAN \$ except as noted)						
\$ 16,000,000	Ontario Hydro	0.000%	15/04/2012	\$ 12,167,573	\$ 12,791,752	18.8
2,494,000	Ontario Hydro	0.000%	06/02/2013	1,905,634	1,914,067	2.8
4,200,000	Ontario Hydro	0.000%	18/02/2013	3,052,916	3,218,316	4.7
1,500,000	Province of British Columbia	0.000%	18/06/2012	1,125,158	1,189,452	1.8
4,500,000	Province of British Columbia	0.000%	23/08/2012	3,343,787	3,536,339	5.2
4,000,000	Province of Ontario	0.000%	02/12/2012	2,937,117	3,103,211	4.6
13,900,000	Province of Ontario	0.000%	13/01/2013	10,127,991	10,701,348	15.7
7,200,000	Province of Quebec	0.000%	01/04/2012	5,495,217	5,750,596	8.4
1,600,000	US Credit Suisse First Boston	6.500%	15/01/2012	2,517,384	1,762,891	2.6
800,000	US Goldman Sachs Group	5.700%	01/09/2012	1,211,072	850,484	1.2
1,600,000	US Morgan Stanley Dean Witter	6.600%	01/04/2012	2,549,853	1,765,085	2.6
12,584,000	UBS Default Contingency Zero Swap (Note 6a)	0.000%	31/12/2012	4,021,386	7,635,509	11.2
				50,455,088	54,219,050	79.6
Distribution Portfolio (Par Value in U.S. \$)						
165,000	AOL Time Warner Inc.	6.875%	01/05/2012	258,741	183,113	0.3
729,000	AON Corp.	7.375%	14/12/2012	1,240,147	821,540	1.2
738,000	Anthem Inc.	6.800%	01/08/2012	1,250,420	821,714	1.2
217,000	Arvinmeritor Inc.	8.750%	01/03/2012	396,057	233,142	0.3
154,000	CIT Group Inc.	7.750%	02/04/2012	255,724	176,312	0.3
512,000	Coca Cola Enterprises Inc.	6.125%	15/08/2011	858,202	555,972	0.8
374,000	Computer Associates International Inc	6.500%	15/04/2008	614,190	399,375	0.6
164,000	Disney (Walt) Co.	6.375%	01/03/2012	264,449	180,706	0.3
802,000	Electronic Data Systems	7.125%	15/10/2009	1,223,645	877,992	1.3
247,000	Falconbridge Ltd.	7.350%	05/06/2012	388,623	280,975	0.4
618,000	Ford Motor Credit Co.	7.375%	01/02/2011	853,451	642,248	0.9
256,000	General Electric Capital Corp.	4.625%	15/09/2009	396,168	268,524	0.4
749,000	Safeco Corp.	7.250%	01/09/2012	1,255,401	848,706	1.2
931,000	Sprint Capital Corp.	8.375%	15/03/2012	1,259,266	1,078,882	1.6
722,000	Sun Microsystems Inc.	7.650%	15/08/2009	1,251,207	795,378	1.2
633,000	Teco Energy Inc.	7.200%	01/05/2011	836,430	697,817	1.0
778,000	Thompson Corp.	5.750%	01/04/2008	1,251,093	828,294	1.2
				13,853,214	9,690,690	14.2
	Derivative contract (Note 6b)				4,109,380	6.0
				13,853,214	13,800,070	20.2
TOTAL INVESTMENTS				\$ 64,308,302	68,019,120	99.8
OTHER ASSETS LESS LIABILITIES					111,519	0.2
TOTAL NET ASSETS					\$ 68,130,639	100.0

The accompanying notes are integral to these financial statements.

Notes to the Financial Statements

June 30, 2007

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.

On June 2, 2006 Crown Hill Asset Management Inc. replaced Kensington Investment Management Inc. as the investment advisor (the “Investment Advisor”) to 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) *Debt securities*

Debt securities are valued at quoted market values 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 closing sale 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 Statements of Operations.

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.

Notes to the Financial Statements*continued***June 30, 2007****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***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, 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 \$4,356,000 (2006 - \$4,356,000) from UBS AG under the terms of the swap agreement described in Note 6(b).

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 Bond Trust. 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.

June 30, 2007

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, and includes Bombardier, Comcast, Capital One, Dow Chemical, Supervalu, Hilton Hotels, Motorola, Noranda, Phelps Dodge, Park Place Entertainment, Sears Roebuck Acceptance Corp., Toys R Us, Tyco International Ltd., Tyson Foods, Visteon, Valero Energy and Weyerhaeuser (“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

		2007		2006
Cost of investments beginning of year	\$	67,040,171	\$	69,031,356
Cost of investments end of year		64,308,302		67,040,171
Decrease in cost of investments		2,731,869		1,991,185
Add: Increase in bond cost due to accretion for the year		2,209,851		2,088,010
Cost of investments disposed of under partial settlement of swap contract	\$	4,941,720	\$	4,079,195

7. DISTRIBUTIONS

The Fund intends to provide the unitholder with a stable stream of semi-annual distributions starting June 30, 2003.

During fiscal 2007 the Fund made distributions to the unitholder of \$2,178,000 on December 29, 2006 and \$1,944,000 on June 29, 2007.

June 30, 2007**8. FUTURE ACCOUNTING STANDARDS**

The Canadian Institute of Chartered Accountants ("CICA") has issued Section 3855, Financial Instruments: Recognition and Measurement, effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The adoption of this section will impact the valuation and disclosure of the net asset value ("NAV") of the Fund, and the way transaction costs are recorded for financial reporting purposes.

Section 3855 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. The impact of adopting the amended policy is not expected to be material to the financial statements, however, the effect has not yet been quantified.

Section 3855 also requires that transaction costs, such as brokerage commissions, incurred on the purchase and sale of securities be charged to net income in the period. Prior to this new section, these costs have been added to the cost of the securities purchased or deducted from the proceeds of sale. Adoption of this policy is not expected to have a material impact to the financial statements and does not impact the daily price of the Fund.

For financial statement purposes, on July 1, 2007, the Fund adopted Section 3855 on a retroactive basis, without restatement of the financial statements of prior years.

The Canadian Securities Administrators have granted temporary relief to investment funds from complying with Section 3855, for the purpose of calculating and reporting of NAV (other than for financial reporting purposes) until September 30, 2007, to permit review of the suitability of these financial reporting requirements for purposes other than the financial statements, such as the purchase and redemption price of an investment fund.