



*Management's Report on Fund Performance of*

# **BOND TRUST**

*For the year ended June 30, 2008*

26,934,730 BND.UN \$75,900,000

## Management's Report of Fund Performance

### FOR THE YEAR ENDED JUNE 30, 2008

<p><b>DISCLOSURE</b></p>	<p>This management report of fund performance contains financial highlights, but does not contain the financial statements of the investment fund. You can get a copy of the financial statements at your request, and at no cost, by calling 416-361-1212, by writing to us at Crown Hill Capital Corporation, 141 Adelaide Street West, Suite 1006, Toronto, Ontario, M5H 3L5 or by visiting our website at <a href="http://www.crownhill.ca">www.crownhill.ca</a> or SEDAR at <a href="http://www.sedar.com">www.sedar.com</a>.</p> <p>Holders of units (the "Unitholders" and the "Units"), may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.</p>
<p><b>CORPORATE STRUCTURE</b></p>	<p>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 Canada Inc. 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. Crown Hill Asset Management Inc. is the investment advisor (the "Investment Advisor") to the Fund.</p>
<p><b>INVESTMENT OBJECTIVES AND STRATEGY OF THE FUND</b></p>	<p>The Fund's investment objectives are:</p> <ul style="list-style-type: none"> <li>(i) to pay to Unitholders on or about December 31, 2012 (the "Termination Date"), an amount equal to \$10.00 per Unit* and</li> <li>(ii) to provide Unitholders with a stable stream of semi-annual distributions of approximately \$0.25 per Unit.</li> </ul> <p>To provide the Fund with the means to meet its investment objectives, the Fund manages its assets to provide exposure to two portfolios of debt securities as follows:</p> <ul style="list-style-type: none"> <li>(i) the "Capital Repayment Portfolio": a portfolio structured to pay, at the Termination Date, \$10.00 per Unit* and consist primarily of debt securities issued or guaranteed by Provinces of Canada (comprising at least 75% of the Capital Repayment Portfolio) and by global financial institutions; and</li> <li>(ii) the "Distribution Portfolio": a portfolio structured to pay approximately \$0.25 per Unit* semi-annually commencing June 30, 2003 through to the Termination Date and consist of or provide exposure to debt securities issued by North American corporations considered investment grade, at the time of investment, by S&amp;P or another recognized rating agency.</li> </ul> <p>The Investment Advisor actively monitors the Capital Repayment and Distribution Portfolios on behalf of the Unitholders.</p> <p>*The January 2008 special distribution will effectively reduce these amounts by 9.5%.</p>

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**RISK**

An investment in Units is subject to certain risk factors, including:

- (i) there can be no assurance that the Fund will be able to achieve its capital repayment objective or its distribution objective;
- (ii) the NAV per Unit will vary according to, among other things, interest rates, the overall performance of the debt markets, the value of the securities in the Capital Repayment Portfolio and the Distribution Portfolio and distributions paid on the Units;
- (iii) the Fund's current absence of a public trading market for Units;
- (iv) reliance on the Manager, the Investment Advisor and key personnel;
- (v) possible changes in tax or other legislation;
- (vi) legal and statutory rights;
- (vii) the potential liability of Unitholders;
- (viii) potential conflicts of interest; and
- (ix) status of the Fund;
- (x) there is no guarantee that the Capital Repayment Portfolio and the Distribution Portfolio will earn any future return and the Capital Repayment Portfolio and the Distribution Portfolio could be subject to losses;
- (xi) risks of investing in debt securities;
- (xii) sensitivity of market price of Units to interest rates;
- (xiii) foreign market exposure; and
- (xiv) the possibility of the Fund being unable to acquire or dispose of illiquid securities;
- (xv) reliance on UBS AG and CIBC Mellon to provide the Manager with weekly pricing information;
- (xvi) not distributing \$10.00 per Unit at the end of December 2012 due to the reduction of capital from special distributions.

Currently, the Manager believes that the main risk with investing in the Fund is risk factor (xi), the risks of investing in debt securities, and in particular the credit risks in the Distribution Portfolio. In the event that one of the credits in the Distribution Portfolio was to default, there would be a reduction in distributions to Unitholders.

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**RESULTS OF OPERATIONS**

The Fund's current fiscal year began on July 1, 2007. Total expenses, inclusive of administration and investment management fees, general & administrative costs and interest expense, for the year ended June 30, 2008 were \$226,108. The decrease in Net Assets from operations for the Fund was \$4,889,861 (or \$0.68 per Unit). Unitholders received total distributions of \$10,048,000 which includes a special distribution of \$5,652,000 on January 7, 2008.

The Fund's Net Assets decreased from \$68,130,639 (\$9.46 per Unit) as at June 30, 2007, to \$59,355,413 (\$8.24 per Unit) as at June 30, 2008. This represents a 12.9% decrease over the period.

As a result of a large redemption in Investment Grade Trust, the Counterparty made a payment of \$6,162,635 on January 7, 2008 so as to reduce the notional value of the UBS AG derivative contract by 9.5% from \$72,000,000 to \$65,160,000.

**RECENT DEVELOPMENTS**

The current slowdown in the global economy is being driven by two main factors. One is the high cost of energy, primarily due to record high oil prices and the other is the repercussion of the over inflated residential housing market in the United States (and to a lesser extent several other countries).

In Canada, the high price of oil has continued to accelerate the economy in Alberta, but has had the effect of maintaining upward pressure on the Canadian dollar, thereby punishing the manufacturing sector in Ontario and Quebec. The high price of oil has also caused a change in automobile buying patterns with movement away from large SUVs toward more fuel-efficient vehicles. This has resulted in major losses in the North American auto sector.

The past year has been terrible for the global and domestic fixed income markets. The events in the last six months of 2007 continue to have repercussions in 2008. The meltdown in the sub prime mortgage market in the United States has resulted in a cascade of write-downs across the global financial system. In Canada, the asset-backed commercial paper market seized up in August 2007, resulting in significant losses for a number of financial institutions and investors. While an omnibus agreement has been put in place, it has locked-in billions of dollars into long term assets. In the United States and globally, many large banks have taken multi-billion dollar write-downs. This has affected the Fund in two ways; the first has been a significant widening in corporate and interbank swap spreads; and the second has been a series of major write-downs at the Fund's counterparty, UBS AG.

The widening in corporate spreads directly reduces the price of the bonds in the Distribution Portfolio and to a lesser degree the Capital Repayment Portfolio. In the Manager's view, corporate spreads had been too tight relative to the risk free rate, so some of this widening was to be expected. The widening in the interbank swap spreads in late 2007, however, came as a surprise. The banks had begun charging each other substantially higher rates in taking on counterparty risk. These higher rates increased their hedging costs and generally their cost of doing business. The major losses and recapitalization at the Fund's counterparty UBS AG, has also increased UBS

## Management's Report on Fund Performance

continued

**RECENT DEVELOPMENTS****(continued)**

AG's hedging costs. The higher hedging costs at UBS AG has reduced the price of the derivative contracts with them.

Neither the Distribution Portfolio nor the Capital Repayment Portfolio has direct exposure to the U.S. real estate or sub prime markets. Nevertheless, the problems in these markets have indirectly affected the Fund. We do not believe that this will result in any losses, but these issues will likely continue having an effect on the Net Assets of the Fund.

**Change in accounting policy**

For financial reporting purposes, on July 1, 2007, the Fund adopted a new accounting policy as per the Canadian Institute of Chartered Accountant's Handbook Section 3855, Financial Instruments: Recognition and Measurement, on a retroactive basis without restatement of prior periods. The Fund now values its securities at closing bid price (rather than using the last traded price). Transaction costs, if any, are now charged to the results of operations (rather than purchase costs being added to the cost of securities purchased and sales costs being deducted from sales proceeds).

The effect of the initial adoption of this new accounting policy, using the closing bid price as at June 30, 2007, did not result in a change in the Net Assets of the Fund at the beginning of the year. The change in recording of transaction costs had no impact since the Fund does not pay brokerage commissions or other transaction costs.

For the purpose of calculating and reporting of Net Assets and Net Asset Value ("NAV") per Unit (other than for financial reporting purposes) the Canadian Securities Administrators have granted temporary relief to investment funds from complying with Section 3855, 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 price of an investment fund.

As at June 30, 2008 and 2007, there was no difference between Net Assets and Net Asset Value 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.

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**RELATED PARTY  
TRANSACTIONS**

The following are related party transactions:

- (i) **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.
- (ii) **Trustee:** Under the terms of the Declaration of Trust, Crown Hill Investment Corporation (formerly Hollister Capital Corporation) was appointed Trustee of the Fund. Effective June 6, 2008 they were replaced by Crown Hill Capital Corporation. All expenses of the Fund are paid for by the Manager, which is then reimbursed by the Fund in a reasonable amount of time.
- (iii) **Unitholder:** Interest income includes \$4,190,090 (2007 - \$4,356,000) from UBS AG under the terms of the Swap Contract.

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## FINANCIAL HIGHLIGHTS

The following table shows selected key financial highlights of the Fund and is intended to help you understand the Fund's financial highlights for the past three years. The information for the years ended June 30, 2006 and 2007 and 2008 is derived from the Fund's annual audited financial statements.

<i>Year ended June 30,</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>GAAP NAV per Unit <sup>(3)</sup>, beginning of year</b>	\$ 9.46	\$ 9.26	\$ 10.25
<b>Initial adoption of new accounting policy</b>	0.00	n/a	n/a
<b><u>Increase (decrease) from operations:</u></b>			
<b>Total revenue</b>	0.90	0.91	0.90
<b>Total expenses</b>	(0.03)	(0.03)	(0.02)
<b>Partial settlement of swap contract</b>	(0.26)	(0.63)	(0.57)
<b>Realized gains (losses) for the year</b>	-	-	--
<b>Unrealized gains (losses) for the year</b>	(1.29)	0.53	(0.72)
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	(0.68)	0.78	(0.41)
<b>Payment made by Counterparty to reduce notional value of Swap Contract</b>	0.86	-	-
<b><u>Distributions:</u></b>			
<b>From income (excluding dividends)</b>	0.61	0.58	0.58
<b>From dividends</b>	-	-	-
<b>From capital gains</b>	-	-	-
<b>Return of capital</b>	0.79	-	-
<b>Total distributions<sup>(2)</sup></b>	1.40	0.58	0.58
<b>GAAP NAV per Unit <sup>(3)</sup>, end of year</b>	\$ 8.24	\$ 9.46	\$ 9.26

- 1) Net asset value and distributions are based on the actual number of Units outstanding at the relevant time. The increase from operations is based on the weighted average number of Units outstanding over the financial period.
- 2) Distributions were paid in cash.
- 3) See Change in Accounting Policy under Recent Developments.

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RATIOS AND  
SUPPLEMENTAL DATA

<i>Year ended June 30,</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>GAAP Net Assets <sup>(5)</sup></b>	<b>\$ 59,355,413</b>	\$ 68,130,639	\$ 66,638,423
<b>Adjustment from bid to closing price <sup>(5)</sup></b>	\$ -	n/a	n/a
<b>Transactional Net Assets <sup>(5)</sup></b>	<b>\$ 59,355,413</b>	n/a	n/a
<b>Number of units outstanding</b>	<b>7,200,000</b>	7,200,000	7,200,000
<b>Transactional NAV per Unit <sup>(5)</sup></b>	<b>\$ 8.24</b>	n/a	n/a
<b>Management expense ratio <sup>(2)</sup></b>	<b>0.36 %</b>	0.36 %	0.25 %
<b>Management expense ratio before waivers or absorptions</b>	<b>0.36 %</b>	0.36 %	0.25 %
<b>Portfolio turnover rate <sup>(3)</sup></b>	<b>Not Applicable</b>	Not Applicable	Not Applicable
<b>Trading expense ratio <sup>(4)</sup></b>	<b>Not Applicable</b>	Not Applicable	Not Applicable
<b>Closing GAAP NAV per Unit <sup>(5)</sup></b>	<b>\$ 8.24</b>	\$ 9.46	\$ 9.26

- 1) This information is provided as at June 30, 2008, June 30, 2007 and June 30, 2006.
- 2) Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average Net Assets during the period.
- 3) 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 a 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 high turnover rate and the performance of a fund.
- 4) The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Assets during the period.
- 5) See Change in Accounting Policy under Recent Developments. At June 30, 2008 there is no difference between Transactional Net Assets and GAAP Net Assets.

## Management's Report on Fund Performance

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### MANAGEMENT FEES

The main costs to the Fund are management fees.

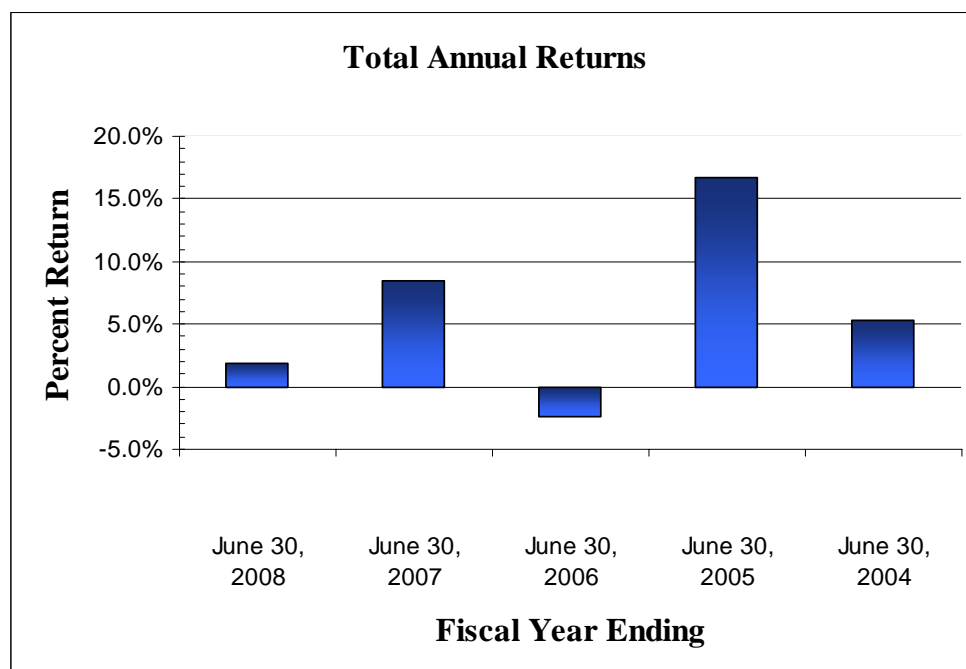
The total fees and expenses for the year were \$226,108, with the following breakdown:

<i>Category</i>	<i>Amount Paid</i>	<i>Percent of Fees &amp; Expenses</i>
Management fees	\$ 118,688	52.5 %
Accounting and audit fees	38,095	16.8 %
Custody, valuation and transfer fees	17,783	7.9 %
Administrative expenses	50,007	22.1 %
Regulatory and listing expenses	1,535	0.7 %

### PAST PERFORMANCE

#### Year-by-Year Returns

The following bar chart shows the Fund's annual performance for its past five full fiscal years. This chart indicates, in percentage terms, how much an investment made on the first day of each financial period (if purchased at the NAV per Unit) would have grown by the last day of each period (if sold at the NAV per Unit).



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**ANNUAL COMPOUND RETURNS**

In the Manager's view, the best benchmark for measuring the performance of the Fund is the Government of Canada June 2012 Bond. This bond has a similar duration to the Fund portfolios and like the Fund, will terminate in 2012. Differences in performance between the Fund and this bond will arise from differences in the yield and the credit quality between the Distribution Portfolio and the government risk free rate. As can be seen in the following table, the Fund has underperformed the government bond.

	<i>1-Year</i>	<i>3-Year</i>	<i>Since Inception</i>
Bond Trust	1.9 %	1.8 %	3.7 %
Government Of Canada Bond June 2012	5.9 %	4.3 %	6.1 %

## Management's Report on Fund Performance

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**SUMMARY OF INVESTMENT PORTFOLIO**

The following is a summary of the investment portfolio held by the Fund as at June 30, 2008. The entire portfolio is subject to a cash flow smoothing swap. For more information, please consult the financial statements.

Par Value	Description	Coupon	Maturity	Fair Value	% of Net Assets
<b>Capital Repayment Portfolio</b>					
Par Value in CDN \$ (except as noted)					
16,000,000	Ontario Hydro	0.000%	4/15/2012	\$ 13,767,325	23.2 %
2,494,000	Ontario Hydro	0.000%	2/6/2013	2,070,679	3.5 %
4,200,000	Ontario Hydro	0.000%	2/18/2013	3,481,571	5.9 %
1,500,000	Province of British Columbia	0.000%	6/18/2012	1,282,064	2.2 %
4,500,000	Province of British Columbia	0.000%	8/23/2012	3,816,942	6.4 %
4,000,000	Province of Ontario	0.000%	12/2/2012	3,350,399	5.6 %
13,900,000	Province of Ontario	0.000%	1/13/2013	11,583,255	19.5 %
7,200,000	Province of Quebec	0.000%	4/1/2012	6,201,042	10.4 %
1,600,000	<sup>U.S</sup> Credit Suisse First Boston	6.500%	1/15/2012	1,684,567	2.8 %
800,000	<sup>U.S</sup> Goldman Sachs Group	5.700%	9/1/2012	814,186	1.4 %
1,600,000	<sup>U.S</sup> Morgan Stanley Dean Witter	6.600%	4/1/2012	1,650,421	2.8 %
12,584,000	UBS Default Contingency Swap	0.000%	12/31/2012	8,535,279	14.4 %
				<b>58,237,730</b>	<b>98.1 %</b>
<b>Distribution Portfolio</b>					
Par value in US \$					
738,000	Anthem Inc. (Wellpoint Inc.)	6.800%	8/1/2012	775,007	1.3 %
165,000	AOL Time Warner Inc.	6.875%	5/1/2012	171,259	0.3 %
729,000	AON Corp.	7.375%	12/14/2012	761,553	1.3 %
217,000	Arvinmeritor Inc .	8.750%	3/1/2012	193,739	0.3 %
154,000	CIT Group Inc.	7.750%	4/2/2012	132,512	0.2 %
512,000	Coca Cola Enterprises Inc.	6.125%	8/15/2011	538,067	0.9 %
164,000	Disney (Walt) Co.	6.375%	3/1/2012	174,772	0.3 %
802,000	Electronic Data Systems	7.125%	10/15/2009	839,109	1.4 %
247,000	Falconbridge Ltd.	7.350%	6/5/2012	260,069	0.4 %
618,000	Ford Motor Credit Co.	7.375%	2/1/2011	508,814	0.9 %
256,000	General Electric Capital Corp.	4.625%	9/15/2009	261,811	0.4 %

## Management's Report on Fund Performance

continued

SUMMARY OF  
INVESTMENT  
PORTFOLIO

(continued)

Par Value	Description	Coupon	Maturity	Fair Value	% of Net Assets
<b>Distribution Portfolio (continued)</b>					
Par value in US \$					
749,000	Safeco Corp.	7.250%	9/1/2012	\$ 789,700	1.3 %
931,000	Sprint Capital Corp.	8.375%	3/15/2012	935,101	1.6 %
722,000	Sun Microsystems Inc.	7.650%	8/15/2009	753,088	1.3 %
633,000	Teco Energy Inc.	7.200%	5/1/2011	658,978	1.1 %
				<b>7,753,579</b>	<b>13.0 %</b>
	Derivative contract (Note 6b)			(6,786,933)	(11.4) %
				966,646	1.6 %
<b>TOTAL INVESTMENTS</b>				<b>59,204,376</b>	<b>99.7 %</b>
<b>OTHER ASSETS LESS LIABILITIES</b>				151,037	0.3 %
<b>TOTAL NET ASSETS</b>				<b>\$ 59,355,413</b>	<b>100.0 %</b>