



BND.UN \$ 75,000,000

Management's Report on Fund Performance of

BOND TRUST

For the year ended June 30, 2007

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

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

Management's Report of Fund Performance

FOR THE YEAR ENDED June 30, 2007

DISCLOSURE

This annual management report of fund performance contains financial highlights, but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements at your request, and at no cost, by calling 416-361-1212, by writing to us at Crown Hill Investment Corporation, 141 Adelaide Street West, Suite 1006, Toronto, Ontario, M5H 3L5 or by visiting our website at www.crownhill.ca or SEDAR at www.sedar.com.

Holder 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.

CORPORATE STRUCTURE

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 Canada Inc. Crown Hill Investment Corporation is the manager (the "Manager") of the Fund.

Crown Hill Asset Management Inc. is the investment advisor (the "Investment Advisor") to the Fund.

INVESTMENT OBJECTIVES AND STRATEGY OF THE FUND

The Fund's investment objectives are:

- (i) to pay to Unitholders on or about December 31, 2012 (the "Termination Date"), an amount equal to \$10.00 per Unit and
- (ii) to provide Unitholders with a stable stream of semi-annual distributions of approximately \$0.25 per Unit.

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:

- (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
- (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&P or another recognized rating agency.

The Investment Advisor actively monitors the Capital Repayment and Distribution Portfolios on behalf of the Unitholders.

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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, distributions paid on the Units and the liquidity in the debt securities market;
- (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;
- (xiv) the possibility of the Fund being unable to acquire or dispose of illiquid securities; and
- (xv) reliance on UBS AG and CIBC Mellon to provide the Manager with weekly pricing information;

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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<p>RESULTS OF OPERATIONS</p>	<p>The Fund's current fiscal year began on July 1, 2006. Total expenses, inclusive of administration and investment management fees, general & administrative costs and interest expense, for the period ending June 30, 2007 were \$247,394. Net gains from operations for the Fund were \$5,614,216 (or \$0.78 per Unit). Unitholders received a distribution of \$4,122,000.</p> <p>The Fund's net asset value increased from \$66,638,423 (\$9.26 per Unit) as of June 30, 2006, the end of the previous fiscal year, to \$68,130,639 (\$9.46 per Unit) as at June 30, 2007. This represents a 8.4% return over the year.</p>
<p>RECENT DEVELOPMENTS</p>	<p>The past year has seen little change in Bond Trust. The decline in yields from July 2006 to December 2006 reversed itself in the first six months of 2007. The net result has been a small increase in the value of the Fund. The global credit markets were relatively stable in the first six months of the year. The seizing up of the asset-backed securities market in July and August was primarily due to the deterioration in the U.S. mortgage market. This has recently cascaded into a general credit crunch with the subsequent widening in credit spreads.</p> <p>While our most vulnerable credits continue to be Ford Motor Credit Corp., Visteon Corp., ArvinMeritor Inc., Toys R Us Inc. and Bombardier Inc., they all saw their credit quality improve in 2006 and the first half of 2007. The only credit that saw a substantial decline in quality was Park Place/Caesar's/Harrah which experienced a leveraged buy-out of Harrah's operation. Until June 2007, leveraged buy-outs were the main threat to the portfolio's performance since the post buy-out company is saddled with additional debt. The recent credit crunch has substantially reduced this risk.</p> <p>The Distribution Portfolio in general and the corporate bond market as a whole remain in good shape. Energy costs have stabilized leading to the next danger on the horizon coming from the continued decline in the U.S. residential real-estate market. The Portfolio does not have a great deal of direct exposure to this market. Indirectly, its exposure would be due to a softening in consumer demand and a tightening of credit. These negative effects are partially offset by the reduced likelihood of leveraged buy-outs and lower inflation pressure, thereby keeping longer-term rates low.</p> <p>The Manager has continued its program of reducing expenses incurred by the Trust, although this continues to be difficult with the additional regulatory requirements and their associated costs. An Independent Review Committee was selected and will meet in the fall of 2007.</p>

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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 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.
- (iii) **Unitholder:** Interest income includes \$4,356,000 (2006 - \$4,356,000) from UBS AG under the terms of the swap agreement.

**FINANCIAL
HIGHLIGHTS**

The past year has seen a slight increase in the value of the Fund. The following table provides information on the Fund performance on a per unit basis.

Net Asset Value per Unit

	<i>Year ending June 30, 2007</i>	<i>Year ending June 30, 2006</i>
Net asset value per unit, beginning of year	\$ 9.26	\$ 10.25
Increase (decrease) from operations:		
Total revenue	0.91	0.90
Total expenses	(0.03)	(0.02)
Partial settlement of swap contract	(0.63)	(0.57)
Realized gains (losses) for the period	-	-
unrealized gains (losses) for the period	0.53	(0.72)
Total increase (decrease) from operations ⁽¹⁾	0.78	(0.41)
Distributions:		
From income (excluding dividends)	0.58	0.58
From dividends	-	-
From capital gains	-	-
Return of capital	-	-
Total net annual distributions ⁽²⁾	0.58	0.58
Net asset value per unit, end of year	\$ 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.

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RATIOS AND
SUPPLEMENTAL
DATA

	<i>Year ending June 30, 2007 ⁽¹⁾</i>	<i>Year ending June 30, 2006</i>
Net assets (\$ 000's)	68,130	66,638
Number of units outstanding	7,200,000	7,200,000
Management expense ratio ⁽²⁾	0.36%	0.25%
Management expense ratio before waivers or absorptions	0.36%	0.25%
Portfolio turnover rate	Not Applicable	Not Applicable
Trading expense ratio	Not Applicable	Not Applicable
Closing NAV per unit	\$ 9.46	\$ 9.26

- 1) This information is provided as at June 30, 2007.
- 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.

MANAGEMENT FEES

The main costs to the Fund are management fees.

The total fees and expenses for the period was \$247,394, with the following breakdown:

<i>Category</i>	<i>Amount Paid</i>	<i>Percent of Fees & Expenses</i>
Management fees	\$ 119,247	48.20 %
Accounting and audit fees	\$ 69,326	28.02 %
Administrative expenses	\$ 40,027	16.18 %
Custody, valuation and transfer fees	\$ 15,821	6.40 %
Regulatory and listing expenses	\$ 2,973	1.20 %

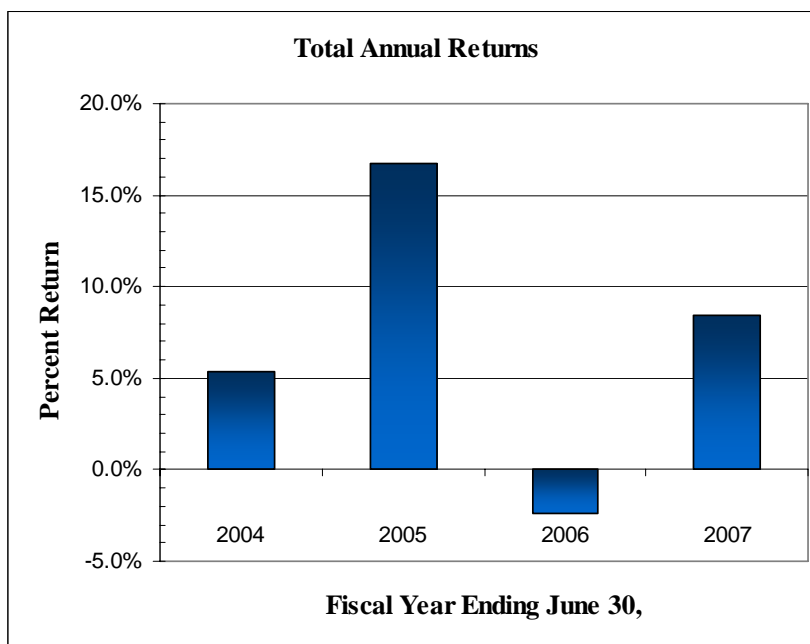
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PAST PERFORMANCE

Year-by-Year Returns

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



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 slightly outperformed the government bond since inception.

	<i>1-Year</i>	<i>3-Year</i>	<i>Since Inception</i>
Bond Trust	8.4%	6.7%	6.2%
Government Of Canada Bond June 2012	4.7%	5.3%	5.6%

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SUMMARY OF INVESTMENT PORTFOLIO

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

Par Value	Description	Coupon	Maturity	Market Value	% of Net Assets
Capital Repayment Portfolio					
Par Value in CDN \$ (except as noted)					
16,000,000	Ontario Hydro	0.000%	4/15/2012	\$ 12,791,752	18.8
2,494,000	Ontario Hydro	0.000%	2/6/2013	1,914,067	2.8
4,200,000	Ontario Hydro	0.000%	2/18/2013	3,218,316	4.7
1,500,000	Province of British Columbia	0.000%	6/18/2012	1,189,452	1.8
4,500,000	Province of British Columbia	0.000%	8/23/2012	3,536,339	5.2
4,000,000	Province of Ontario	0.000%	12/2/2012	3,103,211	4.6
13,900,000	Province of Ontario	0.000%	1/13/2013	10,701,348	15.7
7,200,000	Province of Quebec	0.000%	4/1/2012	5,750,596	8.4
1,600,000 U.S	Credit Suisse First Boston	6.500%	1/15/2012	1,762,891	2.6
800,000 U.S	Goldman Sachs Group	5.700%	9/1/2012	850,484	1.2
1,600,000 U.S	Morgan Stanley Dean Witter	6.600%	4/1/2012	1,765,085	2.6
12,584,000	UBS Default Contingency Swap	0.000%	12/31/2012	7,635,509	11.2
				54,219,050	79.6
Distribution Portfolio					
Par value in US \$					
165,000	AOL Time Warner Inc.	6.875%	5/1/2012	183,113	0.3
729,000	AON Corp.	7.375%	12/14/2012	821,540	1.2
738,000	Anthem Inc.	6.800%	8/1/2012	821,714	1.2
217,000	Arvinmeritor Inc .	8.750%	3/1/2012	233,142	0.3
154,000	CIT Group Inc.	7.750%	4/2/2012	176,312	0.3
512,000	Coca Cola Enterprises Inc.	6.125%	8/15/2011	555,972	0.8
374,000	Computer Associates Inc.	6.500%	4/15/2008	399,375	0.6
164,000	Disney (Walt) Co.	6.375%	3/1/2012	180,706	0.3
802,000	Electronic Data Systems	7.125%	10/15/2009	877,992	1.3
247,000	Falconbridge Ltd.	7.350%	6/5/2012	280,975	0.4

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continued

**SUMMARY OF
INVESTMENT
PORTFOLIO
(continued)**

Par Value	Description	Coupon	Maturity	Market Value	% of Net Assets
Distribution Portfolio (continued)					
Par value in US \$					
618,000	Ford Motor Credit Co.	7.375%	2/1/2011	\$ 642,248	0.9
256,000	General Electric Capital Corp.	4.625%	9/15/2009	268,524	0.4
749,000	Safeco Corp.	7.250%	9/1/2012	848,706	1.2
931,000	Sprint Capital Corp.	8.375%	3/15/2012	1,078,882	1.6
722,000	Sun Microsystems Inc.	7.650%	8/15/2009	795,378	1.2
633,000	Teco Energy Inc.	7.200%	5/1/2011	697,817	1.0
778,000	Thompson Corp.	5.750%	4/1/2008	828,294	1.2
				9,690,690	14.2
	Derivative contract			4,109,380	6.0
				13,800,070	20.2
	TOTAL INVESTMENTS			68,019,120	99.8
	OTHER ASSETS LESS LIABILITIES			111,519	0.2
	TOTAL NET ASSETS			\$ 68,130,639	100.0