



MANAGEMENT'S REPORT OF FUND PERFORMANCE

## BOND TRUST

SEMI-ANNUAL REPORT

DECEMBER 31, 2009

# MANAGEMENT'S REPORT OF FUND PERFORMANCE

For the six months ended December 31, 2009

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## DISCLOSURE

This management report of fund performance contains financial highlights, but does not contain the complete financial statements of the investment fund. Unitholders may contact us 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 [www.crownhill.ca](http://www.crownhill.ca) or SEDAR at [www.sedar.com](http://www.sedar.com).

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.

## CORPORATE STRUCTURE

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.

## 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.

*\*The special distributions in January 2008 and January 2009 will effectively reduce these amounts by 20.541%.*

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For the six months ended December 31, 2009

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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 Net Asset Value ("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;
- (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 or that the bond markets in general become illiquid;
- (xv) reliance on UBS AG and CIBC Mellon to provide the Manager with weekly pricing information; and
- (xvi) not distributing \$7.95 per Unit at the end of December 2012 (\$10.00 less the reduction of capital from the two 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 credits in the Distribution Portfolio default, there would be reductions in distributions to Unitholders.

## RESULTS OF OPERATIONS

The Fund's current fiscal year began on July 1, 2009. Total expenses, inclusive of administration and investment management fees, general & administrative costs and interest expense, for the period ended December 31, 2009 were \$119,469 (2008 - \$122,984). The increase in Net Assets from Operations for the Fund was \$968,944 (2008 - decrease of \$6,107,683) or \$0.13 per Unit (2008 - decrease of \$0.85 per Unit). Unitholders received total distributions of \$1,440,000.

The Fund's Net Assets decreased from \$54,199,349 (\$7.53 per Unit) as at June 30, 2009, to \$53,728,293 (\$7.46 per Unit) as at December 31, 2009. This represents a 0.9% decrease over the period.

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For the six months ended December 31, 2009

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## RECENT DEVELOPMENTS

The past six months have seen a general stabilization in the credit markets. The extraordinary bailouts of the financial system by various governments around the world have reduced the risks of default of many financial institutions and corporations. The Fund's counterparty UBS AG, appears to be in much better financial condition than it was in 2008 and early 2009.

Credit spreads tightened significantly in the first half of the year, especially with respect to financial institutions, and have remained relatively stable throughout the second half of 2009.

The Fund weathered the storm in 2008 and 2009 relatively well. All of the credits in the Capital Repayment Portfolio remain intact. It has, however experienced two defaults in the Distribution Portfolio in 2009. In the fiscal year ending June 30, 2009 it experienced a default by Visteon Corporation, while in the current reporting period it experienced a default by CIT Group Inc. These two defaults will have the effect of reducing the Fund's annual revenue by 0.99% per annum until the end of December 2012.

## Adoption of new accounting standards

On July 1, 2008, the Fund adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" and Section 1535, "Capital Disclosures". Sections 3862 and 3863 establish standards for the comprehensive disclosure and presentation requirements for financial instruments. The standards include new requirements to quantify certain risk exposures and to provide sensitivity analysis for certain risks. There is no impact on the net assets or the results of operations as a result of these new standards. The detailed risks of investing in the Fund are disclosed in Note 8 of the financial statements. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed; see Note 9 of the financial statements.

## Future Accounting Changes

In February 2008, the CICA Accounting Standards Board confirmed that Canadian GAAP will be replaced by International Financial Reporting Standards ("IFRS") for Canadian enterprises with public accountability. These new standards are effective for the Fund beginning July 1, 2011. The Fund is currently assessing the impact of IFRS on its financial reporting.

## RELATED PARTY TRANSACTIONS

The following are related party transactions:

- (i) The Manager is entitled to 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. Administration expenses for the period ended December 31, 2009 totaled \$23,214 (\$27,885 for the period ended December 31, 2008). As part of these expenses the Fund is paying a general overhead cost to First Paladin Inc. (a company related to the Manager) which varies depending on the costs incurred. The general overhead cost for the period ended December 31, 2009 was \$24,885 (\$24,885 for the period ended December 31, 2008).
- (ii) Bond Trust received \$1,447,425 (2008 - \$1,971,090) from UBS AG under the terms of the Swap Contract. UBS AG (Canada Branch) is the Unitholder of Bond Trust, and a related party to UBS AG.

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For the six months ended December 31, 2009

## 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 five and a half years. The information for the years ended June 30, 2005 to June 30, 2009 is derived from the Fund's annual audited financial statements and the information for the period ended December 31, 2009 is derived from the Fund's interim financial statements.

|  | Six months ended December 31, 2009 | Year ended June 30, 2009 | Year ended June 30, 2008 | Year ended June 30, 2007 | Year ended June 30, 2006 | Year ended June 30, 2005 |
|--|------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| GAAP NAV per Unit, beginning of year                                   | \$ 7.53                            | \$ 8.24                  | \$ 9.46                  | \$ 9.26                  | \$ 10.25                 | \$ 9.27                  |
| Initial adoption of new accounting policy                              | 0.00                               | n/a                      | 0.00                     | n/a                      | n/a                      | n/a                      |
| <b>Increase (decrease) from operations:</b>                            |                                    |                          |                          |                          |                          |                          |
| Total revenue  | 0.38                               | 0.84                     | 0.90                     | 0.91                     | 0.90                     | 0.88                     |
| Total expenses   | (0.02)                             | (0.03)                   | (0.03)                   | (0.03)                   | (0.02)                   | (0.03)                   |
| Partial settlement of Swap Contract                                    | (0.40)                             | -                        | (0.26)                   | (0.63)                   | (0.57)                   | (0.44)                   |
| Realized gains (losses) for the year                                   | -                                  | -                        | -                        | -                        | -                        | -                        |
| Unrealized gains for the year  | 0.17                               | (1.06)                   | (1.29)                   | 0.53                     | (0.72)                   | 1.14                     |
| Total increase (decrease) from operations <sup>(1)</sup>               | \$ 0.13                            | \$ (0.25)                | \$ (0.68)                | \$ 0.78                  | \$ (0.41)                | \$ 1.55                  |
| Payment made by Counterparty to reduce notional value of Swap Contract | -                                  | 0.87                     | 0.86                     | -                        | n/a                      | n/a                      |
| <b>Distributions:</b>  |                                    |                          |                          |                          |                          |                          |
| From income (excluding dividends)                                      | 0.20                               | 0.49                     | 0.61                     | 0.58                     | 0.58                     | 0.57                     |
| From dividends   | -                                  | -                        | -                        | -                        | n/a                      | n/a                      |
| From capital gains   | -                                  | -                        | -                        | -                        | n/a                      | n/a                      |
| Return of capital  | -                                  | 0.84                     | 0.79                     | -                        | n/a                      | n/a                      |
| <b>Total annual distributions <sup>(2)</sup></b>                       | <b>0.20</b>                        | <b>1.33</b>              | <b>1.40</b>              | <b>0.58</b>              | <b>0.58</b>              | <b>0.57</b>              |
| <b>GAAP NAV per Unit, end of year</b>                                  | <b>\$ 7.46</b>                     | <b>\$ 7.53</b>           | <b>\$ 8.24</b>           | <b>\$ 9.46</b>           | <b>\$ 9.26</b>           | <b>\$ 10.25</b>          |

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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For the six months ended December 31, 2009

## Ratios and Supplemental Data

|   | Six months ended<br>December 31, 2009 | Year ended<br>June 30, 2009 | Year ended<br>June 30, 2008 | Year ended<br>June 30, 2007 | Year ended<br>June 30, 2006 | Year ended<br>June 30, 2005 |
|---|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| GAAP Net Assets <sup>(5)</sup>                            | \$ 53,728,293                         | \$ 54,199,349               | \$ 59,355,413               | \$ 68,130,639               | \$ 66,638,000               | \$ 73,800,000               |
| Adjustment from bid to closing price <sup>(5)</sup>       | -                                     | -                           | -                           | n/a                         | n/a                         | -                           |
| Transactional Net Assets <sup>(5)</sup>                   | \$ 53,728,293                         | \$ 54,199,349               | \$ 59,355,413               | \$ 68,130,639               | n/a                         | n/a                         |
| Number of units outstanding                               | 7,200,000                             | 7,200,000                   | 7,200,000                   | 7,200,000                   | 7,200,000                   | 7,200,000                   |
| Transactional NAV per unit <sup>(5)</sup>                 | \$ 7.46                               | \$ 7.53                     | \$ 8.24                     | \$ 9.46                     | n/a                         | n/a                         |
| Management expense ratio <sup>(2)</sup>                   | 0.48 %                                | 0.44 %                      | 0.36 %                      | 0.36 %                      | 0.25 %                      | 0.25 %                      |
| Management expense ratio before<br>waivers or absorptions | 0.48 %                                | 0.44 %                      | 0.36 %                      | 0.36 %                      | 0.25 %                      | 0.25 %                      |
| Portfolio turnover rate <sup>(3)</sup>                    | -                                     | -                           | -                           | -                           | n/a                         | n/a                         |
| Trading expense ratio <sup>(4)</sup>                      | -                                     | -                           | -                           | -                           | n/a                         | n/a                         |
| Closing market price                                      | \$ 7.46                               | \$ 7.53                     | \$ 8.24                     | \$ 9.46                     | \$ 9.26                     | \$ 10.25                    |

1) This information is provided as at December 31, 2009 and June 30, 2005 to June 30, 2009.

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 weekly average Net Assets during the period.

5) At December 31, 2009 there is no difference between Transactional Net Assets and GAAP Net Assets.

## MANAGEMENT FEES

The main costs to the Fund are management fees.

The total fees and expenses for the period were \$119,469, with the following breakdown:

| Category                             | Amount Paid | Percent of Fees & Expenses |
|--------------------------------------|-------------|----------------------------|
| Management fees                      | \$ 57,539   | 48.2 %                     |
| Administrative expenses              | 23,214      | 19.4 %                     |
| Audit fees                           | 20,700      | 17.3 %                     |
| Accounting fees                      | 8,674       | 7.3 %                      |
| Custody, valuation and transfer fees | 4,425       | 3.7 %                      |
| Regulatory and listing expenses      | 4,918       | 4.1 %                      |

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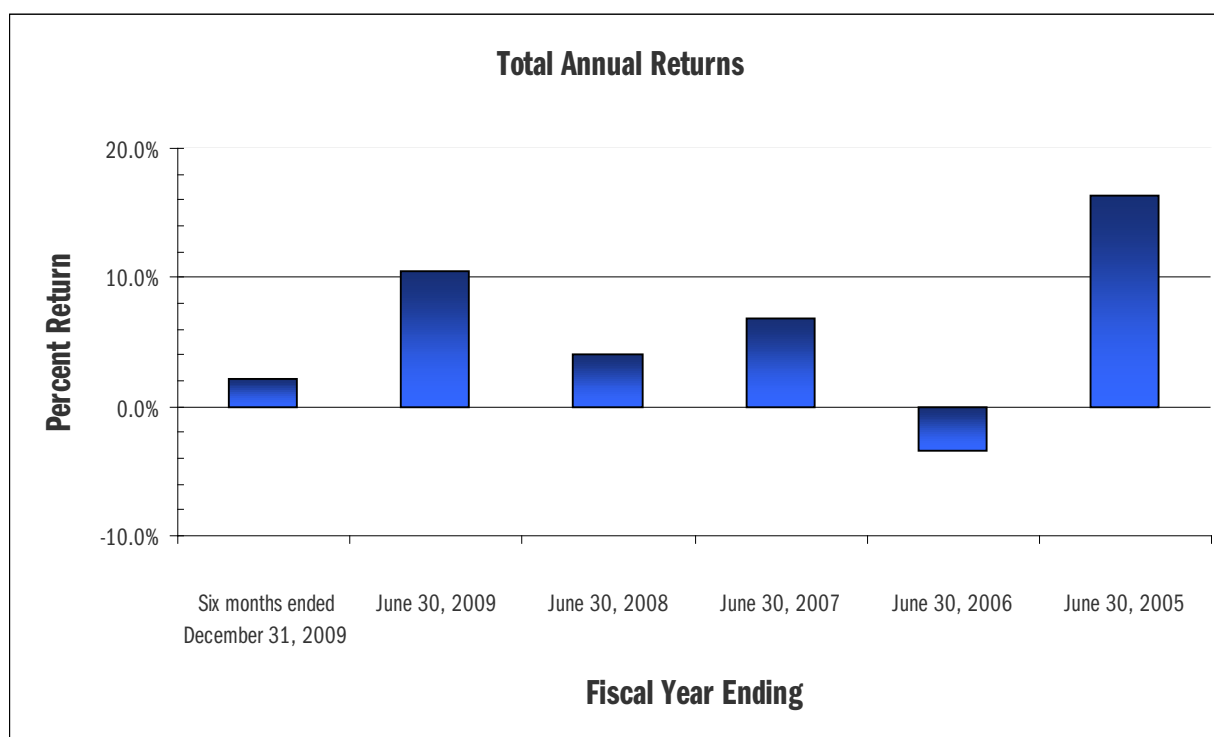
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For the six months ended December 31, 2009

## PAST PERFORMANCE

### Year-by-Year Returns

The following bar chart shows the Fund's annual performance for its past five full fiscal years plus the six months ended December 31, 2009. 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).



## ANNUAL COMPOUND RETURNS

The benchmark index is the iShares CDN Bond Index Fund (TSX: XBB). Differences in performance between the Fund and the benchmark will arise from differences in credit quality and duration.

|                             | 1-Year  | 3-Year | 5-Year | Since Inception |
|-----------------------------|---------|--------|--------|-----------------|
| Bond Trust                  | 14.38 % | 2.69 % | 3.31 % | 5.92 %          |
| iShares CDN Bond Index Fund | 4.26 %  | 3.98 % | 4.13 % | 4.98 %          |

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For the six months ended December 31, 2009

## SUMMARY OF INVESTMENT PORTFOLIO

The following is a summary of the investment portfolio held by the Fund as at December 31, 2009. 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 (in CDN \$, except as noted)</b> |                                      |         |            |                      |                 |
| \$ 16,000,000   | Ontario Hydro                        | 0.000 % | 04/15/2012 | \$ 15,267,685        | 28.4            |
| 2,494,000   | Ontario Hydro                        | 0.000 % | 02/06/2013 | 2,288,790            | 4.3             |
| 4,200,000   | Ontario Hydro                        | 0.000 % | 02/18/2013 | 3,862,163            | 7.2             |
| 1,500,000   | Province Of British Columbia         | 0.000 % | 06/18/2012 | 1,427,401            | 2.7             |
| 4,500,000   | Province Of British Columbia         | 0.000 % | 08/23/2012 | 4,242,187            | 7.9             |
| 4,000,000   | Province Of Ontario                  | 0.000 % | 12/02/2012 | 3,729,200            | 6.9             |
| 13,900,000  | Province Of Ontario                  | 0.000 % | 01/13/2013 | 12,846,437           | 23.9            |
| 7,200,000   | Province Of Quebec                   | 0.000 % | 04/01/2012 | 6,863,165            | 12.8            |
| 1,600,000 US \$   | Credit Suisse First Boston           | 6.500 % | 01/15/2012 | 1,825,287            | 3.4             |
| 800,000 US \$   | Goldman Sachs Group                  | 5.700 % | 09/01/2012 | 902,136              | 1.7             |
| 1,600,000 US \$   | Morgan Stanley Dean Witter           | 6.600 % | 04/01/2012 | 1,824,951            | 3.4             |
| 12,584,000  | UBS Default Contingency<br>Zero Swap | 0.000 % | 12/31/2012 | 9,886,494            | 18.4            |
|   |                                      |         |            | <b>64,965,896</b>    | <b>120.9</b>    |
| <b>Distribution Portfolio (in US \$)</b>                        |                                      |         |            |                      |                 |
| 738,000   | Anthem Inc. (Wellpoint Inc.)         | 6.800 % | 08/01/2012 | 853,618              | 1.6             |
| 165,000   | AOL Time Warner Inc.                 | 6.875 % | 05/01/2012 | 189,366              | 0.4             |
| 729,000   | Aon Corp.                            | 7.375 % | 12/14/2012 | 835,439              | 1.6             |
| 217,000   | Arvinmeritor Inc.                    | 8.750 % | 03/01/2012 | 230,904              | 0.4             |
| 154,000   | CIT Group Inc.                       | 7.750 % | 04/02/2012 | 115,115              | 0.2             |
| 512,000   | Coca Cola Enterprises, Inc.          | 6.125 % | 08/15/2011 | 572,541              | 1.1             |
| 164,000   | Disney (Walt) Co.                    | 6.375 % | 03/01/2012 | 187,800              | 0.3             |
| 247,000   | Falconbridge Ltd.                    | 7.350 % | 06/05/2012 | 277,722              | 0.5             |
| 618,000   | Ford Motor Credit Co.                | 7.375 % | 02/01/2011 | 661,089              | 1.2             |
| 749,000   | Safeco Corp.                         | 7.250 % | 09/01/2012 | 810,256              | 1.5             |
| 931,000   | Sprint Capital Corp.                 | 8.375 % | 03/15/2012 | 1,010,174            | 1.9             |
| 633,000   | Teco Energy Inc.                     | 7.200 % | 05/01/2011 | 692,792              | 1.3             |
|   |                                      |         |            | <b>6,436,816</b>     | <b>12.0</b>     |
| Swap Contract   |                                      |         |            | (17,699,234)         | (32.9)          |
| <b>Total Investments</b>  |                                      |         |            | <b>\$ 53,703,478</b> | <b>100.0</b>    |
| Other Assets Less Liabilities                                   |                                      |         |            | 24,815               | 0.0             |
| <b>Total Net Assets</b>   |                                      |         |            | <b>\$ 53,728,293</b> | <b>100.0</b>    |