

*Financial Statements of*

**PROFIT BOOKING BLUE CHIP TRUST**

*(Unaudited)*

*March 31, 2005*

# PROFIT BOOKING BLUE CHIP TRUST

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March 31, 2005

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## Management's Discussion and Analysis

### PROFIT BOOKING BLUE CHIP TRUST

FOR THE FIRST QUARTER ENDED MARCH 31, 2005

May 10, 2005

#### CORPORATE STRUCTURE

Profit Booking Blue Chip Trust (the "Fund") is an investment trust established under the laws of the Province of Ontario on May 19, 2004 (date of inception). At that time, the Fund completed an initial public offering (the "Offering") of 2,500,000 units at \$10 per unit (the "Offering Price"). Subsequently an option granted to the agents was exercised for 193,473 units at \$10 per unit. The Fund's units are listed on The Toronto Stock Exchange. The Fund will terminate operations on December 31, 2011 (the "Termination Date") and the net assets will be distributed pro rata to Unitholders. The manager of the Fund is Crown Hill Capital Corporation (the "Manager").

#### INVESTMENT OBJECTIVES AND STRATEGY OF THE TRUST

The Fund's objectives are: (i) to provide unit holders with a stable stream of monthly distributions targeted at \$0.06 per Unit (\$0.72 per annum or 7.2% of the Offering Price); and (ii) to preserve and potentially enhance the net asset value of the Trust in order to return at least the Offering Price to unit holders upon the Termination date.

In order to meet its investment objectives, the Fund will adopt the following strategies:

- 1) **Investment Strategy:** The Trust will invest the net proceeds of the Offering in a highly diversified equally weighted portfolio of equity securities (the Blue Chip Portfolio.) which is expected to be comprised of the securities of approximately 40 different issuers. Each issuer whose securities are included in the Blue Chip Portfolio will have a market capitalization of at least \$1 billion at the time of investment and meet the other investment criteria of the Trust. To generate additional returns, the Trust may, from time to time, write covered call options in respect of individual securities held in the Blue Chip Portfolio.
- 2) **Profit Booking:** If and when the value of any security held in the Blue Chip Portfolio exceeds the original acquisition value by at least 10% the Trust will lock in that 10% or greater gain by using its Profit Booking strategy. The net proceeds of any disposition of securities (after providing for distributions to Unitholders) will be invested in a portfolio of High Quality Fixed Income Securities (the Profit Booking Portfolio) maturing on or about the Termination Date of the Trust.

## **FINANCIAL RESULTS**

The Trust's earned dividend and interest income of \$248,306 in the current fiscal quarter ended March 31, 2005. The total expenses for the quarter, inclusive of investment management fees, were \$180,651.

Realized gains totaled \$312,616 and the Change in Unrealized Appreciation totaled \$68,966 resulting in the Trust earning Net Income for the quarter of \$449,237 (or \$0.17 per Unit).

During the quarter, the Trust also made distributions totaling \$0.18 per unit resulting in the Trust's net asset value decreasing from \$25,449,102 (\$9.45 per Unit) as of December 31, 2004 to \$25,413,514 (\$9.44 per Unit) as at March 31, 2005. This represents a 0.14% decrease over the period.

Since inception, the Trust's trading value has decreased from \$10.00 (the IPO price) per Unit on June 1, 2004, to \$9.12 per Unit as at March 31, 2005, amounting to an 8.8% decrease, excluding distributions, over the period.

## **TRADING PREMIUM/DISCOUNT TO NET ASSET VALUE**

Units of the Trust began trading on the Toronto Stock Exchange (TSX: PBK.UN) on June 1, 2004. Since then, Units of the Trust have traded at both a premium and a discount to the Trust's net asset value per Unit.

As at March 31, 2005, Units of the Trust were trading at \$9.12 per unit, which represents a 3.39% discount to the Trust's net asset value per Unit of \$9.44.

## **DISTRIBUTIONS**

During the quarter, the Trust declared distributions totaling \$484,825. These distributions met one of the Fund's investment objectives, namely to provide unit holders with a stable stream of monthly distributions targeted at \$0.06 per Unit.

## **ANNUAL REDEMPTION AT NET ASSET VALUE**

Unitholders are entitled to redeem their Units annually on the last business day of May of each year. There were no redemptions for the three month period ending March 31, 2005.

## **MARKET PURCHASE PROGRAM**

To enhance liquidity and to provide market support for the Units, the Trust has a market purchase program under which the Trust may, subject to certain exceptions contained in its Declaration of Trust and in compliance with any applicable regulatory requirements, purchase for cancellation any Units offered in the market at the then prevailing market price if, at any time following the closing of the offering of Units, the price at which Units are then offered for sale is less than the net asset value per Unit determined as at 5:00 p.m. (Toronto Time) on the immediately preceding business day.

For the period ending March 31, 2005, the Trust did not repurchase any Units for cancellation under its market purchase program.

## **TERMINATION**

On or about May 31, 2011, the Trust will be terminated and Holders will receive their *pro-rata* share of the net assets of the Trust.



## Financial Statements

### PROFIT BOOKING BLUE CHIP TRUST

#### Statement of Net Assets

As at March 31, 2005

(Unaudited)

	As at March 31, 2005	As at December 31, 2004
<b>ASSETS</b>		
Cash and Short Term Investments	1,430,671	\$ 505,907
Dividend and interest receivable	56,208	66,617
Investments at market value (note 4) (Cost 2005: \$24,265,363; cost December 2004: \$25,297,995)	25,731,049	26,694,715
	27,217,928	\$ 27,267,239
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
Professional, custody and other fees payable	49,647	\$ 74,545
Distribution Payable (note 8)	161,608	161,608
Loan Facility (note 9)	1,593,159	1,581,984
	1,804,414	\$ 1,818,137
<b>NET ASSETS AND UNITHOLDERS' EQUITY</b>	25,413,514	\$ 25,449,102
<b>NUMBER OF UNITS OUTSTANDING (Note 5)</b>	2,693,473	\$ 2,693,473
<b>NET ASSET VALUE PER UNIT</b>	\$ 9.44	\$ 9.45



## Financial Statements

### PROFIT BOOKING BLUE CHIP TRUST

#### Statement of Operations

For the three months ended March 31, 2005

(Unaudited)

	From Jan 1, 2005 to March 31, 2005	From June 1, 2004 to Dec 31, 2004
<b>INCOME</b>		
Dividends (net of withholding taxes)	\$ 243,683	\$ 413,226
Interest	4,623	21,883
	<b>\$ 248,306</b>	<b>\$ 435,109</b>
<b>EXPENSES</b>		
Management fees (note 7)	\$ 40,479	\$ 93,295
Legal fees	-	65,752
Service fees	26,962	61,879
Insurance and board expenses	7,245	52,115
Loan facility fees (note 9)	-	38,677
Office and administrative fees	22,181	32,081
Interest expenses (note 9)	11,175	28,888
Custodian fees	29,826	27,973
Accounting, audit and professional fees	11,631	33,505
Regulatory and listing expenses	10,593	1,280
Unit holder servicing fees	20,559	1,152
	<b>\$ 180,651</b>	<b>\$ 436,597</b>
<b>NET INVESTMENT GAIN (LOSS)</b>	<b>67,655</b>	<b>(1,488)</b>
<b>CHANGE IN UNREALIZED APPRECIATION OF INVESTMENTS ( note 4 )</b>	<b>68,966</b>	<b>1,396,720</b>
<b>REALIZED GAINS ON INVESTMENTS (note 4)</b>	<b>312,616</b>	<b>232,406</b>
<b>NET INCOME FROM OPERATIONS FOR THE PERIOD</b>	<b>\$ 449,237</b>	<b>\$ 1,627,638</b>
<b>NET INCOME FROM OPERATIONS PER UNIT FOR THE PERIOD</b>	<b>\$ 0.17</b>	<b>\$ 0.60</b>



## Financial Statements

### PROFIT BOOKING BLUE CHIP TRUST

#### Statement of Changes in Net Assets

For the three months ended March 31, 2005

(Unaudited)

	From Jan 1, 2005 to March 31, 2005	From June 1, 2004 to Dec 31, 2004
<b>NET ASSETS - BEGINNING OF PERIOD</b>	\$ 25,449,102	\$ -
<b>NET INCOME FROM OPERATIONS FOR THE PERIOD</b>	449,237	1,627,638
<b>UNIT TRANSACTIONS (note 5)</b>		
Proceeds from issuance of units	-	29,934,730
Unit issuance costs	-	(2,143,616)
<b>NET PROCEEDS</b>	-	24,791,114
<b>DISTRIBUTION TO UNITHOLDERS (note 8)</b>	(484,825)	(969,650)
<b>NET ASSETS - END OF PERIOD</b>	\$ 25,413,514	\$ 25,449,102
<b>DISTRIBUTION PER UNIT FOR THE PERIOD (note 8)</b>	\$ 0.18	\$ 0.36



## Financial Statements

### PROFIT BOOKING BLUE CHIP TRUST

#### Statement of Cash Flow

For the three months ended March 31, 2005

(Unaudited)

	From Jan 1, 2005 to March 31, 2005	From June 1, 2004 to December 31, 2004
<b>CASH FLOW FROM OPERATIONS</b>		
Net income from operations	\$ 449,237	\$ 1,627,638
Items not affecting cash:		
Realized gain on investments	(312,616)	(232,406)
Change in unrealized appreciation of investments	(68,966)	(1,396,720)
Change in non-cash working capital	(3,313)	7,928
	\$ 64,341	\$ 6,440
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of common shares	(62,686)	(27,052,827)
Proceeds from sale of stocks	1,407,934	1,987,238
Distributions paid	(484,825)	(808,042)
	\$ 860,423	\$ (25,873,631)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issuance of units	-	26,934,730
Offering cost paid	-	(2,143,616)
Net Proceeds	\$ -	\$ 24,791,114
Proceeds from loan	-	2,453,737
Repayment of loans	-	(871,753)
Net advanced	\$ -	\$ 1,581,984
Total	\$ -	\$ 26,373,098
Net increase in cash and short-term investments	924,765	505,907
<b>CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF PERIOD</b>	\$ 505,907	\$ -
<b>CASH AND SHORT-TERM INVESTMENTS AT END OF PERIOD</b>	\$ 1,430,672	\$ 505,907
Supplementary information		
Interest paid	\$ 11,175	\$ 28,888



## Financial Statements

### PROFIT BOOKING BLUE CHIP TRUST

#### Statement of Investments

As at March 31, 2005

(Unaudited)

<u>Investment Portfolio</u>	<u>Number of Shares</u>	<u>Average Cost</u>	<u>Market Value</u>	<u>% of Portfolio</u>
<b>CANADIAN EQUITIES</b>				
Alcan Inc.	12,357	\$609,023	\$568,422	2.2%
Aliant Inc.	24,803	672,767	714,575	2.8%
Bank of Montreal	11,774	616,835	661,463	2.6%
Bank of Nova Scotia	16,500	562,730	652,575	2.5%
BCE Inc.	22,894	615,169	692,543	2.7%
Canadian Imperial Bank of Commerce	9,115	605,410	668,676	2.6%
Canadian Oil Sands Trust	8,300	352,249	682,675	2.7%
Canadian Tire Corporation	12,000	559,681	684,600	2.7%
Canadian Utilities Limited	11,500	621,442	705,525	2.7%
Cascades Inc.	49,500	680,057	641,025	2.5%
Dofasco Inc.	14,796	560,697	527,477	2.0%
Emera Inc.	36,150	616,529	668,775	2.6%
Enbridge Inc.	10,600	519,895	659,320	2.6%
EnCana Corp	8,393	470,389	717,014	2.8%
Finning International Inc.	19,100	615,163	628,008	2.4%
Great-West Lifeco Inc.	25,100	615,702	667,660	2.6%
IGM Financial, Inc.	18,500	621,058	696,525	2.7%
Imperial Oil Ltd.	7,720	471,523	710,394	2.8%
Loblaw Companies Limited	9,800	611,564	711,970	2.8%
Manitoba Telecom Services Inc.	14,406	674,507	666,854	2.6%
Manulife Financial Corporation	11,755	619,593	678,851	2.6%
MDS Inc.	31,200	673,830	548,184	2.1%
Molson Coors Canada Inc - B	6,804	642,298	633,453	2.5%
National Bank of Canada	12,900	565,464	675,573	2.6%
Petro-Canada	9,500	556,416	667,375	2.6%
RioCan Real Estate Investment Trust	36,550	547,440	663,383	2.6%
Royal Bank of Canada	9,385	556,392	690,361	2.7%
Saputo Inc.	18,500	608,858	668,775	2.6%
Sun Life Financial Inc.	16,800	616,285	662,760	2.6%
The Thomson Corporation	15,100	674,789	612,607	2.4%
The Toronto-Dominion Bank	13,543	604,517	678,503	2.6%
<b>TOTAL CANADIAN EQUITIES</b>		<b>\$18,338,272</b>	<b>\$20,505,901</b>	<b>79.7%</b>
<b>U.S. EQUITIES</b>				
3M Co.	5,800	683,885	601,298	2.3%
General Electric Company	14,910	633,338	650,482	2.5%
Hewlett-Packard Company	23,600	685,224	626,441	2.4%
Intel Corporation	17,500	683,957	491,835	1.9%
International Business Machines Corporation	5,700	687,445	630,169	2.4%
Johnson & Johnson	8,200	622,091	666,279	2.6%
Microsoft Corporation	17,300	621,187	505,888	2.0%
Pfizer Inc.	14,200	680,627	451,315	1.8%
The Home Depot, Inc.	13,000	629,337	601,441	2.3%
<b>TOTAL U.S. EQUITIES</b>		<b>\$5,927,091</b>	<b>\$5,225,148</b>	<b>20.3%</b>
<b>TOTAL INVESTMENTS</b>		<b>\$24,265,363</b>	<b>\$25,731,049</b>	<b>100.00%</b>
<b>OTHER ASSETS LESS LIABILITIES</b>			<b>(317,535)</b>	
<b>TOTAL NET ASSETS</b>			<b>\$25,413,514</b>	<b>100.00%</b>

# PROFIT BOOKING BLUE CHIP TRUST

## Notes to the Financial Statements

March 31, 2005

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### 1. ESTABLISHMENT OF THE TRUST

Profit Booking Blue Chip Trust (the "Trust") is an investment trust established under the laws of the Province of Ontario on May 19, 2004 (date of inception). On May 31, 2004, the Trust completed an initial public offering (the "Offering") of 2,500,000 units at \$10 per unit (the "Offering Price"). Subsequently an option granted to the agents was exercised for 193,473 units at \$10 per unit. The Fund's units are listed on The Toronto Stock Exchange under the symbol PBK.UN. The Trust began operations on May 31, 2004 when it completed its initial public offering. The Trust will terminate operations on December 31, 2011 (the "Termination Date") and the net assets will be distributed pro rata to unitholders. The manager of the Trust is Crown Hill Capital Corporation (the "Manager"), which is a wholly-owned subsidiary of First Paladin Inc. ("First Paladin").

### 2. INVESTMENT OBJECTIVES OF THE TRUST

The stated investment objectives are:

- (i) to provide unit holders with a stable stream of monthly distributions targeted at \$0.06 per Unit (\$0.72 per annum) or 7.2% of the Offering Price; and
- (ii) to preserve and potentially enhance the net asset value of the Trust in order to return at least the Offering Price to unit holders upon the Termination date.

### 3. 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. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

#### *a) Investment Valuation*

##### *Portfolio Securities*

Securities listed on a public stock exchange are valued at their closing sale price on the valuation date. Securities not traded on that date are valued at the average of the closing recorded bid and ask prices or the price used on the previous valuation day if the price is not available. Securities not listed on any exchange are valued based upon the available public quotations in common use or at a price estimated to be the fair value thereof as determined by the Manager of the Fund.

##### *Short-Term Investments*

Short-term investments are recorded at cost and valued at cost plus accrued interest which approximates market value.

#### *b) Investment Transactions and Income Recognition*

- i. Investment transactions are accounted for on the trade date.
- ii. Interest income and expenses are recorded on the accrual basis.
- iii. Dividend income is recorded on the ex-dividend date.

# PROFIT BOOKING BLUE CHIP TRUST

## Notes to the Financial Statements

March 31, 2005

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iii. Realized gains and losses on investments and unrealized appreciation or depreciation of investments are calculated using the average cost of the related investments.

c) *Net asset value per unit*

The net asset value (the “NAV”) per unit is computed by dividing the net assets of the Fund by the total number of units outstanding.

d) *Foreign Exchange*

The market value of investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates prevailing on each valuation date. Purchases and sales of investments, income and expenses are translated into Canadian dollars at the foreign exchange rates prevailing on the respective dates of such transactions.

### 4. INVESTMENT PORTFOLIO

The following tables summarizes movements in investments during the period:

#### Investment summary at cost

Investments at cost- beginning of period	\$25,297,995
Investments made during the period	\$62,686
Dispositions during the period	\$1,095,318
Investments at cost – end of period	\$24,265,363

#### Market Value of investments

Investments at cost – end of period	\$24,265,363
Unrealized gain on investments	\$1,465,686
Less accrued unrealized gains to December 31, 2004	(\$1,396,720)
Unrealized gain for the period	\$68,966
Investments at market value – end of period	\$25,731,049

# PROFIT BOOKING BLUE CHIP TRUST

## Notes to the Financial Statements

March 31, 2005

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### 4. INVESTMENT PORTFOLIO (continued)

#### Realized gain on investments

Proceeds of investments sold	\$1,407,934
Cost of investments sold	\$1,095,318
Net realized gain on investments	\$312,616

### 5. UNITS ISSUED AND OUTSTANDING

The Trust 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. Unitholders are entitled to redeem their units outstanding in May of each year as more particularly as described in the prospectus. Units will be redeemed at the net asset value per unit on the redemption date.

In 2004, the Trust realized gross proceeds of \$26,934,730 based on the issuance of 2,693,473 units. Agent's fees of \$1,414,073 and issuance costs of \$729,543 were incurred in connection with the offering.

The following unit transactions took place during 2004:

Balance of units outstanding – beginning of period	2,693,473
Units issued during the period	Nil
Units cancelled or redeemed during the period	Nil
Balance of units outstanding – end of period	2,693,473

Unitholders' equity comprised of unit capital and retained earnings. The following transactions for unit capital and retained earnings took place in the period January 1, 2005 to March 31, 2005:

Unit capital – beginning of period	\$24,791,114
Gross proceeds from offering (net of agent's fees)	Nil
Offering costs	Nil
Unit capital – end of period	\$24,791,114

# PROFIT BOOKING BLUE CHIP TRUST

## Notes to the Financial Statements

March 31, 2005

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### 5. UNITS ISSUED AND OUTSTANDING (continued)

Retained earnings – beginning of period	\$657,988
Net income from operations for the period	\$449,237
Distributions to unitholders	(\$484,825)
Retained earnings – end of period	\$622,400

### 6. TAXATION

The Trust qualifies as a “mutual fund trust” within the meaning of the *Income Tax Act* (Canada). The Trust is subject to applicable federal and provincial taxes on the amount of its net income for tax purposes for the year, including net realized taxable capital gains, 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 and net realized capital gains are distributed to the unitholders.

### 7. RELATED PARTY TRANSACTIONS

The Manager is entitled to an annual fee of 0.60% of the NAV of the Trust, calculated and payable, monthly. This amount totalled \$40,479 for the period ended March 31, 2005 (of which \$13,115 is payable at March 31, 2005). All other expenses of the Fund are initially paid by the Manager, which is then reimbursed by the Fund in a reasonable amount of time.

The Trust is also paying a monthly overhead cost to First Paladin. This overhead cost varies monthly, depending on the actual costs incurred. Management estimates the overhead cost to be approximately \$80,000 per annum. For the 3 months ended March 31, 2005 these costs totaled \$16,777.

### 8. DISTRIBUTIONS

As stated in Note 2, the Trust makes monthly distributions to unit holders of \$0.06 per unit. The distributions commenced July 30, 2004 and the Trust made distributions totaling \$484,825 for the three months ended March 31, 2005.

### 9. LOAN FACILITY

In accordance with the terms of the Initial Public Offering, the Trust was authorized to borrow money from a Canadian chartered bank for the purposes of meeting certain of the Trusts investment objectives. The Trust has since obtained a secured 365-day revolving term credit facility to a maximum of \$2,750,000. The Trust has granted the bank a General Security Agreement over the Trust assets.

As at March 31, 2005, the principal and accrued interest amounted to \$1,593,159 (principal - \$1,600,000). The Trust is therefore required to repay the borrowed funds on or about May 31, 2005.

# **PROFIT BOOKING BLUE CHIP TRUST**

## **Notes to the Financial Statements**

**March 31, 2005**

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### **10. COMPARATIVE FIGURES**

As the Trust only commenced operations on May 31, 2004, there are no comparative figures for the corresponding period in 2004.