



BND.UN \$ 75,000,000

Financial Statements of

CROWN HILL DIVIDEND FUND

Audited

For the year ended December 31, 2006

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

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

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March 28, 2007

Auditors' Report

To the Unitholders of Crown Hill Dividend Fund

We have audited the statement of investment portfolio of **Crown Hill Dividend Fund** (the Fund) as at December 31, 2006, the statements of net assets as at December 31, 2006 and 2005 and the statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. 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 financial position of the Fund as at December 31, 2006 and 2005 and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

Financial Statements

STATEMENT OF NET ASSETS

As at December 31,	2006	2005
ASSETS		
Investments at market value (Note 4) (Cost 2006: \$13,159,623; 2005: \$20,745,803)	\$ 15,543,567	\$ 23,447,998
Cash and short-term investments	503,642	955,731
Dividend and interest receivable	46,975	61,679
	16,094,184	24,465,408
LIABILITIES		
Accrued liabilities	89,703	97,072
Distributions payable (Note 6)	93,897	147,840
	183,600	244,912
NET ASSETS REPRESENTING UNITHOLDERS' EQUITY (Note 6)	\$ 15,910,584	\$ 24,220,496
NUMBER OF UNITS OUTSTANDING (Note 5)	1,564,951	2,463,993
NET ASSET VALUE PER UNIT	\$ 10.17	\$ 9.83

SIGNED ON BEHALF OF THE TRUSTEE,

(signed) Wayne L. Pushka
Director

(signed) Thomas I. A. Allen
Director

The accompanying notes are an integral part of these financial statements.

Financial Statements

continued

STATEMENT OF OPERATIONS

For the year ended December 31,	2006	2005
INCOME		
Dividends (net of withholding taxes – 2006: \$12,008; 2005: \$13,128)	\$ 380,826	\$ 654,779
Interest	105,508	24,399
	486,334	679,178
EXPENSES		
Management fees (Note 8)	120,359	156,161
Legal fees	6,601	34,772
Service fees (Note 8)	74,708	103,269
Directors' fees and expenses	32,519	28,980
Insurance expense	11,070	37,800
Administrative expenses (Note 8)	104,016	153,721
Interest expense	2,048	54,522
Loan facility fees	-	4,000
Custody, valuation and transfer fees	64,805	72,523
Accounting fees	17,840	26,722
Audit fees	39,978	28,553
Regulatory and listing expenses	18,910	17,204
Unitholder servicing expenses (Note 8)	59,587	63,845
	552,441	782,072
NET INVESTMENT LOSS	(66,107)	(102,894)
CHANGE IN UNREALIZED (DEPRECIATION) APPRECIATION OF INVESTMENTS	(318,251)	1,305,476
NET REALIZED GAIN ON SALE OF INVESTMENTS	1,972,483	1,548,190
INCREASE IN NET ASSETS FROM OPERATIONS	\$ 1,588,125	\$ 2,750,772
INCREASE IN NET ASSETS FROM OPERATIONS PER UNIT ⁽¹⁾	\$ 0.80	\$ 1.07

⁽¹⁾Based on the weighted average number of units outstanding during the period.

The accompanying notes are an integral part of these financial statements.

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STATEMENT OF CHANGES IN NET ASSETS

For the year ended December 31,		2006		2005
NET ASSETS, BEGINNING OF YEAR	\$	24,220,496	\$	25,449,102
INCREASE IN NET ASSETS FROM OPERATIONS		1,588,125		2,750,772
CAPITAL UNIT TRANSACTIONS (Note 6)				
Paid for units redeemed		(8,502,459)		(2,136,459)
DISTRIBUTIONS TO UNITHOLDERS (Note 6)				
Return of capital		(1,395,578)		(1,842,919)
NET ASSETS, END OF YEAR	\$	15,910,584	\$	24,220,496

The accompanying notes are an integral part of these financial statements.

Financial Statements

continued

STATEMENT OF CASH FLOW

For the year ended December 31,	2006	2005
CASH FLOW FROM (TO) OPERATIONS		
Net investment loss	\$ (66,107)	\$ (102,894)
Change in non-cash working capital	7,335	27,465
	(58,772)	(75,429)
CASH FLOW FROM (TO) INVESTING ACTIVITIES		
Purchase of investments	(1,467,138)	(1,063,167)
Proceeds from sale of investments	11,025,801	7,163,550
	9,558,663	6,100,383
CASH FLOW FROM (TO) FINANCING ACTIVITIES		
Paid for units redeemed	(8,502,459)	(2,136,459)
Repayment of loan facility	-	(1,581,984)
Distributions paid	(1,449,521)	(1,856,687)
Total	(9,951,980)	(5,575,130)
NET (DECREASE) INCREASE IN CASH AND SHORT-TERM INVESTMENTS	(452,089)	449,824
CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR	955,731	505,907
CASH AND SHORT-TERM INVESTMENTS, END OF YEAR	\$ 503,642	\$ 955,731
INTEREST PAID	\$ 2,048	\$ 54,522

The accompanying notes are an integral part of these financial statements.

Financial Statements

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STATEMENT OF INVESTMENT PORTFOLIO
As at December 31, 2006

DESCRIPTION	NUMBER OF SHARES	AVERAGE COST	MARKET VALUE	% OF NET ASSETS
CANADIAN EQUITIES				
Alcan Inc.	6,257	\$ 308,380	\$ 355,273	2.2
Bank of Montreal	5,774	302,498	398,406	2.5
Bank of Nova Scotia	8,100	276,249	422,010	2.7
BCE Inc.	12,347	330,304	387,696	2.4
Bell Aliant Regional Communications Income Fund	11,181	369,074	301,440	1.9
Canadian Imperial Bank of Commerce	4,415	293,240	433,994	2.7
Canadian Oil Sands Trust	10,300	108,858	335,883	2.1
Canadian Tire Corporation	5,300	247,193	375,664	2.4
Canadian Utilities Limited	8,800	237,769	421,080	2.5
Cascades Inc.	28,100	386,053	371,763	2.3
Emera Inc.	17,250	294,194	389,850	2.5
Enbridge Inc.	10,400	255,043	418,808	2.6
EnCana Corp.	6,486	181,755	348,039	2.2
Finning International Inc.	8,500	273,764	406,215	2.6
Great-West Lifeco Inc.	11,600	284,548	392,080	2.5
IGM Financial, Inc.	7,900	265,208	387,890	2.4
Imperial Oil Ltd.	8,960	182,420	384,653	2.4
Loblaw Companies Limited	6,800	424,351	331,772	2.1
Manitoba Telecom Services Inc.	7,906	370,169	366,838	2.3
Manulife Financial Corporation	9,910	261,172	389,959	2.5
MDS Inc.	17,400	375,790	370,098	2.3
Molson Coors Canada Inc - B	4,604	420,805	408,927	2.6
National Bank of Canada	5,800	254,240	381,872	2.4
Petro-Canada	7,100	207,924	339,025	2.1
RioCan Real Estate Investment Trust	14,950	208,989	375,993	2.4
Royal Bank of Canada	7,170	212,538	397,935	2.5
Saputo Inc.	10,600	348,859	391,776	2.5
Sun Life Financial Inc.	7,900	289,801	389,628	2.4
The Thomson Corporation	7,900	353,035	382,202	2.4
The Toronto-Dominion Bank	6,043	269,741	421,316	2.6
Westshore Terminals Income Fund	34,300	432,800	404,396	2.6
TOTAL CANADIAN EQUITIES		9,026,764	11,882,481	74.7
U.S. EQUITIES				
3M Co.	3,900	459,854	353,680	2.2
General Electric Company	9,610	408,208	416,125	2.6
Hewlett-Packard Company	9,100	264,218	436,189	2.7
Intel Corporation	17,500	683,957	412,387	2.6
International Business Machines Corporation	3,700	446,236	418,297	2.6
Johnson & Johnson	5,400	409,670	414,868	2.6
Microsoft Corporation	12,400	445,243	430,877	2.7
Pfizer Inc.	12,500	599,143	376,748	2.4
The Home Depot, Inc.	8,600	416,330	401,915	2.6
TOTAL U.S. EQUITIES		4,132,859	3,661,086	23.0
TOTAL INVESTMENTS		\$ 13,159,623	15,543,567	97.7
OTHER ASSETS, NET OF LIABILITIES			367,017	2.3
TOTAL NET ASSETS		\$	15,910,584	100.0

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

December 31, 2006

1. THE FUND

Establishment of the Fund

The Crown Hill Dividend Fund (the “Fund”) 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 Fund completed an initial public offering (the “Offering”) of 2,500,000 Units (the “Units”) at \$10 per Unit. 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 Fund began operations on May 31, 2004 when it completed its initial public offering. The Fund will terminate operations on December 31, 2011 (the “Termination Date”) and the net assets will be distributed pro rata to holders of Units (the “Unitholders”). The manager (the “Manager”) of the Fund is Crown Hill Capital Corporation, which is a wholly-owned subsidiary of First Paladin Inc.

Effective June 24, 2005 the name of the Fund changed from Profit Booking Blue Chip Trust to Crown Hill Dividend Fund.

2. INVESTMENT OBJECTIVES OF THE FUND

The stated investment objectives are:

- (i) to provide Unitholders 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 Fund in order to return at least the Offering Price to Unitholders 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.

December 31, 2006**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****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. 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.
- iv. 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

On each valuation date, the net asset value per unit is computed by dividing the net assets of the Fund by the total number of its units outstanding.

d) Foreign Exchange

The market value of investments and other assets and liabilities denominated in foreign currencies is 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.

Notes to the Financial Statements

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December 31, 2006

4. INVESTMENT PORTFOLIO

The following tables summarize movements in investments during the year ended December 31, 2006 and December 31, 2005:

Investment summary at cost

	2006	2005
Investments at cost – beginning of year	\$20,745,803	\$25,297,996
Investments made during the year	1,467,138	1,063,167
Dispositions during the year, at cost	(9,053,318)	(5,615,360)
Investments at cost – end of year	<u>\$13,159,623</u>	<u>\$20,745,803</u>

Market value of investments

	2006	2005
Investments at cost – end of year	\$13,159,623	\$20,745,803
Unrealized gain on investments	2,383,944	2,702,195
Investments at market value – end of year	<u>\$15,543,567</u>	<u>\$23,447,998</u>

Realized gain on sale of investments

	2006	2005
Proceeds of investments sold	\$11,025,801	\$7,163,550
Cost of investments sold	9,053,318	5,615,360
Net realized gain on investments	<u>\$1,972,483</u>	<u>\$1,548,190</u>

5. UNITS ISSUED AND OUTSTANDING

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 Fund. Unitholders are entitled to redeem their Units outstanding in May of each year. Units will be redeemed at the net asset value per Unit on the redemption date.

The following unit transactions took place during the years ended December 31, 2006 and 2005.

	2006	2005
Balance of units outstanding – beginning of year	2,463,993	2,693,473
Units cancelled or redeemed during the year	(899,042)	(229,480)
Balance of units outstanding – end of year	<u>1,564,951</u>	<u>2,463,993</u>

Notes to the Financial Statements

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December 31, 2006

6. UNIT HOLDERS EQUITY

Unitholders' equity is comprised of unitholders' capital and retained earnings. The changes in unitholders' capital and retained earnings during the years ended December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Unitholders' capital – beginning of year	\$22,679,898	\$24,791,114
Redemption of units	(8,271,186)	(2,111,216)
Unitholders' capital – end of year	<u>\$14,408,712</u>	<u>\$22,679,898</u>

	2006	2005
Retained earnings – beginning of year	\$1,540,598	\$657,988
Results from operations for the year	1,588,125	2,750,772
Distributions to unitholders	(1,395,578)	(1,842,919)
Excess of cost of units redeemed over net proceeds of issuance	(231,273)	(25,243)
Retained earnings – end of year	<u>\$1,501,872</u>	<u>\$1,540,598</u>

	2006	2005
Unitholders' capital – end of year	\$14,408,712	\$22,679,898
Retained earnings – end of year	1,501,872	1,540,598
Unitholders' equity	<u>\$15,910,584</u>	<u>\$24,220,496</u>

7. TAXATION

The Fund qualifies as a "mutual fund trust" 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, 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.

Notes to the Financial Statements

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December 31, 2006

8. FUND EXPENSES

The Fund is responsible for all expenses incurred. These expenses are Operational Expenses and Service Fees. All expenses of the Fund are initially paid by the Manager, which is then reimbursed by the Fund in a reasonable amount of time.

Operational Expenses include the Manager's Fees, Administrative costs, Unitholder Servicing costs and any other cost directly related to the operation of the Fund. Of these expenses, the Manager is entitled to an annual fee of 0.60% of the NAV of the Fund, calculated and payable, monthly. For the year, this amount totaled \$120,359 (2005 - \$156,161) of which \$8,562 (2005 - \$13,318) was payable at December 31, 2006. Administrative costs for the year totaled \$104,016 (2005 - \$153,721). This was made up of administrative salaries, employee benefits, general overhead and office supplies. As part of the administration cost, the Fund is paying a monthly general overhead cost to First Paladin Inc, which varies depending on the actual costs incurred. The general overhead cost for the year was \$52,421 (2005 - \$65,284).

Unitholder Servicing costs for the year totaled \$59,587 (2005 - \$63,845) which was made up of investor relations salaries, web site fees and payments to service providers for the filing of press releases and SEDAR filings. Service Fees for the year totaled \$74,708 (2005 - \$103,269) which are trailer fees paid by the Fund to the Unitholders' investment advisors.

9. BROKERAGE COMMISSIONS AND PORTFOLIO TRANSACTIONS

The brokerage commissions fees paid during 2006 were \$11,103 (2005 - \$5,253). The commissions were incurred solely for order execution services. The Fund does not pay any soft dollar commissions.

10. LOAN FACILITY

On June 3, 2005 the Fund renewed its 364-day revolving term credit facility, reducing the maximum to \$2,000,000. On that date there was an outstanding balance of \$1,500,000 on the credit facility. This balance remained outstanding until December 15, 2005, at which time it was paid in full. On June 2, 2006 the credit facility was terminated.

The maximum amount borrowed under the credit facility during 2006 was Nil (2005 - \$1,581,984).

Notes to the Financial Statements

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December 31, 2006

11. 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 in 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.

On January 1, 2007, the Fund adopted Section 3855 on a prospective basis for financial reporting purposes.

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.