

Butterfield Capital Appreciation Bond Fund Limited

FINANCIAL STATEMENTS
FOR THE YEARS ENDED
JUNE 30, 2010 AND 2009

Butterfield Capital Appreciation Bond Fund Limited

To the Shareholders:

We are pleased to present the Annual Report of the Fund for the twelve months ended June 30, 2010. The net asset value per share of the Fund, after expenses and fees, increased from \$32.68 to \$36.82 over the past year. On a total return basis after fees, the Fund delivered a return of 12.67% for the twelve months ended June 30, 2010. The Merrill Lynch benchmark bond index* returned 11.91% over the same period. The net asset value of the Fund stood at \$23.1 million at June 30, 2010, which compares with \$23.2 million at the same point last year. The Fund's disciplined and conservative investment style ensured that its Af bond fund credit rating and S3 bond fund volatility rating were assigned again by the officially recognized rating agency, Standard and Poor's.

Fund Review

The financial year covered a period of recovery for the US and global economies after significant fiscal stimulus countered the financial crisis and recession. Credit market conditions have improved substantially as shown by tightening credit spreads and improved liquidity. The US economy continues its uneven recovery and the Federal Reserve has held short interest rates near zero to boost growth in the face of a weak US housing market and an economy which is struggling with high unemployment and low job creation. Bank loan demand remains weak with small businesses still finding trading conditions and financing challenging. The quantitative easing measures implemented have mostly been unwound in the US but the European sovereign crisis caused an unexpected flight to quality in US Treasuries and the US dollar and a significant weakening of the Euro currency. The G20 have resolved to address the sovereign budget deficit issues but the key will be not to overdo the fiscal austerity before economic growth becomes self-sustaining.

The credit markets have improved and we have used the opportunity to reduce BBB exposure to zero. The US Treasury yield curve moved significantly lower over the year even as the US economy recovered in the second half of 2009. Overall, the 2 year US Treasury yield declined by 50 basis points from 1.11% to 0.61% and the 10 year US Treasury yield decreased by 61 basis points from 3.54% to 2.93%. The yield curve thus flattened over the period as the 2 to 10 year spread declined from 243 basis points to 232 basis points. The Fund is positioned conservatively with 69% of the portfolio rated AAA and AA and 31% A rated. We have maintained credit quality at a high level with 30% of the Fund invested in sovereign and supra-national bonds.

The Fund's strategy towards interest rate risk remains underweight duration at 90% of benchmark index. The US yield curve has flattened and there is a risk of higher US Treasury bond yields, particularly as real or inflation adjusted yields are currently low with further supply of US Treasuries anticipated. The US dollar has continued to be relatively strong over the period and the Fund has no non-US dollar exposure as at year end.

Butterfield Capital Appreciation Bond Fund Limited

Fund Outlook & Strategy

The Federal Reserve continues to hold the Fed Funds rate at effectively zero and we expect it to remain so well into 2011. US economic growth should continue but at a slower pace in the second half of 2010. Inflation is not a concern in the near term. The US housing sector has remained weak and the unemployment rate remains high at 9.5%.

The Fund has achieved good returns as the markets recovered and credit spreads tightened but we remain relatively cautious on lower quality credits as the economic environment remains soft. Our strategy is to provide positive absolute and relative returns in investment grade securities as investment opportunities occur. The average duration of the Fund is 4.8 years.

* The benchmark index is the Merrill Lynch B610 US Corporate & Government, 5-10 years, A rated and above Bond Index.

A handwritten signature in cursive script that reads "David Stewart".

David Stewart
President
Butterfield Capital Appreciation Bond Fund Limited

October 11, 2010

Butterfield Capital Appreciation Bond Fund Limited

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying statements of net assets of Butterfield Capital Appreciation Bond Fund Limited ("the Fund"), including the statements of portfolio investments, as at June 30, 2010 and 2009, and the statements of operations and changes in net assets 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 auditing standards generally accepted in Canada and Bermuda. 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 June 30, 2010 and 2009, and the results of its operations and the changes in its net assets for the years then ended, in accordance with accounting principles generally accepted in Canada and Bermuda.

Deloitte + Touche Ltd.

DELOITTE & TOUCHE LTD.

Chartered Accountants
Hamilton, Bermuda

October 11, 2010

Butterfield Capital Appreciation Bond Fund Limited

DIRECTORS

Sheila Brown
Curtis Dickinson
David Stewart (Appointed on December 10, 2009)
Ian Coulman (Resigned on July 20, 2009)

INVESTMENT ADVISOR

Butterfield Asset Management Limited
P.O. Box HM 195
Hamilton HM AX
Bermuda

CUSTODIAN

Butterfield Trust (Bermuda) Limited
P.O. Box HM 195
Hamilton HM AX
Bermuda

REGISTRAR, TRANSFER AGENT AND ADMINISTRATOR

Butterfield Fulcrum Group (Bermuda) Limited
P.O. Box HM 195
Hamilton HM AX
Bermuda

AUDITORS

Deloitte & Touche Ltd.
P.O. Box HM 1556
Hamilton HM FX
Bermuda

Butterfield Capital Appreciation Bond Fund Limited

STATEMENTS OF NET ASSETS As at June 30, 2010 and 2009 (Expressed in US Dollars)

	2010	2009
ASSETS		
Investments, at current value (Cost 2010 - \$20,747,795 ; 2009 - \$22,781,368)	\$ 22,350,200	\$ 22,313,363
Cash and cash equivalents	603,026	695,359
Accrued interest receivable	231,781	244,002
Prepaid expenses	8,012	14,377
	23,193,019	23,267,101
LIABILITIES		
Accrued expenses	64,502	62,458
	23,128,517	23,204,643
Organisational shares	12,000	12,000
FUND NET ASSETS	\$ 23,116,517	\$ 23,192,643
Number of common shares in issue	627,828	709,744
NET ASSET VALUE PER COMMON SHARE	\$ 36.82	\$ 32.68

Signed on Behalf of the Board



DIRECTOR



DIRECTOR

The accompanying notes are an integral part of these financial statements

Butterfield Capital Appreciation Bond Fund Limited

STATEMENTS OF PORTFOLIO INVESTMENTS As at June 30, 2010 and 2009 (Expressed in US Dollars)

Investment	Nominal	2010 Current Value	% of Portfolio	Nominal	2009 Current Value	% of Portfolio
Corporate and Government Securities						
Asian Development Bank 1% 17/5/18	2,000,000	\$ 1,694,500	7.58%	2,000,000	\$ 1,422,860	6.38%
Berkshire Hathaway 4.85% 15/1/15	1,300,000	1,427,760	6.39%	1,300,000	1,353,056	6.06%
Corporacion Andina De Fomento 5.2% 21/5/13	1,000,000	1,078,437	4.83%	1,500,000	1,506,796	6.75%
Fannie Mae Strip 15/11/17	1,000,000	786,975	3.52%	1,900,000	1,287,723	5.77%
General Electric Capital Corp 5.625% 5/1/18	1,500,000	1,594,070	7.13%	1,500,000	1,418,675	6.36%
Goldman Sachs Group 6.15% 1/4/18	1,500,000	1,571,275	7.03%	800,000	778,862	3.49%
Int'l Bank for Reco. and Development 0% 1/5/18	500,000	389,574	1.74%	500,000	342,733	1.53%
International Lease Finance 5.875% 5/1/13	-	-	-	500,000	378,723	1.70%
John Hancock 5.25% 25/2/15	1,000,000	1,081,301	4.84%	1,000,000	1,004,116	4.50%
J.P Morgan Chase 6.625% 15/3/12	150,000	161,397	0.72%	150,000	157,913	0.71%
J.P Morgan Chase 5.15% 1/10/15	500,000	534,964	2.39%	900,000	887,148	3.97%
Merrill Lynch & Co. 0% 30/8/13	1,250,000	1,106,290	4.95%	1,250,000	916,557	4.11%
Merrill Lynch & Co. 0% 25/9/18	100,000	65,404	0.29%	100,000	48,430	0.22%
Principal Life Global 5.05% 15/3/15	1,000,000	1,025,640	4.59%	1,000,000	912,136	4.09%
Seariver Maritime Inc. 0% 1/9/12	1,000,000	954,986	4.27%	-	-	-
Temasek Financial 4.5% 21/9/15	500,000	546,951	2.45%	500,000	511,238	2.29%
US Treasury Strip 0% 15/5/18	500,000	404,710	1.81%	-	-	-
US Treasury Strip 0% 15/8/19	1,000,000	753,080	3.37%	500,000	334,131	1.50%
West Deutsche Landesbank NY 4.796% 15/7/15	1,199,000	1,220,102	5.46%	1,199,000	1,250,166	5.60%
		16,397,416	73.36%		14,511,263	65.03%
Mortgage Backed Securities						
Citibank CCCIT 2003-A7 4.15% 7/7/17	1,000,000	1,073,296	4.80%	1,000,000	959,035	4.30%
Commerical Mortgage Asset Trust 1999-C1 6.64% 17/1/32	147,139	147,139	0.66%	274,623	276,145	1.24%
Equity One ABS 2003-4 5.369% 25/10/34	377,849	306,632	1.37%	632,179	454,941	2.04%
GE Capital Commercial Mortgage 2003-C1 4.371% 10/1/38	282,331	286,277	1.28%	1,830,000	1,810,486	8.12%
LB-UBS 2004-C4 4.367% 15/3/36	1,000,000	1,012,920	4.53%	1,000,000	846,664	3.79%
Wachovia Bank CMBS 2003-C5 3.989% 15/6/35	500,000	516,304	2.31%	500,000	467,091	2.09%
Wachovia Bank CMBS 2004-C10 4.748% 15/2/41	1,000,000	1,060,856	4.75%	1,000,000	919,020	4.12%
		4,403,424	19.70%		5,733,382	25.70%
Asset Backed Securities						
Cendant Rental Car Funding 2005-4 4.4% 20/7/11	-	-	-	500,000	482,747	2.16%
Federal Express 1997-A Trust 7.5% 15/1/18	1,463,781	1,549,360	6.94%	1,525,384	1,585,971	7.11%
		1,549,360	6.94%		2,068,718	9.27%
TOTAL INVESTMENTS AT CURRENT VALUE						
(Cost 2010 - \$20,747,795; 2009 - \$22,781,368)		\$ 22,350,200	100.00%		\$ 22,313,363	100.00%

The accompanying notes are an integral part of these financial statements

Butterfield Capital Appreciation Bond Fund Limited

STATEMENTS OF OPERATIONS For the years ended June 30, 2010 and 2009 (Expressed in US Dollars)

	2010	2009
INVESTMENT INCOME		
Interest	\$ 1,237,422	\$ 1,471,208
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EXPENSES		
Management fee	110,386	123,848
Accounting fee	51,338	49,200
Miscellaneous	29,954	22,762
Custodian fee	22,478	24,909
Registrar & transfer agent fee	21,515	22,058
Audit fee	20,509	20,500
Government fee	9,433	10,466
Printing	9,035	8,327
Secretarial fee	5,674	10,616
Advertising	1,546	2,338
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	281,868	295,024
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NET INVESTMENT INCOME	955,554	1,176,184
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NET REALISED AND UNREALISED GAIN (LOSS) ON INVESTMENTS		
Net realised loss on investments	(321,415)	(487,792)
Net change in unrealised gain (loss) on investments	2,070,410	(11,574)
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NET GAIN (LOSS) ON INVESTMENTS	1,748,995	(499,366)
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NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 2,704,549	\$ 676,818
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The accompanying notes are an integral part of these financial statements

Butterfield Capital Appreciation Bond Fund Limited

STATEMENTS OF CHANGES IN NET ASSETS For the years ended June 30, 2010 and 2009 (Expressed in US Dollars)

	2010	2009
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 2,704,549	\$ 676,818
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CAPITAL STOCK TRANSACTIONS		
Issue of shares	1,438,682	1,260,511
Redemption of shares	(4,219,357)	(5,487,786)
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Net capital stock transactions	(2,780,675)	(4,227,275)
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NET DECREASE IN NET ASSETS FOR THE YEAR	(76,126)	(3,550,457)
NET ASSETS - BEGINNING OF YEAR	23,192,643	26,743,100
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NET ASSETS - END OF YEAR	\$ 23,116,517	\$ 23,192,643

The accompanying notes are an integral part of these financial statements

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS

For the years ended June 30, 2010 and 2009

(Expressed in US Dollars)

1. ABOUT THE FUND

Butterfield Capital Appreciation Bond Fund Limited (the "Fund"), is an open-ended investment company which was incorporated under the laws of Bermuda on October 25, 1988.

The Fund commenced operations on February 13, 1989. Butterfield Trust (Bermuda) Limited acts as Custodian. Butterfield Asset Management Limited acts as Investment Advisor. Butterfield Fulcrum Group (Bermuda) Limited acts as Registrar and Transfer Agent and as Accountants for the Fund. Butterfield Trust (Bermuda) Limited and Butterfield Asset Management Limited are wholly owned subsidiaries of The Bank of N.T. Butterfield & Son Limited (the "Bank"), and the Bank also holds a significant interest in Butterfield Fulcrum Group (Bermuda) Limited.

The investment objective of the Fund is to maximise total returns whether through income or capital gains by investing in medium to high grade debt securities which can consist of bonds, debentures, notes, bills, mortgages, certificates and whatever suitable quality investments will help achieve the Fund's objectives.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and Bermuda. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund.

a) Valuation of Investments

Portfolio securities listed on an exchange are valued at the last traded price reported by the principal securities exchange on which the issue is traded. Over the counter securities are valued on the basis of the mean between the current bid and ask prices on that date. Securities which are not listed on a national securities exchange or reported on other institutional investors in over-the-counter markets, are recorded at fair value using current market quotations provided by such broker-dealers and, where available, external pricing sources. The net change during the year between these amounts and cost is shown as unrealized gain (loss) on investments.

The requirements of the CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement ("CICA 3855"), became effective for fiscal years beginning on or after October 1, 2006. CICA 3855 prescribes specific guidance for establishing fair values under GAAP, including the use of bid prices for long positions and ask prices for short positions for investments quoted in active markets. Where active markets do not exist, fair values are established using a fair valuation technique. Prior to the adoption of CICA 3855, fair values were based on last traded or closing prices or based on management's best estimate where market quotations were not reliable or available.

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS For the years ended June 30, 2010 and 2009 (Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

a) Valuation of Investments (cont'd)

The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed for these investments. The valuation of such securities can be based on various valuation techniques that could include mathematical models, comparable valuation models, fundamental valuation models, or other techniques that would reflect the specific business situation or market the security operates within. The models would use observable market data as inputs where possible. However, in some instances, certain investments are fair valued based on assumptions that may not be supported by observable inputs. Securities without observable market value inputs in their valuation require judgment in establishing their fair value. Changes in any of these assumptions could affect the reported fair value of financial assets or financial liabilities.

CICA 3855 also requires that transaction costs (such as brokerage commissions) incurred on portfolio transactions be recognized immediately in net income and presented as a separate expense item in the financial statements. Prior to the adoption of CICA 3855, transaction costs were included in the average cost of investments or as a reduction in the proceeds on the disposition of investments. Transaction costs were recognized immediately in net assets and results of operations, but were not presented as a separate line item.

Had the Fund used the bid prices for long positions, as prescribed by CICA 3855, the current value of investments and fund net assets would have increased by \$55,919 (2009 - decreased by \$187,443) and the net asset value per common share would have increased by \$0.09 (2009 – decreased by \$0.26).

b) Investment Transactions and Income Recognition

Investment transactions are accounted for on the trade date. Gains or losses arising from the sale of investments are determined using the average cost basis. Income from investments is recorded on the accrual basis. Interest income is recorded as earned.

c) Cash and Cash Equivalents

Cash equivalents are comprised primarily of shares in the Butterfield Money Market Fund Limited, an affiliated money market fund, denominated in US\$ shares. Shares may be redeemed on 24 hours notice.

d) Financial Assets and Liabilities

In addition to the estimated fair values of investments as disclosed in the statements of portfolio investments, the estimated fair value of the Fund's other financial instruments, including cash and cash equivalents, accrued interest receivable, prepaid expenses and accrued expenses approximate their carrying value.

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS For the years ended June 30, 2010 and 2009 (Expressed in US Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

e) Adoption of New Accounting Standards

Amendments to CICA Handbook Section 3862, Financial Instruments — Disclosures

The CICA issued CICA Handbook Section 3862 ("CICA 3862"), Financial Instruments — Disclosures and Section 3863 ("CICA 3863"), Financial Instruments — Presentation, effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. These standards provide comprehensive disclosure and presentation requirements for financial instruments, and introduce requirements for specific qualitative and quantitative disclosure about risks. The main objective of this new standard is to enable investors to evaluate the significance of financial instruments, the nature and extent of risks involved, and how these risks are managed. CICA 3862 requirements were adopted since the prior year.

During 2009, the Accounting Standards Board issued amendments to CICA 3862 that are effective for annual financial statements relating to fiscal years ending after September 30, 2009. These amendments are designed to enhance the existing disclosure around fair value and liquidity risk. This is accomplished by classifying the Fund's financial assets and financial liabilities into levels based on the input used to value the Fund's investments:

Level 1 — for unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 — for inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 — for inputs that are based on unobservable market data.

As part of the disclosure requirements, significant transfers between level 1 and level 2 investments are disclosed. The adoption of these amendments did not have an impact on net assets, increase (decrease) in net assets from operations, or increase (decrease) in net assets from operations per unit of the Fund.

CICA Emerging Issues Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective January 20, 2009, the Fund adopted retrospectively without restatement the CICA Emerging Issues Committee Abstract 173 ("EIC-173"), Credit Risk and the Fair Value of Financial Assets and Liabilities. EIC-173 requires the Fund's own credit risk and the credit risk of the counterparties to be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. The adoption of EIC-173 did not have a material impact on the financial position or results of operations of the Fund.

International Financial Reporting Standards

In February 2008, the CICA announced that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit-oriented publicly accountable enterprises. The change will be effective for fiscal years commencing on or after January 1, 2011. The Fund is currently determining the impact of IFRS on its financial statements.

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS

For the years ended June 30, 2010 and 2009

(Expressed in US Dollars)

3. FINANCIAL RISK MANAGEMENT

The Funds' overall risk management approach includes formal guidelines to govern extent of exposure to various types of risk. The Investment Advisor also has various internal controls to oversee the Funds' investment activities, including monitoring compliance with the investment objective and strategies, internal guidelines and securities regulations.

Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The value of such securities on the Statement of Portfolio Investments includes consideration of the creditworthiness of the issuer, and, accordingly represents the maximum credit risk exposure of the Fund. Credit ratings below represent ratings of debt securities provided by Standard & Poor's and are subject to change, which could be material.

As of June 30, 2010 and 2009, the Fund invested in fixed income securities with the following credit ratings:

Debt Securities by Credit Rating	% of Portfolio	
	2010	2009
AAA	44.20	48.10
AA	24.80	21.50
A	31.00	28.80
BBB	-	1.60
	100.00	100.00

Currency Risk

Currency risk is the risk that the value of an investment will fluctuate due to changes in foreign exchange rates. When the Fund enters into transactions which are denominated in currencies other than the Funds' reporting currency the Investment Advisor attempts to mitigate the associated currency risk in accordance with the above mentioned guidelines which may include the use of forward currency contracts. The Fund's transactions in a currency different from the reporting currency is not significant thus any risks associated are negligible.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Prices of fixed income securities generally increase when interest rates decline, and decrease when interest rates rise. The Fund is exposed to these fluctuations through their holdings of fixed income securities.

The table below indicates the Fund's holdings in fixed income securities by remaining term to maturity:

Debt Securities by Maturity	Current Value	
	2010	2009
Less than 1 year	\$ -	\$ -
1 - 3 years	1,239,834	640,660
3 - 5 years	4,640,991	1,885,519
Greater than 5 years	13,901,621	18,822,197
Non-Interest Bearing	2,567,754	964,987
	\$ 22,350,200	\$ 22,313,363

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS

For the years ended June 30, 2010 and 2009

(Expressed in US Dollars)

3. FINANCIAL RISK MANAGEMENT (CONT'D)

Interest Rate Risk (cont'd)

As at June 30, 2010, had the interest rate increased or decreased by 25 basis points and assuming a parallel shift in the yield curve, net assets would have decreased or increased by approximately \$277,200 (2009 - \$290,074). This change is estimated using the weighted average duration of the fixed income portfolio. This analysis assumes that all other variables remained unchanged. In practice, actual results may differ from this analysis and the difference could be material.

Liquidity Risk

Liquidity risk is the risk that the entity will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to liquidity risk by way of weekly cash redemptions of redeemable units. However, the Fund retains sufficient cash, cash equivalents and actively traded marketable securities to maintain adequate liquidity to address this risk.

Other price/market risk

Other price/market risk is the risk that the value of investments will fluctuate as a result of market conditions. The Fund is exposed to price/market risk on its holdings of fixed income securities as discussed in the Interest Rate Risk section above. The Investment Advisor attempts to mitigate price/market risk by selecting appropriate portfolio investments based on the Fund's strategy.

4. FAIR VALUE OF FINANCIAL ASSETS

The following is a summary of the inputs used as of June 30, 2010 in valuing the Fund's financial assets and carried at current value:

Classification	Level 1	Level 2	Level 3	Total
Financial Assets				
Corporate and Government Securities	\$ -	\$ 16,397,416	\$ -	\$ 16,397,416
Mortgage Backed Securities	-	4,403,424	-	4,403,424
Asset Backed Securities	-	1,549,360	-	1,549,360
Total Financial Assets	\$ -	\$ 22,350,200	\$ -	\$ 22,350,200

Transfers of assets between level 1 and level 2

Financial assets and liabilities transferred from level 1 to level 2 are the result of the securities no longer being traded in an active market. There were no transfers of financial assets and liabilities from level 1 to level 2 in the current period. Financial assets and liabilities transferred from level 2 to level 1 are the result of the securities now being traded in an active market. There were no transfers of financial assets and liabilities from level 2 to level 1 during the year ended June 30, 2010.

Reconciliation of financial asset and liability movement — level 3

The Fund did not hold any level 3 investments at the beginning, during, or at the end of the year ended June 30, 2010.

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS For the years ended June 30, 2010 and 2009 (Expressed in US Dollars)

5. SHARES ISSUED AND OUTSTANDING

The authorised capital stock is as follows:

25,000,000 common shares of a par value of \$0.10 each

120,000 organisational shares of a par value of \$0.10 each

Details of shares issued and outstanding during the year are as follows:

	2010	2009
Common Shares		
Balance - beginning of year	709,744	844,664
Issue of common shares	41,219	39,303
Redemption of common shares	(123,135)	(174,223)
Balance - end of year	627,828	709,744
Organisational shares	12,000	12,000

Common shares are allotted to subscribers at a value determined by reference to the weekly valuation of the net assets of the Fund. Common shares may be redeemed for an amount equal to the net asset value per share as at the close of business on the Valuation Day, following receipt of the properly completed request for redemption, subject to the power of the directors to deduct there from an amount sufficient in their opinion to meet sale and fiscal charges incurred in realising assets to provide funds to meet the request. The organisational shares are owned by the Investment Advisor.

6. NET REALIZED LOSS ON INVESTMENTS

The net realised loss on sale of investments was as follows:

	2010	2009
Proceeds on sale of investments	\$ 7,910,081	\$ 6,904,546
Less cost of investments sold:		
Investments owned at beginning of year	22,781,368	26,775,441
Investments purchased during year	6,197,923	3,398,265
Investments owned at end of year	(20,747,795)	(22,781,368)
Investments sold during the year	8,231,496	7,392,338
Net realized loss on investments	\$ (321,415)	\$ (487,792)

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS For the years ended June 30, 2010 and 2009 (Expressed in US Dollars)

7. RELATED PARTY TRANSACTIONS

a) Management Fee

Under the terms of the Management Agreement, the Investment Advisor is entitled to receive a monthly fee calculated at the rate of no more than 1% per annum of the average valuation of the net assets of the Fund carried out on the Valuation Days during each month. Presently, the monthly fee is calculated at the rate of 0.5% per annum. The fee of the Investment advisor is reduced to take account of the management fee already levied on assets held in shares of other funds managed by the Investment Advisor.

b) Custodian Fee

Under the Custodian Agreement, the Custodian is entitled to receive a quarterly fee calculated at the rate of 0.1% per annum of the net asset value of the Fund in accordance with the custodian's published fee schedule.

c) Accounting Fee and Registrar and Transfer Agent Fee

Accounting fees and Registrar and Transfer Agent fees were charged at a rate of 20 basis points per annum of the net asset value of the Fund accrued on a weekly basis.

d) Corporate Secretarial Fee

Corporate secretarial fees are charged on a time spent basis at their normal rates.

e) Credit Facility

On June 17, 2009, the Fund entered into a revolving standby credit facility with the Bank of \$3 million to a maximum of 10% of the Fund's net asset value which expired on March 31, 2010. The facility was intended to assist the Fund in meeting short term liquidity. No amounts were drawn on the facility at March 31, 2010 upon expiration and the facility has not been subsequently renewed.

8. TAXATION

Under current Bermuda law the Fund is not required to pay any taxes in Bermuda on either income or capital gains. The Fund has received an undertaking from the Minister of Finance in Bermuda that in the event of any such taxes being imposed the Fund will be exempted from taxation until the year 2016.

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS For the years ended June 30, 2010 and 2009 (Expressed in US Dollars)

9. FINANCIAL HIGHLIGHTS

		2010	2009
Per Share Information			
Net asset value - beginning of year	\$	32.68	\$ 31.66
Income from investment operations			
Net investment income		1.47	1.48
Net realised and unrealized gain (loss) on investments		2.67	(0.46)
Total from investment operations		4.14	1.02
Net asset value - end of year	\$	36.82	\$ 32.68

Ratios / Supplemental Data

Total net assets - end of year	\$	23,116,517	\$ 23,192,643
Weighted average net assets*	\$	22,590,131	\$ 24,910,925
Ratio of expenses to weighted average net assets annualized		1.25%	1.18%
Portfolio turnover rate**		28.37%	13.17%
Annual rate of return***		12.67%	3.22%

* Weighted average net assets are calculated using net assets on the last valuation date of each month.

** Portfolio turnover rate is calculated using the lesser of purchases or sales of investments for the year divided by the weighted average value of investments, calculated using the last valuation date of each month.

*** Annual rate of return for shareholders is calculated by comparing the end of year net asset value multiplied by the beginning of the year number of shares to the beginning of year net asset value multiplied by the beginning of the year number of shares.