

Butterfield US\$ Bond Fund Limited

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

Butterfield US\$ 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 on the Class A shares, after dividends and fees, increased from \$9.638 to \$10.441 over the past year. The Class B shares increased from \$9.786 to \$10.635. The Fund paid out dividends of \$0.40 per share during the year.

On a total return basis after fees and including dividends, the Class A shares of the Fund delivered a return of 12.61% for the twelve months ended June 30, 2010. Owing to a lower management fee structure, the Class B shares of the fund delivered a return of 12.89% over the same period.

The net asset value of the Fund stood at \$46.91 million at June 30, 2010, a decrease of \$3.05 million for the year. The Fund continues to benefit from a large and diversified shareholder base.

The Fund's disciplined and conservative investment style ensured that its AA-f bond fund credit rating and S2 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 2H 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 61bps from 3.54% to 2.93%. The yield curve thus flattened over the period as the 2 to 10 year spread declined from 243bps to 232bps. The Fund is positioned conservatively with 91.6% of the portfolio rated AAA and AA and 8.4% A rated. We have maintained credit quality at a high level with 46.6% 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 US\$ 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 2H 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 2.23 years.

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

David Stewart
President
Butterfield Bermuda Fund Limited

October 11, 2010

Butterfield US\$ Bond Fund Limited

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying statements of net assets of Butterfield US\$ 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 US\$ 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 US\$ 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 - \$43,409,764; 2009 - \$53,865,737)	\$ 44,313,261	\$ 49,312,001
Cash and cash equivalents	2,645,496	929,941
Accrued interest receivable	391,383	431,438
Subscriptions receivable	100,000	-
Prepaid expenses	5,763	4,562
	47,455,903	50,677,942
LIABILITIES		
Dividends payable	447,927	516,742
Accrued expenses	89,279	92,508
Subscriptions received in advance	-	100,000
	537,206	709,250
	46,918,697	49,968,692
Organisational shares	12,000	12,000
FUND NET ASSETS	\$ 46,906,697	\$ 49,956,692
NET ASSETS AVAILABLE TO CLASS A SHAREHOLDERS	\$ 39,410,227	\$ 39,829,100
Number of common shares in issue Class A	3,774,392	4,132,570
NET ASSET VALUE PER COMMON SHARE CLASS A	\$ 10.441	\$ 9.638
NET ASSETS AVAILABLE TO CLASS B SHAREHOLDERS	\$ 7,496,470	\$ 10,127,592
Number of common shares in issue Class B	704,875	1,034,860
NET ASSET VALUE PER COMMON SHARE CLASS B	\$ 10.635	\$ 9.786

Signed on Behalf of the Board



DIRECTOR



DIRECTOR

The accompanying notes are an integral part of these financial statements

Butterfield US\$ Bond Fund Limited

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

Investment	Nominal	2010			2009		
		Current Value	% of Portfolio	Nominal	Current Value	% of Portfolio	
Corporate and Government Securities							
Allied Irish Bank 3% 16/8/10	1,000,000	\$ 999,910	2.26%	1,000,000	\$ 1,004,470	2.04%	
Bank of Nova Scotia 2.25% 22/1/13	1,000,000	1,013,936	2.29%	-	-	-	
Berkshire Hathaway 4.85% 15/1/15	1,000,000	1,098,277	2.48%	-	-	-	
BP Capital Markets PLC 5.25% 7/11/13	-	-	-	1,000,000	1,076,000	2.18%	
Canadian Imperial Bank of Commerce 2% 4/2/13	1,000,000	1,011,121	2.28%	-	-	-	
CDP Financial 3% 25/11/14	1,000,000	1,009,214	2.28%	-	-	-	
Citibank NA 1.875% 4/6/12	1,000,000	1,020,145	2.30%	-	-	-	
Citigroup Holdings Inc 5.625% 27/8/12	-	-	-	1,500,000	1,404,351	2.85%	
Dexia Credit 2.375% 23/9/11	-	-	-	1,000,000	1,003,850	2.04%	
Dexia Credit 2.75% 29/4/14	1,725,000	1,738,179	3.92%	-	-	-	
Eksportfinans ASA 1.875% 2/4/13	1,100,000	1,109,009	2.50%	-	-	-	
Eurohypo SA Lux 4.25% 13/5/10	-	-	-	1,449,000	1,439,466	2.92%	
European Investment Bank 3% 8/4/14	-	-	-	1,500,000	1,497,000	3.04%	
Export Development Canada 3.125% 24/4/14	-	-	-	1,000,000	1,002,880	2.03%	
Fannie Mae 1.25% 8/4/13	1,000,000	1,004,688	2.27%	-	-	-	
Fannie Mae 5.125% 2/1/14	1,000,000	1,099,740	2.48%	1,000,000	1,018,350	2.07%	
Fannie Mae 3.5% 25/8/14	1,000,000	1,004,375	2.27%	-	-	-	
General Electric Capital Corp 5% 15/1/10	-	-	-	550,000	557,662	1.13%	
General Electric Capital Corp 5.25% 19/10/12	1,500,000	1,603,337	3.62%	1,500,000	1,539,900	3.12%	
Genworth Life 5.875% 3/5/13	1,745,000	1,804,223	4.07%	1,745,000	1,587,950	3.22%	
Glitnir Bank 4.75% 15/10/10	-	-	-	1,500,000	127,950	0.26%	
Goldman Sachs 5.45% 1/11/12	1,000,000	1,053,440	2.38%	1,000,000	1,040,800	2.11%	
Household Finance 4.125% 16/11/09	-	-	-	1,000,000	1,005,519	2.04%	
Hypo Pfandbrief Bank 5% 10/4/11	2,025,000	2,057,561	4.64%	2,025,000	1,752,860	3.55%	
International Lease 5.35% 3/1/12	-	-	-	1,000,000	780,552	1.58%	
Ladesbank Baden-Wuerttemberg 3.75% 24/09/09	-	-	-	1,211,000	1,216,922	2.47%	
Macquarie Bank Limited 4.1% 17/12/13	1,000,000	1,073,133	2.42%	1,000,000	1,025,140	2.08%	
Metropolitan Life 5.125% 10/6/14	1,000,000	1,086,323	2.45%	1,000,000	992,218	2.01%	
National Australia Bank 8.6% 19/5/10	-	-	-	1,000,000	1,049,200	2.13%	
National Australia Bank 3.75% 2/3/15	650,000	665,471	1.50%	-	-	-	
Network Rail Infrastructure 3.5% 17/6/13	1,000,000	1,056,148	2.38%	1,000,000	1,018,700	2.07%	
New York Life Global 4.625% 16/8/10	425,000	426,281	0.96%	425,000	433,894	0.88%	
Ontario Province 4.1% 16/6/14	1,000,000	1,076,400	2.43%	1,000,000	1,019,809	2.07%	
Pricoa Global Funding 5.4% 18/10/12	1,000,000	1,075,945	2.43%	1,000,000	996,846	2.02%	
Rabobank Nederland 3.2% 11/3/15	1,600,000	1,618,048	3.65%	-	-	-	

The accompanying notes are an integral part of these financial statements

Butterfield US\$ Bond Fund Limited

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

Investment	Nominal	2010			2009		
		Current Value	% of Portfolio	Nominal	Current Value	% of Portfolio	
Corporate and Government Securities (cont'd)							
Rabobank Nederland 3.3.75% 19/2/13	- \$	-	-	1,000,000	\$ 1,010,900	2.05%	
Royal Bank of Canada 3.125% 14/4/15	1,500,000	1,540,875	3.48%	-	-	-	
Seariver Maritime Inc. 0% 1/9/12	1,320,000	1,260,582	2.84%	-	-	-	
SFEF 3.375% 5/5/14	-	-	-	1,500,000	1,504,245	3.05%	
Swedish Export Credit 3.25% 16/9/14	1,000,000	1,039,700	2.35%	-	-	-	
Swedish Housing 3.125% 23/3/12	1,000,000	1,031,970	2.33%	1,000,000	1,017,460	2.06%	
Toyota Motor Credit Corp 4.25% 27/10/09	-	-	-	805,000	810,812	1.64%	
Toyota Motor Credit Corp 4.23% 29/1/10	-	-	-	362,000	368,150	0.75%	
Wells Fargo Company 3.625% 15/4/15	500,000	510,887	1.15%	-	-	-	
		32,088,918	72.41%		30,303,856	61.46%	
Mortgage Backed Securities							
Ameritrust Mtg Secs 2005-R9 25/11/35	-	-	-	1,590,000	1,013,625	2.06%	
C-BASS ABS LLC 2005-CB8 25/12/35	-	-	-	947,079	583,529	1.18%	
Equity One ABS Inc 2003-4 5.369% 25/10/34	377,849	306,632	0.69%	-	-	-	
Fannie Mae 2007-77 6% 25/6/31	2,663,357	136,497	0.31%	-	-	-	
GNMA 2006-68 3.888% 16/7/26	1,297,233	1,333,600	3.01%	1,498,897	1,528,823	3.10%	
GNMA 2005-90 3.76% 16/9/28	189,300	194,991	0.44%	201,956	205,747	0.42%	
GS Mortgages 2001-LIB 14/2/16	2,300,000	2,377,314	5.36%	2,300,000	2,478,982	5.03%	
JP Morgan Chase 2004-C2 4.27% 15/5/41	-	-	-	32,728	32,628	0.07%	
JP Morgan Chase 2005-CIBC 12/1/43	2,135,000	2,210,118	4.99%	2,135,000	1,934,225	3.92%	
Residential Asset 2003-R25 4.97% 25/9/33	-	-	-	2,377,649	1,728,195	3.50%	
Wachovia Bank 2003-C5 5.109% 15/12/35	2,500,000	2,364,386	5.35%	2,500,000	1,952,963	3.96%	
Wachovia Bank 2004-C10 5.345% 15/1/41	750,000	666,030	1.50%	750,000	400,412	0.81%	
Wells Fargo HEQ 2004-2 4.89% 25/10/34	1,500,000	1,490,942	3.36%	1,500,000	1,184,522	2.40%	
		11,080,510	25.01%		13,043,651	26.45%	
Asset Backed Securities							
Harley-Davidson Motorcycle Trust 2005-3 4.41% 15/6/12	149,995	150,228	0.34%	435,841	443,138	0.90%	
Hertz 2005-1 A6 5.08% 25/11/11	-	-	-	1,000,000	947,394	1.92%	
Hertz 2005-2 A6 5.08% 25/11/11	-	-	-	1,700,000	1,658,529	3.36%	
	\$	150,228	0.34%		\$ 3,049,061	6.18%	

The accompanying notes are an integral part of these financial statements

Butterfield US\$ Bond Fund Limited

STATEMENTS OF PORTFOLIO INVESTMENTS (CONT'D)

As at June 30, 2010 and 2009

(Expressed in US Dollars)

Investment	Nominal	2010		Nominal	2009	
		Current Value	% of Portfolio		Current Value	% of Portfolio
Floating Rate Notes						
Monument Global Funding 15/1/10	- \$	-	-	1,000,000 \$	925,000	1.88%
Morgan Stanley 14/5/10	-	-	-	1,000,000	997,083	2.02%
Morgan Stanley 18/1/11	1,000,000	993,605	2.24%	-	-	-
Prcoa Global Funding 15/1/10	-	-	-	1,000,000	993,350	2.01%
		993,605	2.24%		2,915,433	5.91%
TOTAL INVESTMENTS AT CURRENT VALUE						
(Cost 2010 - \$43,409,764; 2009 - \$53,865,737)						
	\$	44,313,261	100.00%	\$	49,312,001	100.00%

The accompanying notes are an integral part of these financial statements

Butterfield US\$ Bond Fund Limited

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

	2010	2009
INVESTMENT INCOME		
Interest	\$ 2,248,491	\$ 3,145,336
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EXPENSES		
Management fee	219,756	246,618
Accounting fee	57,000	57,720
Registrar & transfer agent fee	49,492	67,508
Custodian fee	48,797	51,140
Miscellaneous	27,467	38,623
Audit fee	20,200	20,445
Government fee	12,665	11,921
Secretarial fee	8,702	9,804
Advertising	2,951	3,423
	447,030	507,202
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NET INVESTMENT INCOME	1,801,461	2,638,134
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NET REALISED AND UNREALISED GAIN (LOSS) ON INVESTMENTS		
Net realised loss on investments	(1,372,292)	(1,365,259)
Net change in unrealised gain (loss) on investments	5,457,233	(2,731,346)
NET GAIN (LOSS) ON INVESTMENTS	4,084,941	(4,096,605)
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NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ 5,886,402	\$ (1,458,471)

The accompanying notes are an integral part of these financial statements

Butterfield US\$ 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 (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ 5,886,402	\$ (1,458,471)
DISTRIBUTIONS TO INVESTORS		
Dividends paid and payable	(1,883,286)	(2,174,603)
CAPITAL STOCK TRANSACTIONS		
Issue of shares	7,562,346	4,611,648
Redemption of shares	(14,615,457)	(22,206,135)
Net capital stock transactions	(7,053,111)	(17,594,487)
NET DECREASE IN NET ASSETS FOR THE YEAR	(3,049,995)	(21,227,561)
NET ASSETS - BEGINNING OF YEAR	49,956,692	71,184,253
NET ASSETS - END OF YEAR	\$ 46,906,697	\$ 49,956,692

The accompanying notes are an integral part of these financial statements

Butterfield US\$ 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 US\$ Bond Fund Limited (the "Fund"), is an open-ended investment company which was incorporated under the laws of Bermuda on May 26, 1992.

The Fund commenced operations on July 1, 1992. 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 US dollar denominated debt securities.

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 or, lacking any sales, at the closing bid prices. 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 national markets, but which are traded among broker-dealers and 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 US\$ 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 decreased by \$84,049 (2009: \$539,421) and the net asset value per common share would have decreased by \$0.019, for Class A, and \$0.019, for Class B (2009: Class A - \$0.104; Class B - \$0.105).

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 using the effective interest method.

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 a same day notice. The value of the holding at June 30, 2010 was \$2,645,496 (2009 - \$929,927).

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, dividends payable and accrued expenses approximate their carrying value.

e) Adoption of New Accounting Standards

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.

Butterfield US\$ 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 (cont'd)

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 US\$ 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 the 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	54.00	47.40
AA	37.60	32.40
A	8.40	16.80
BBB	-	3.40
	100.00	100.00

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 increased or decreased by approximately \$261,505 (2009: \$284,753). 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.

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 are 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.

Butterfield US\$ 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)

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	\$ 4,477,357	\$ 8,369,813
1 - 3 years	17,975,995	17,617,485
3 - 5 years	11,896,132	10,153,102
Greater than 5 years	8,703,196	13,043,651
Non-Interest Bearing	1,260,581	127,950
	\$ 44,313,261	\$ 49,312,001

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 carried at current value:

Classification	Level 1	Level 2	Level 3	Total
Financial Assets				
Corporate and government securities	\$ -	\$ 32,088,918	\$ -	\$ 32,088,918
Mortgage backed securities	-	11,080,510	-	11,080,510
Asset backed securities	-	150,228	-	150,228
Floating rate notes	-	993,605	-	993,605
Total Financial Assets	\$ -	\$ 44,313,261	\$ -	\$ 44,313,261

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.

Butterfield US\$ Bond Fund Limited

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

4. FAIR VALUE OF FINANCIAL ASSETS (CONT'D)

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.

5. SHARES ISSUED AND OUTSTANDING

The authorised capital stock is as follows:

12,500,000 Class A common shares of a par value of \$0.10 each

12,500,000 Class B 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:

Common shares	2010		2009	
	Class A	Class B	Class A	Class B
Balance - beginning of year	4,132,570	1,034,860	4,964,774	2,045,754
Issue of common shares	704,213	31,432	408,956	63,515
Redemption of common shares	(1,062,391)	(361,417)	(1,241,160)	(1,074,409)
Balance - end of year	3,774,392	704,875	4,132,570	1,034,860
Organisational shares	120,000	-	120,000	-

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 therefrom an amount sufficient in their opinion to meet sale and fiscal charges incurred in realising assets to provide funds to meet the request. The Fund opened the institutional Class B on April 27, 2005. The organisational shares are owned by the Investment Advisor.

6. DIVIDENDS

Dividends declared by the Fund on Class A and B shares were as follows:

	2010	2009	Payment date
\$0.10 (2009 \$0.10 per share)	\$ 494,426	\$ 666,821	October 5, 2009
\$0.10 (2009 \$0.10 per share)	467,910	554,655	January 5, 2010
\$0.10 (2009 \$0.08 per share)	473,023	436,385	April 5, 2010
\$0.10 (2009 \$0.10 per share)	447,927	516,742	July 5, 2010
	\$ 1,883,286	\$ 2,174,603	

Butterfield US\$ Bond Fund Limited

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

7. NET REALISED GAIN (LOSS) ON INVESTMENTS

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

	2010	2009
Proceeds on sale of investments	\$ 46,661,162	\$ 84,699,612
Less cost of investments sold:		
Investments owned at beginning of year	53,865,737	72,497,371
Investments purchased during year	37,577,481	67,433,237
Investments owned at end of year	(43,409,764)	(53,865,737)
Investments sold during year	48,033,454	86,064,871
Net realised loss on investments	\$ (1,372,292)	\$ (1,365,259)

8. 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 for the class A shares and 0.25% per annum for the class B shares. 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 Fund's invested assets, including cash and unsettled trades, 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 up to \$100 million of the net asset value of the Fund and 2.5 basis points on the excess, and is accrued on a weekly basis.

d) Corporate Secretarial Fee

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

Butterfield US\$ Bond Fund Limited

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

8. RELATED PARTY TRANSACTIONS (CONT'D)

e) Credit Facility

On May 15, 2008, the Fund entered into a revolving standby credit facility with the Bank of \$0.5 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 and the facility has not been subsequently renewed.

9. 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 US\$ Bond Fund Limited

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

10. FINANCIAL HIGHLIGHTS

Per Share Information	2010		2009	
	CLASS A	CLASS B	CLASS A	CLASS B
Net asset value				
- beginning of year	\$9.638	\$9.786	\$10.117	\$10.243
Income from investment operations				
Net investment income	0.364	0.407	0.477	0.490
Net realised and unrealised gain (loss) on investments	0.839	0.842	(0.576)	(0.567)
Total from investment operations	1.203	1.249	(0.099)	(0.077)
Distributions to investors	(0.400)	(0.400)	(0.380)	(0.380)
Net asset value - end of year	\$10.441	\$10.635	\$9.638	\$9.786
Ratios / Supplemental Data				
	CLASS A	CLASS B	CLASS A	CLASS B
Total net assets - end of year (\$thousands)	39,410	7,496	39,829	10,128
Weighted average net assets* (\$thousands)	41,036	7,820	42,140	14,570
Ratio of expenses to weighted average net assets annualised	1.074%	1.071%	1.188%	0.934%
Portfolio turnover rate**	81.99%	81.99%	122.45%	122.45%
Annual rate of return***	12.61%	12.89%	(0.85%)	(0.62%)

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

** Portfolio turnover rate is calculated for the total of Class A and B 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 who reinvested dividends is calculated by comparing the end of year net asset value multiplied by the beginning of the year number of shares plus any shares from dividend reinvestments to the beginning of year net asset value multiplied by the beginning of the year number of shares.