

Butterfield Capital Appreciation Bond Fund Limited

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2011

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, 2011. The net asset value per share of the Fund, after expenses and fees, increased from \$36.82 to \$38.60 over the past year.

On a total return basis after fees, the Fund delivered a return of +4.83% for the twelve months ended June 30, 2011. The Merrill Lynch benchmark bond index* returned +4.83% over the same period. The net asset value of the Fund stood at \$20.8 million at June 30, 2011, which compares with \$23.1 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 slow but uneven US economic growth, disruption for the peripheral European countries and more robust growth in the emerging market economies. Credit market conditions have generally been quite firm, particularly in 2011 as corporate credits have seen higher earnings and strong balance sheets although top line revenue growth has been difficult to produce in the US. Corporate and other credit spreads have tightened and proved resilient through the recent European sovereign volatility. The US economy continues its uneven growth and has recently hit a 'soft patch' not unlike it did in the 2Q 2010 and the US unemployment rate remains high at 9.2%. The Federal Reserve has held short interest rates near zero to boost growth in the face of a continued weak US housing market with consumers continuing to de-leverage and low job creation. Bank loan demand remains relatively weak and businesses are still finding financing challenging. The latest Quantitative Easing measure 'QE2' implemented by the Federal Reserve came to an end on June 30, 2011. The European sovereign crisis caused a flight to quality into US Treasuries which rallied further than expected given the stage of the economic cycle. The second 'bail-out' of Greece has been agreed but there is not universal agreement on its chances of success with a relatively modest 25% discount to the net present value of Greek bonds outstanding. The key to solving the solvency problems of the peripheral European countries is to allow them to re-establish an economic growth path which will not be overcome with a worsening debt burden.

The credit markets have performed well given the volatile conditions during parts of the year. We continue to maintain a relatively conservative credit stance in the Fund with no BBB credits currently. The US Treasury yield curve steepened over the year with yields lower out to 5 years but beyond that yields increased out to 10 years and beyond. This was a response to the growth of the US economy and also reflected a higher inflation rate over the year. Overall, the 2 year US Treasury yield declined by 15 basis points from 0.61% to 0.46% and the 10 year US Treasury yield increased by 23 basis points from 2.93% to 3.16%. The yield curve thus steepened over the period as the 2 to 10 year spread increased from +243bps to +270bps. The Fund is positioned conservatively with 74.9% of the portfolio rated AAA and AA and 25.1% A rated. We have maintained credit quality at a high level with 38.0% of the Fund invested in well rated sovereign and supra-national bonds.

Butterfield Capital Appreciation Bond Fund Limited

The Fund's strategy towards market interest rate risk remained defensive for much of the year and we recently moved shorter to 90% of benchmark index on June 29, 2011. The US yield curve has responded negatively to the uncertainty surrounding the raising of the US debt ceiling with higher yields at longer maturities and real or inflation adjusted yields are currently low. The US dollar has been relatively weak over the period and the Fund has no non-US\$ exposure as at year end.

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 2012. US economic growth should continue but at a slow pace in 2H 2011. Inflation, although higher, is not a concern in the near term. The US housing sector has remained weak and the unemployment rate remains high at 9.2%.

The Fund has achieved good benchmark returns net of fees as the markets performed well relative to cash returns and credit spreads tightened. 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 5.1 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 black ink, appearing to read "Michael Neff". The signature is fluid and cursive, with the first name "Michael" written in a larger, more prominent script than the last name "Neff".

Michael Neff
President
Butterfield Capital Appreciation Bond Fund Limited

October 31, 2011

Butterfield Capital Appreciation Bond Fund Limited

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Butterfield Capital Appreciation Bond Fund Limited

Report on the Financial Statements

We have audited the accompanying financial statements of the Butterfield Capital Appreciation Bond Fund Limited (the "Fund"), which comprise the statement of net assets, including the statement of portfolio investments, as at June 30, 2011, and the statements of operations and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in Canada and Bermuda, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Canada and Bermuda. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2011, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Canada and Bermuda.

Deloitte + Touche Ltd.

DELOITTE & TOUCHE LTD.

Hamilton, Bermuda

October 31, 2011

Butterfield Capital Appreciation Bond Fund Limited

DIRECTORS

Sheila Brown (Resigned June 30, 2011)
Curtis Dickinson (Resigned June 15, 2011)
David Stewart
Michael Neff (President) (Appointed June 15, 2011)
Andrew Baron (Appointed June 30, 2011)

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

STATEMENT OF NET ASSETS

As at June 30, 2011

(Expressed in US Dollars)

	2011	2010
ASSETS		
Investments, at current value (Cost 2011 - \$17,546,964 (2010 - \$20,747,795))	\$ 18,849,938	\$ 22,350,200
Cash and cash equivalents	1,849,006	603,026
Accrued interest receivable	166,858	231,781
Prepaid expenses	14,194	8,012
	20,879,996	23,193,019
LIABILITIES		
Accrued expenses	55,324	64,502
	20,824,672	23,128,517
Organisational shares	12,000	12,000
FUND NET ASSETS	\$ 20,812,672	\$ 23,116,517
Number of common shares in issue	539,246	627,828
NET ASSET VALUE PER COMMON SHARE	\$ 38.60	\$ 36.82

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

STATEMENT OF PORTFOLIO INVESTMENTS

As at June 30, 2011

(Expressed in US Dollars)

Investment	Nominal	2011 Current Value	% of Portfolio	Nominal	2010 Current Value	% of Portfolio
Corporate and Government Securities						
Asian Development Bank 1% 17/5/18	1,500,000	\$ 1,314,000	6.97%	2,000,000	\$ 1,694,500	7.58%
Berkshire Hathaway 4.85% 15/1/15	-	-	0.00%	1,300,000	1,427,760	6.39%
Bermuda Government 5.603% 20/07/2020	400,000	440,260	2.34%	-	-	0.00%
Corporacion Andina De Fomento 5.2% 21/5/13	-	-	0.00%	1,000,000	1,078,437	4.83%
Fannie Mae Strip 15/11/17	500,000	413,013	2.19%	1,000,000	786,975	3.52%
General Electric Capital Corp 5.625% 5/1/18	1,200,000	1,312,462	6.96%	1,500,000	1,594,070	7.13%
Goldman Sachs Group 6.15% 1/4/18	1,200,000	1,306,012	6.93%	1,500,000	1,571,275	7.03%
Int'l Bank for Reco. and Development 0% 1/5/18	500,000	405,953	2.15%	500,000	389,574	1.74%
John Hancock 5.25% 25/2/15	500,000	545,547	2.89%	1,000,000	1,081,301	4.84%
J.P Morgan Chase 6.625% 15/3/12	-	-	0.00%	150,000	161,397	0.72%
J.P Morgan Chase 5.15% 1/10/15	500,000	540,023	2.86%	500,000	534,964	2.39%
Merrill Lynch & Co. 0% 30/8/13	750,000	705,059	3.74%	1,250,000	1,106,290	4.95%
Merrill Lynch & Co. 0% 25/9/18	100,000	73,253	0.39%	100,000	65,404	0.29%
Principal Life Global 5.05% 15/3/15	1,000,000	1,074,842	5.71%	1,000,000	1,025,640	4.59%
Seariver Maritime Inc. 0% 1/9/12	-	-	0.00%	1,000,000	954,986	4.27%
Temasek Financial 4.5% 21/9/15	-	-	0.00%	500,000	546,951	2.45%
US Treasury Strip 0% 15/5/18	1,500,000	1,258,397	6.68%	500,000	404,710	1.81%
US Treasury Strip 0% 15/8/19	1,000,000	786,678	4.17%	1,000,000	753,080	3.37%
US Treasury Strip 0% 15/8/21	1,000,000	698,464	3.71%	-	-	0.00%
US Treasury Strip 0% 15/8/22	2,000,000	1,318,704	7.00%	-	-	0.00%
West Deutsche Landesbank NY 4.796% 15/7/15	1,199,000	1,242,900	6.59%	1,199,000	1,220,102	5.46%
		13,435,567	71.28%		16,397,416	73.36%
Mortgage Backed Securities						
Citibank CCCIT 2003-A7 4.15% 7/7/17	1,000,000	1,089,498	5.79%	1,000,000	1,073,296	4.80%
Commerical Mortgage Asset Trust 1999-C1 6.64% 17/1/32	25,040	25,046	0.13%	147,139	147,139	0.66%
Equity One ABS 2003-4 5.369% 25/10/34	296,913	266,304	1.41%	377,849	306,632	1.37%
GE Capital Commercial Mortgage 2003-C1 4.371% 10/1/38	19,539	19,532	0.10%	282,331	286,277	1.28%
LB-UBS 2004-C4 4.367% 15/3/36	1,000,000	1,059,833	5.62%	1,000,000	1,012,920	4.53%
Wachovia Bank CMBS 2003-C5 3.989% 15/6/35	500,000	516,453	2.74%	500,000	516,304	2.31%
Wachovia Bank CMBS 2004-C10 4.748% 15/2/41	926,040	978,149	5.19%	1,000,000	1,060,856	4.75%
		3,954,815	20.98%		4,403,424	19.70%
Asset Backed Securities						
Federal Express 981-A Trust 6.72% 15/1/22	1,258,238	1,459,556	7.74%	-	-	0.00%
Federal Express 1997-A Trust 7.5% 15/1/18	-	-	0.00%	1,463,781	1,549,360	6.94%
		1,459,556	7.74%		1,549,360	6.94%
TOTAL INVESTMENTS AT CURRENT VALUE						
(Cost 2011 - \$17,546,964; 2010 - \$20,747,795)		\$ 18,849,938	100.00%		\$ 22,350,200	100.00%

The accompanying notes are an integral part of these financial statements

Butterfield Capital Appreciation Bond Fund Limited

STATEMENT OF OPERATIONS For the year ended June 30, 2011 (Expressed in US Dollars)

	2011	2010
INVESTMENT INCOME		
Interest	\$ 810,240	\$ 1,237,422
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EXPENSES		
Management fee	101,909	110,386
Accounting fee	49,500	51,338
Custodian fee	20,872	22,478
Audit fee	18,155	20,509
Registrar & transfer agent fee	16,077	21,515
Miscellaneous	15,090	29,954
Government fee	9,076	9,433
Secretarial fee	5,475	5,674
Printing	-	9,035
Advertising	-	1,546
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	236,154	281,868
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NET INVESTMENT INCOME	574,086	955,554
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NET REALISED AND UNREALISED GAIN/(LOSS) ON INVESTMENTS		
Net realised gain/(loss) on investments	752,901	(321,415)
Net change in unrealised (loss)/gain on investments	(299,431)	2,070,410
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NET GAIN ON INVESTMENTS	453,470	1,748,995
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NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 1,027,556	\$ 2,704,549
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The accompanying notes are an integral part of these financial statements

Butterfield Capital Appreciation Bond Fund Limited

STATEMENT OF CHANGES IN NET ASSETS For the year ended June 30, 2011 (Expressed in US Dollars)

	2011	2010
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 1,027,556	\$ 2,704,549
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CAPITAL STOCK TRANSACTIONS		
Issue of shares	2,031,206	1,438,682
Redemption of shares	(5,362,607)	(4,219,357)
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Net capital stock transactions	(3,331,401)	(2,780,675)
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NET DECREASE IN NET ASSETS FOR THE YEAR	(2,303,845)	(76,126)
NET ASSETS - BEGINNING OF YEAR	23,116,517	23,192,643
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NET ASSETS - END OF YEAR	\$ 20,812,672	\$ 23,116,517

The accompanying notes are an integral part of these financial statements

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(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"). The Bank held a significant interest in Butterfield Fulcrum Group (Bermuda) Limited, until it was sold in February 2011.

The investment objective of the Fund is to is 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

The fair value of investments traded in active markets are based on quoted market prices at the close of trading on the period end date. The quoted market price used for investments held by the Fund is the last sales price reported by the principal securities exchange on which the issue is traded, or lacking any sales, at the closing bid price. An investment is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of investments that are not traded in an active market is determined by using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each year end date.

The net change during the year between these amounts and cost is shown as net change in unrealized gain (loss) on investments in the statement of operations.

The requirements of the CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement ("CICA 3855") prescribe specific guidance for establishing fair values under GAAP, including the use of bid prices for long position quoted in active markets. Had the Fund used the bid prices for long positions, the current value of investments and the fund net assets would have decreased by \$72,161 (2010 - increased by \$55,919) and the net asset value per common share would have decreased by \$0.13 (2010 – increased by \$0.09).

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(Expressed in US Dollars)

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

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. 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.

e) Adoption of New Accounting Standards

In January 2011, the Accounting Standards Board ("AcSB") amended the Introduction to Part I of the CICA Handbook—Accounting to allow investment companies, which include investment funds, to adopt International Financial Reporting Standards ("IFRS") for the first time no later than interim and annual financial statements relating to annual periods beginning on or after January 1, 2013. Investment companies electing to defer the first time adoption may continue to apply existing Canadian GAAP until the changeover to IFRS.

The Fund will defer the first time adoption and adopt IFRS beginning July 1, 2013.

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(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, 2011 and 2010, the Fund invested in fixed income securities with the following credit ratings:

Debt Securities by Credit Rating	% of Portfolio	
	2011	2010
AAA	56.40	44.20
AA	18.50	24.80
A	25.10	31.00
	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 are not significant thus any risks associated are negligible.

Interest Rate Risk

Interest rate risk is the risk that the fair value or 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	
	2011	2010
Less than 1 year	\$ -	\$ -
1 - 3 years	1,188,894	1,239,834
3 - 5 years	3,267,589	4,640,991
Greater than 5 years	10,696,669	13,901,621
Non-Interest Bearing	3,696,786	2,567,754
	\$ 18,849,938	\$ 22,350,200

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(Expressed in US Dollars)

3. FINANCIAL RISK MANAGEMENT (CONT'D)

Interest Rate Risk (cont'd)

As at June 30, 2011, 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 \$265,361 (2010 - \$277,200). 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. As well, the fund has access to a credit facility help address this risk.

Price/market risk

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 provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 - inputs for the asset or liability that are not based on observable market data, including the Fund's own assumptions in determining the fair value of investments

All of the Fund's investments are classified within Level 2 of the fair value hierarchy as the value of these investments are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly for the years ended June 30, 2011 and 2010.

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, 2011 (2010: none).

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(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, 2011 (2010: none).

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:

	2011	2010
Common Shares		
Balance - beginning of year	627,828	709,744
Issue of common shares	53,647	41,219
Redemption of common shares	(142,229)	(123,135)
Balance - end of year	539,246	627,828
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.

Under the Bye-Laws, the organisational shares have only nominal rights if and so long as there are any other shares of the Fund in issue.

6. NET REALISED GAIN/(LOSS) ON INVESTMENTS

The net realised gain/(loss) on sale of investments was as follows:

	2011	2010
Proceeds on sale of investments	\$ 10,573,013	\$ 7,910,081
Less cost of investments sold:		
Investments owned at beginning of year	20,747,795	22,781,368
Investments purchased during year	6,619,281	6,197,923
Investments owned at end of year	(17,546,964)	(20,747,795)
Investments sold during the year	9,820,112	8,231,496
Net realised gain/(loss) on investments	\$ 752,901	\$ (321,415)

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(Expressed in US Dollars)

7. RELATED PARTY TRANSACTIONS

a) Management Fee

The Investment Advisor is related to the Fund through common directorship.

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. The management fee for the year was \$101,909 (2010 - \$110,386) with \$9,452 (2010 - \$10,782) being payable at the year end. These amounts were measured at the exchange amount, which is the amount agreed between the related parties.

a) Custodian Fee

The Custodian is related to the Fund through common directorship.

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. The custodian fee for the year was \$20,872 (2010 - \$22,478) with \$3,486 (2010 - \$4,430) being payable at the year end. These amounts were measured at the exchange amount, which is the amount agreed between the related parties.

c) Accounting Fee and Registrar and Transfer Agent Fee

The Accountant and Registrar and Transfer Agent are related to the Fund through common directorship.

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. The Accounting fee for the year was \$49,500 (2010 - \$51,388) with \$12,650 being payable at year end. The Registrar and transfer agent fee was \$16,077 (2010 - \$21,515) with \$3,925 (2010 - \$8,348) being payable at year end. These amounts were measured at the exchange amount, which is the amount agreed between the related parties.

d) Corporate Secretarial Fee

The Corporate Secretary is related to the Fund through common directorship.

Corporate secretarial fees are charged on a time spent basis at their normal rates. The Corporate Secretarial Fee for the year was \$5,475 (2010 - \$5,674) with \$800 (2010 - \$400) being payable at year end. These amounts were measured at the exchange amount, which is the amount agreed between the related parties.

e) Credit Facility

On June 17, 2009, the Fund entered into a revolving standby credit facility with the Bank of \$2.5 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 upon expiration.

On October 07, 2010, the Fund renewed the credit facility with the Bank for the same terms and conditions as above, which expired on July 31, 2011. No amounts were drawn upon expiration.

Butterfield Capital Appreciation Bond Fund Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended June 30, 2011

(Expressed in US Dollars)

8. TAXATION

Under current Bermuda law, the Fund is not obligated to pay taxes in Bermuda on either income or capital gains. The Fund has received an undertaking from the Minister of Finance in Bermuda, pursuant to the provisions of the exempted undertaking Tax Protection Act, 1966 which exempts the Fund from any such Bermuda taxes until March 28, 2016.

In March 2011, the Bermuda Government enacted the Exempted Undertakings Tax Protection Amendment Act 2011, allowing the Minister of Finance to grant assurance up to March 31, 2035.

9. FINANCIAL HIGHLIGHTS

	2011	2010
Per Share Information		
Net asset value - beginning of year	\$ 36.82	\$ 32.68
Income from investment operations		
Net investment income	1.04	1.47
Net realised and unrealized gain on investments	0.74	2.67
Total from investment operations	1.78	4.14
Net asset value - end of year	\$ 38.60	\$ 36.82

Ratios / Supplemental Data

Total net assets - end of year	\$ 20,812,672	\$ 23,116,517
Weighted average net assets*	\$ 20,867,883	\$ 22,590,131
Ratio of expenses to weighted average net assets annualized	1.13%	1.25%
Portfolio turnover rate**	30.69%	28.37%
Annual rate of return***	4.83%	12.67%

* 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.