

# ONYX TRUST

## MANAGEMENT REPORT OF FUND PERFORMANCE

**December 31, 2007**

This annual management report of fund performance contains financial highlights but does not contain the complete audited annual financial statements of the investment fund. You can get a copy of the audited annual financial statements by visiting the website of National Bank Financial Inc. at [www.nbfinancial.com](http://www.nbfinancial.com) or SEDAR at [www.sedar.com](http://www.sedar.com) or, at your request, and at no cost, by calling toll-free 1-877-879-6424, or by writing to us at 800 Victoria Square, Suite 3400, Montréal, Québec H4Z 1E9.

Securityholders may also contact us using one of these methods to request a copy of the investment fund's quarterly portfolio disclosure.

# Management Report of Fund Performance

This annual management report of fund performance for Onyx Trust (the “**Trust**”) contains financial highlights but does not contain the complete audited annual financial statements of the Trust.

Metcalf & Mansfield Alternative Investments Corp. is the issuer trustee of the Trust (the “**Trustee**”).

## 1. Investment Objectives and Strategy

The Trust’s investment objectives are:

- (i) to provide holders of units (the “**Unitholders**”) with a stream of quarterly distributions consisting of partial capital reimbursement equal to \$1.50 per unit to yield 6% per annum of the original issue price (\$100) which will reduce the adjusted cost base thereof; and
- (ii) to redeem all outstanding units on May 17, 2008 (the “**Maturity Date**”) at \$100 per unit.

To meet its objectives, the Trust entered into a swap agreement (the “**Swap Agreement**”) with the Toronto branch of JPMorgan Chase Bank (the “**Bank**”) to provide Unitholders with a credit exposure to a mezzanine tranche of a Portfolio (the “**Reference Portfolio**”) of initially 100 equally-weighted investment grade corporate obligors (the “**Reference Entities**”), such tranche having been initially rated A by Standard & Poor’s Rating Service, a division of McGraw-Hill Companies, Inc. (“**S&P**”). The Trust benefits from a first loss tranche (the “**First Loss Tranche**”) which absorbs the cumulative net losses on the Reference Portfolio up to 4.73% (\$37,490,000) of the portfolio size. Pursuant to the Swap Agreement, the Trust:

- (i) invested the net proceeds from the offering in banker’s acceptance from a Canadian financial institution (the “**Permitted Investments**”);
- (ii) pledged to the Bank, as collateral, the Permitted Investments in an amount equal to the Initial Amount, which decreases by an amount equal to the quarterly payments paid by the Bank pursuant to the Swap Agreement (the “**Collateral Amount**”);
- (iii) pays to the Bank, quarterly, the return on such Collateral Amount; and
- (iv) (A) will receive from the Bank at the Maturity Date a payment equal to the Initial Collateral Amount (the gross proceeds of the offering (\$16,000,000)) minus the Outstanding Collateral Amount (the net proceeds of the offering less cumulative quarterly payments) (less any holdback amount for any unsettled credit event); or (B)

will pay to the Bank, the Initial Amount (the gross proceeds of the offering (\$16,000,000)) minus the Outstanding Amount (being the Initial Amount less cumulative net losses in excess of the First Loss Tranche) (plus any holdback amount for any unsettled credit event). If the cumulative net losses are less than the First Loss Tranche, no payment will be due by the Trust to the Bank.

At the Maturity Date, the Trust will redeem all outstanding Units at 100% of the net asset value (the "NAV").

## **2. Risks**

The Unitholders assume a levered risk exposure. Any credit event triggered by a Reference Entity in excess of the First Loss Tranche will result in a net loss for the Trust.

Credit events in excess of the First Loss Tranche could reduce the Outstanding Amount to zero resulting in quarterly distributions and payment on the Maturity Date reduced to zero. A credit event is the occurrence of one of the following events in respect of a Reference Entity in the Reference Portfolio: bankruptcy, failure to pay and restructuring of debt.

For a disclosure on the risks associated with the units, please refer to Schedule A.

## **3. Results of Operations**

The assets of the Trust are primarily an investment in term deposits and a Swap Agreement providing an exposure to the Reference Portfolio. The following description is intended to provide a plain language summary of the assets and liabilities of the Trust.

### *Short-Term Investments*

Under the Swap Agreement, short-term investments are pledged to the Bank. The Trust held as at December 31, 2007 short-term investments in the form of banker's acceptance from a Canadian financial institution having a short-term and long-term rating from S&P of A-1+ and AA- and a short-term and long-term rating from Moody's Investment Services ("Moody's") of P-1 and Aa3 respectively. The short-term investments as at December 31, 2007 had a maturity date of January 8, 2008 (January 4, 2007 as at December 31, 2006) and bears interest at 4.86% (2006 – 4.29%).

The fair value of the short-term investment was \$11,156,988 as at December 31, 2007.

### *Management of the Reference Portfolio*

The composition of the Reference Portfolio is not expected to change, even if the Reference Entities included in the Reference Portfolio may no longer meet the investment criteria. However, the Trustee may, from time to time, request the Bank to replace certain Reference Entities, if, in its judgment, such replacement is advisable. Any change in the Reference Portfolio is subject to the approval of the Bank but not of the Unitholders and is at the sole discretion of the Trustee.

### *Financial Derivative Instrument*

Pursuant to the Swap Agreement, the Trust will pay the Bank if a credit event occurs in the Reference Entities comprised in the Reference Portfolio in excess of the First Loss Tranche. The maximum loss that could be assumed by the Trust for a credit event with respect to a specific Reference Entity is \$8,000,000. As at December 31, 2007, the First Loss tranche available to absorb such losses was \$37,490,000 (\$37,490,000 as at December 31, 2006); beyond that First Loss tranche, the Trust could absorb up to a cumulative net loss of \$16,000,000 on a total Reference Portfolio size of \$792,000,000.

The notional amount of the Swap Agreement as at December 31, 2007 is \$16,000,000 for the Reference Portfolio that consists of a pool of \$792,000,000 (2006 – \$792,000,000) in reference bonds of 99 (2006 – 99) equally weighted Reference Entities. The average Moody's rating of the Reference Entities on December 31, 2007 was between Baa3 and Ba1 (between Baa2 and Baa3 as at December 31, 2006). The Swap Agreement terminates on May 17, 2008.

The net quarterly payments under the Swap Agreement are based on:

- (a) a quarterly payment by the Trust to the Bank based on the banker's acceptance three-month rate on the Collateral Amount outstanding on the immediately preceding quarterly payment date, pro-rated based on the number of days of the period; and
- (b) a quarterly release by the Bank to the Trust of the Collateral Amount outstanding calculated at an annual rate of 6.46% of \$16,000,000 (less cumulative net losses exceeding the First Loss Tranche from credit events on underlying Reference Entities).

### *Credit quality of the Reference Portfolio*

Risk in the Swap Agreement is a function of the Reference Portfolio credit quality and time remaining to maturity. As the Swap Agreement ages, the risk of the default prior to the Maturity Date decreases for companies with a given rating. Balanced against that time benefit is the fact that credit ratings of higher rated entities have historically moved lower over time. Changes in credit quality as it is measured by the market can be seen through changes in the average credit spread of the Reference Portfolio since lower credit spread indicates that market participants perceive a lesser degree of risk. The average credit spread of the Reference Portfolio was 95 basis points at inception, 17.6 basis points as at December 31, 2006 and 145.2 basis points as at December 31, 2007. Moreover, based on information provided by the Bank, among the 99 Reference Entities remaining in the Reference Portfolio, nine Reference Entities had, as at December 31, 2007, credit spreads higher than 400 basis points: MBIA Insurance Corporation, Centex Corporation, Toys R Us Inc., Ford Motor Credit Company, The PMI Group Inc., GMAC, Visteon Corporation, Radian Group Inc. and Countrywide Home Loans Inc., which indicates that the risk of default on these names is perceived to be higher than as at December 31, 2006 – as at December 31, 2006, the same nine names had credit spreads of less than 300 basis points. (See below, page 5, for a discussion of credit events).

Changes in the overall credit quality of the Reference Portfolio as measured by the credit ratings of its constituents may affect the Swap Agreement, which in turn may affect the trading price. The following table describes the Reference Portfolio's ratings characteristics at inception and as at December 31, 2004, December 31, 2005, December 31, 2006 and December 31, 2007:

<u>S&amp;P Rating</u>	<u>Inception</u>	<u>Dec. 31, 2004</u>	<u>Dec. 31, 2005</u>	<u>Dec. 31, 2006</u>	<u>Dec. 31, 2007</u>
AAA	3%	3%	2%	2%	2%
AA+	0%	0%	0%	0%	1%
AA	0%	0%	1%	2%	4%
AA-	3%	2%	5%	5%	2%
A+	13%	7%	5%	4%	7%
A	16%	17%	17%	16%	16%
A-	12%	16%	17%	19%	13%
BBB+	14%	10%	11%	10%	12%
BBB	29%	22%	18%	18%	14%
BBB-	10%	17%	13%	10%	11%
BB+	0%	5%	4%	4%	2%
BB	0%	1%	2%	3%	3%
BB-	0%	0%	1%	2%	3%
B+	0%	0%	2%	2%	6%
B	0%	0%	0%	1%	3%
B-	0%	0%	1%	1%	0%
	100	100%	100%	100%	100%

### *The Reference Portfolio*

As at December 31, 2007, the Reference Portfolio is comprised of Reference Obligations of 99 equally weighted Reference Entities. The portfolio size is equal to \$792,000,000. The Reference Entities included in the Reference Portfolio were originally selected by National Bank Financial Inc., as promoter approved by the Trustee, based on the following investment criteria:

- (i) Reference Entities with a reference obligation having an investment grade rating by Moody's or by S&P or any successor thereof; and
- (ii) no more than 8% of the Reference Portfolio having been invested in any one industry sector.

The table attached hereto as Schedule B sets forth the name of each Reference Entity comprised in the Reference Portfolio, its Moody's industry sector, its Moody's credit rating and its S&P's credit rating.

### *Substitutions in the Reference Portfolio*

The Reference Portfolio is not actively managed and is not expected to change, even if the Reference Entities included in the Reference Portfolio may no longer meet the investment criteria described above. However, the Trustee may, from time to time, request the Bank to replace certain Reference Entities if, in its judgement, such replacement is advisable. Such replacement is subject to the prior approval of the Bank and may result in a loss for the Trust if the transaction cost incurred exceeds the First Loss Tranche, and in an adjustment on the quarterly payments, but any replacement must be rated at least BBB under the S&P scale. Changes in the Reference Portfolio

are not subject to the approval of the Unitholders. So far, no changes have been requested by the Trustee in the Reference Portfolio.

#### *Credit Event*

On October 17, 2005, the Trust received from the Bank, as swap counterparty, a credit event notice advising that a credit event had occurred with regards to Delphi Corporation, one of the Reference Entities. Delphi Corporation had previously filed on October 8, 2005 a petition for Chapter 11 proceedings under the *United States Bankruptcy Code* for itself and many of its U.S. subsidiaries.

The Bank conducted a valuation on October 25, 2005 and a final price was established at 68.625% of par, representing a net loss of \$2,510,000. As the Trust benefits from a First Loss Tranche, this credit event had no impact on the value of the units on the Maturity Date and on the quarterly distributions. Following this credit event, Delphi Corporation was removed from the Reference Portfolio which includes, since then, 99 Reference Entities and the First Loss Tranche was reduced to \$37,490,000.

Although there was several downgrades of Reference Entities included in the Portfolio, there were no credit events during the year and none also from January 1, 2008 to the time of this writing, that is March 28, 2008. Moreover, the credit event observation end date is May 2, 2008.

#### *Value of the Swap Agreement*

The Swap Agreement is valued on the last business day of each month and reflects among other things the amount that the Bank is willing to pay in order to discharge its obligations under the swap, which is based on the Bank proprietary assumptions concerning current and future market conditions and events. Factors affecting the value of the swap include the market's assessment of overall credit quality of the Reference Portfolio as measured by the trading price of the debt (and derivatives thereof) of Reference Entities, interest rates and other factors, such as correlation, that are proprietary to the Bank. As at December 31, 2007, the swap value was negative \$293,017 (representing negative \$1.83 per unit), down from \$62,567 (representing \$0.39 per unit) as at December 31, 2006.

#### *Other assets of the Trust*

The Trust held \$1,893 in cash on December 31, 2007 compared to \$2,767 on December 31, 2006.

#### *Net Asset Value of the Units*

The NAV of the Trust is calculated by National Bank of Canada (the "**Administrative Agent**") as of the last business day of each month and approved by the Trustee.

The NAV of the Trust on a particular date is equal to the aggregate value of the assets of the Trust, less the aggregate value of the liabilities of the Trust (including any operating expenses payable) and the underlying income taxes on income earned. The "NAV per unit" on any day is obtained by dividing the NAV of the Trust on such day by the number of units outstanding on that day. The NAV is posted on the Web site of National Bank Financial Inc. at [www.nbfinancial.com](http://www.nbfinancial.com), on SEDAR at [www.sedar.com](http://www.sedar.com) and published monthly by the Trust.

In calculating the NAV, the Administrative Agent uses the following rules:

- (i) the value of the Swap Agreement is based on updated credit information pertaining to the Reference Entities included in the Reference Portfolio, current interest rates, the remaining term of the Swap Agreement and information provided by the Bank;
- (ii) money market instruments are valued at cost plus accrued interest at the time of calculation;
- (iii) the value of any Permitted Investments is established by reference to prevailing interest rates, general market conditions and other relevant criteria;
- (iv) the value of any bonds, debentures and other debt obligations are valued by taking the average bid and ask prices;
- (v) the value of any cash on hand or on deposit, prepaid expenses and interest accrued and not yet received, is deemed to be the face amount thereof unless it is determined that any such asset is not worth its face amount, in which event the value is determined by the Administrative Agent.

If any of these rules cannot be used or are at any time considered to be inappropriate under the circumstances or inconsistent with Generally Accepted Accounting Principles (“GAAP”), then notwithstanding the foregoing rules, such valuation is established in a fair and reasonable manner and in accordance with GAAP. As of December 31, 2007, no investment has been valued other than in accordance with the foregoing rules.

The process of valuing investments for which no published market exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments and may differ from the prices at which the investments may be sold.

The net asset value per unit was \$97.96 on December 31, 2007 compared to \$100.35 as at December 31, 2006. The decrease in net asset value over the period is attributable to a reduction in the value of the Swap Agreement. As the Trust gets closer to maturity, the NAV will drift towards \$100 unless losses from credit events have exceeded the First Loss Tranche.

#### *Liquidity and Capital Resources*

The obligations of the Trust include operating expenses and declared distributions to Unitholders. The funding of these obligations is satisfied primarily through partial redemption of the short-term investments described above and the payments under the Swap Agreement. As at December 31, 2007, the Trust had current assets of \$15,972,985 and current liabilities of \$298,904 taking into account the distributions payable of \$240,000 on January 8, 2008.

#### *Distributions*

The Units paid regular quarterly distributions of \$1.50 per unit, representing a yield of 6% on a yearly basis on the \$100 issue price.

#### **4. Transactions with the Promoter and its Affiliates**

##### *Administrative Agreement*

Pursuant to an Administrative Agent Agreement, the Trustee has delegated its administrative duties relating to the Administrative Agent. Under this agreement, the Administrative Agent is responsible for providing without limitation, the following services to the Trust:

- (i) making the payment of operating expenses incurred on behalf of the Trust;
- (ii) preparing financial statements, financial and accounting information as required by the Trust and making distributions to Unitholders;
- (iii) ensuring that Unitholders are provided with financial statements (including interim and quarterly financial statements) and other reports as are from time to time required by applicable laws;
- (iv) ensuring that the Trust complies with regulatory requirements and applicable stock exchange listing requirements;
- (v) preparing the Trust's reports to Unitholders and the Canadian securities regulatory authorities;
- (vi) providing the Trustee with information and reports necessary for it to fulfill its fiduciary responsibilities and negotiating contractual agreements with third-party providers of services.

In 2006, the initial administrative agent, National Bank Trust Inc., transferred its appointment as administrative agent to National Bank of Canada effective as at October 16<sup>th</sup>, 2006. For the year ended in 2007, National Bank of Canada earned fees and reimbursement of expenses incurred in relation with this function totalled \$24,451 (\$15,728 for the corresponding period in 2006).

##### *Recirculation Agreement*

Pursuant to a recirculation agreement, the Trustee retained the services of National Bank Financial Inc. to use commercially reasonable efforts to find purchasers for any units tendered for redemption. The Trust may, but is not obligated to, require National Bank Financial Inc. to seek such purchasers.

No fees are payable to National Bank Financial Inc. in connection with this agreement.

##### *Custodial Agreement*

Pursuant to a custodial agreement between the Trust and National Bank Trust Inc., National Bank Trust Inc. acts as a custodian of the Trust in respect of the assets of the Trust, except for the Permitted Investments which are held by the Bank as collateral to the Swap Agreement. In connection with this agreement, no fees were payable to National Bank Trust Inc. for the year ended in 2007 and 2006.

### *Registrar and Transfer Agent Agreement*

Pursuant to a registrar and transfer agent agreement between the Trust and Natcan Trust Company, Natcan Trust Company, at its principal offices in Montreal and Toronto, was originally appointed registrar and transfer agent for the units. On April 28, 2006, another entity, Computershare Trust Company of Canada, was appointed registrar and transfer agent for the Units.

## **5. Independent Review Committee**

Metcalfe & Mansfield Alternative Investments Corp, the manager of the Trust, has established an independent review committee to review the conflict of interest matters that it is required to submit to such committee pursuant to *National Instrument 81-107 Independent Review Committee for Investment Funds*.

The members of the independent review committee are Yves Julien (Chair), Jean Durivage and Jacques Valotaire. All members of the independent review committee are independent within the meaning of National Instrument 81-107.

Each member of the independent committee receives an annual fee as well as a meeting fee and is reimbursed for his expenses incurred in connection with attending meetings of the independent review committee. The independent review committee will be filing a separate report that describes its activities, as required by National Instrument 81-107, which can be accessed (at no cost) by calling the Administrative Agent at 514 879-5598 or by visiting [www.nbf.ca](http://www.nbf.ca) or on [www.sedar.com](http://www.sedar.com).

## 6. Financial Highlights

The following tables show selected key financial information about the Trust and are intended to help explain the Trust's financial performance since inception. This information is derived from the Trust's financial statements:

### Net Asset Value per unit:

	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003 <sup>(1)</sup>
<b>Net Asset Value, beginning of period .....</b>	<b>\$ 100.35</b>	<b>\$104.86</b>	<b>\$108.13</b>	<b>\$110.20</b>	<b>\$97.33<sup>(2)</sup></b>
<b>Increase (decrease) from operations and contributed capital:</b>					
Total revenues and contributed capital.....	\$6.57	\$6.55	\$6.45	\$6.43	\$4.26
Total expenses.....	(\$0.74)	(\$0.54)	(\$0.43)	(\$0.49)	(\$0.38)
Unrealized gains (losses) for year .....	(\$2.22)	(\$4.52)	(\$3.19)	(\$2.11)	\$12.96
<b>Total increase (decrease) from operations and contributed capital .....</b>	<b>\$3.61</b>	<b>\$1.49</b>	<b>\$2.83</b>	<b>\$3.83</b>	<b>\$16.84</b>
<b>Distributions:</b>					
From income (excluding dividends).....	-	-	-	-	-
From dividends.....	-	-	-	-	-
From capital gains .....	-	-	-	-	-
Return of capital.....	(\$6.00)	(\$6.00)	(\$6.00)	(\$6.00)	(\$3.97)
<b>Total Distributions<sup>(3)</sup> .....</b>	<b>(\$6.00)</b>	<b>(\$6.00)</b>	<b>(\$6.00)</b>	<b>(\$6.00)</b>	<b>(\$3.97)</b>
<b>Net Asset Value, end of period.....</b>	<b>\$97.96</b>	<b>\$100.35</b>	<b>\$104.86</b>	<b>\$108.03</b>	<b>\$110.20</b>

(1) From May 2, 2003 to December 31, 2003.

(2) Issue expense of \$428,023 incurred in connection with the initial public offering, principally consisting of agents' fees and other offering expenses, which has been charged to retained earnings prior to calculating the opening net asset value of \$97.33.

(3) Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase / decrease from operations is based on the weighted average number of units outstanding over the financial period.

### Ratios and Supplemental Data:

	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003 <sup>(1)</sup>
Net Asset (000's)	\$15,674	\$16,057	\$16,778	\$17,284	\$17,632
Number of units outstanding	160,000	160,000	160,000	160,000	160,000
Portfolio turnover rate	0%	0%	0%	0%	0%
Trading expenses ratio	0%	0%	0%	0%	0%

(1) From May 2, 2003 to December 31, 2003.

**Accreted Value:**

At the Maturity Date, there will be no unrealized gain or loss on the Trust investments. In the interim, the unrealized gain or loss reflects (1) variations in the value of the Swap Agreement as calculated from time to time and (2) an expected gain built in the Swap Agreement because it allows the Trust to recover the \$428,023 issue expense incurred in connection with its initial public offering. If the “accreted value” of the units is defined as their NAV restated to exclude any unrealized gain or loss on the Swap Agreement other than a linear amortization of the issue expense recovery, the accrued value is a good indication of the amount in the Trust assets at a given date which would eventually be contributed towards the redemption of the units, assuming no further credit event. Another way to look at the accreted value is to view it as the net asset of the Trust valued at accreted cost less impairments.

	<b>Dec. 31, 2007</b>	<b>Dec. 31, 2006</b>	<b>Dec. 31, 2005</b>	<b>Dec. 31, 2004</b>	<b>Dec. 31, 2003<sup>(1)</sup></b>
<b>Accreted Value, beginning of period</b> .....	<b>\$ 99.23</b>	<b>\$98.67</b>	<b>\$98.10</b>	<b>\$97.61</b>	<b>\$97.33<sup>(2)</sup></b>
<b>Increase (decrease) from operations and contributed capital:</b>					
Total revenues and contributed capital .....	\$6.57	\$6.55	\$6.45	\$6.43	\$4.26
Total expenses .....	(\$0.74)	(\$0.54)	(\$0.43)	(\$0.49)	(\$0.38)
Amortization of the issue expense recovery	\$0.55	\$0.55	\$0.55	\$0.55	\$0.37
<b>Distributions</b> .....	<b>(\$6.00)</b>	<b>(\$6.00)</b>	<b>(\$6.00)</b>	<b>(\$6.00)</b>	<b>(\$3.97)</b>
<b>Accreted Value, end of period</b> .....	<b>\$99.61</b>	<b>\$99.23</b>	<b>\$98.67</b>	<b>\$98.10</b>	<b>\$97.61</b>
Unmaterialized gains or losses on Swap Asset since inception .....	\$0.92	\$3.14	\$7.66	\$10.85	\$12.96
Cumulative accretion of the issue expense included in the unmaterialized gains (losses)	(\$2.57)	(\$2.02)	(\$1.47)	(\$0.92)	(\$0.37)
<b>Net Asset Value, end of period</b> .....	<b>\$97.96</b>	<b>\$100.35</b>	<b>\$104.86</b>	<b>\$108.03</b>	<b>\$110.20</b>

(1) From May 2, 2003 to December 31, 2003.

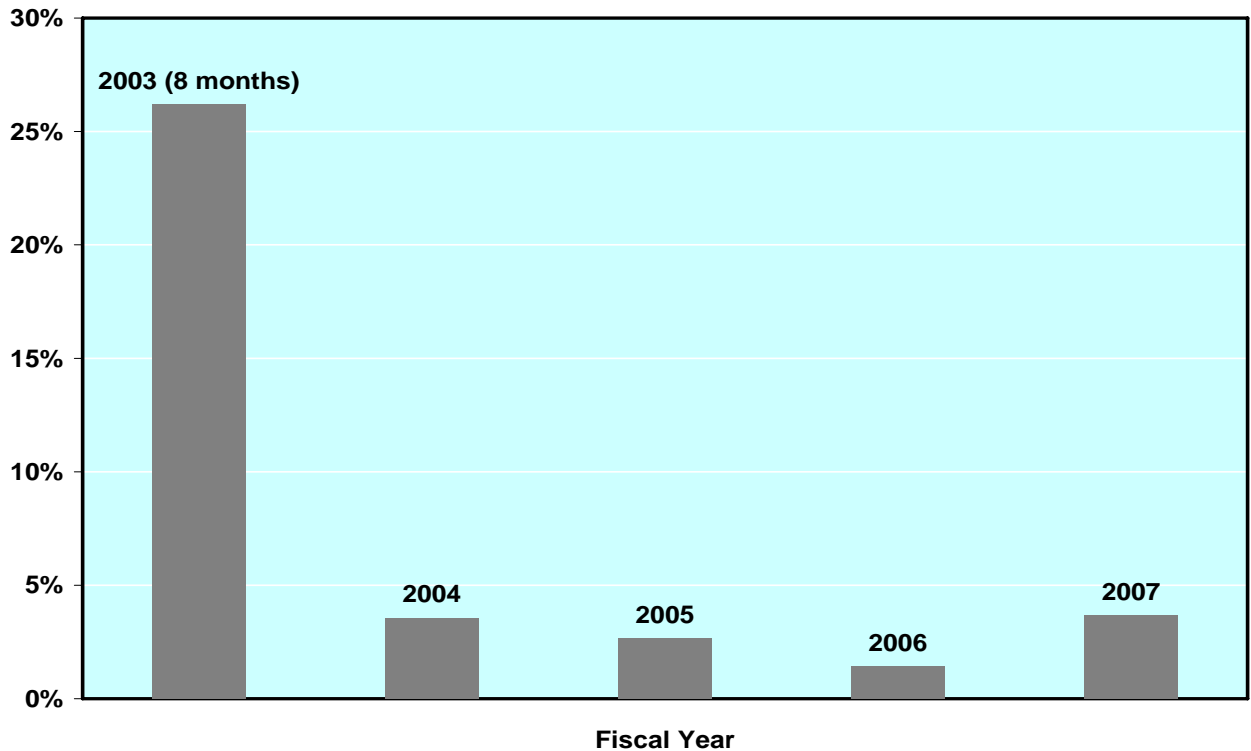
(2) Issue expense of \$428,023 incurred in connection with the initial public offering, principally consisting of agents’ fees and other offering expenses, which has been charged to retained earnings prior to calculating the opening net asset value of \$97.33.

**Past Performance:**

The following bar chart and table indicate the performance of the units by showing for the period, the return and compounded returns from inception assuming all the distributions made by the Trust in the period shown were reinvested at the NAV. However, the Trust does not provide for the reinvestment of any of its distributions. Past performance is not necessarily indicative of future performance.

*Year – by – Year Returns*

The following bar chart shows the Trust’s performance for the year and period shown. This bar chart shows, in percentage terms, how much an investment made on the first day of the financial year would have grown or decreased by the last day of the financial year or period. As the Trust’s objective (save for any loss exceeding the First Loss Tranche) is to provide a return on investment of 6% to Unitholders over the life of the Trust, average annual return will be 6% although annual returns may differ.



*Annual Compound Returns*

	<u>Past 12 Months</u>	<u>Since Inception<sup>(1)</sup></u>
Based on NAV <sup>(2)</sup>	3.68%	6.00%

(1) Annualized for the period of May 2, 2003 to December 31, 2007.

(2) Calculated from initial net asset value of \$97.33 and December 31, 2007 net asset value of \$97.96 assuming all distributions reinvested.

## **Schedule A** **Risks and Uncertainties**

The Trust is subject to various risks and uncertainties. The Trust's investment objectives could thus be adversely affected by each of the factors described below. Those are not the only ones faced by the Trust. Additional risks and uncertainties currently unknown to management of the Trustee or deemed rather unimportant could potentially have an impact on its business.

### *Credit Risk*

As a result of entering into the Swap Agreement, the Trust is exposed to a levered credit exposure. Any Credit Event triggered by a Reference Entity in excess of the First Loss Tranche would result in a net loss for the Trust.

### *Counterparty Risk*

The Trust is exposed to counterparty credit risk arising from any unrealized gain on the credit default swap plus any amount receivable from the counterparty. As the Maturity Date of the Trust approaches, the amount of exposure to the counterparty risk will gradually grow to approximately \$5,200,000 plus any unrealized gain or minus any unrealized loss on the Swap Agreement. The counterparty credit risk exposure on December 31, 2007 was \$4,807,044.

### *Valuation of the Swap Agreement*

The credit default swap is presented on the statement of net asset assets at fair value with changes in the unrealized appreciation or depreciation for the year reported in the statement of operations. The fair value represents the amount for which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price.

Where the fair value is established using valuation models, the Trust makes assumptions about the amount, the timing of estimated future cash flows and the discounted rates used. Whenever possible, these assumptions are based on factors observable in external markets, such as interest rate yield curves, volatility factors and credit curves.

In special circumstances, where a market quotation is not readily available or is considered inappropriate, the fair values presented are estimated using available sources of information and commonly used valuation techniques.

### *Creditworthiness of the Reference Obligations*

The credit ratings of the reference obligations in the Portfolio are those of S&P and the Trustee and NBF have relied on those credit ratings to initially select the Reference Entities without investigating each Reference Entity. Credit ratings are not a recommendation to buy, sell or hold investments, and may be subject to revision or withdrawal at any time by the relevant rating agency. Financial and other information with respect to each Reference Entity may be available from publicly available sources, but no representation is made with respect thereto by the Trust or the Trustee, as to the accuracy or completeness of any such information.

### *No Rebalancing of the Portfolio*

There is no obligation on the Trustee to actively manage the Portfolio in order that it keeps its initial S&P's rating of A until the Credit Observation End Date. The Trustee does not seek to replace the Reference Entities to maintain the initial S&P's rating of the Portfolio.

### *Fluctuations in the NAV of the Units*

The NAV of the Units may fluctuate due to a number of factors such as a reduction in the Quarterly Payments, interest rates, the creditworthiness of the Reference Entities and Cumulative Net Loss Amounts in the Portfolio.

An increase in the interest rates could reduce the NAV of the Units given that the Units are subject to a maximum distribution. Finally, a weakening of the creditworthiness of each of the Reference Entities comprised in the Portfolio will have a negative impact on the NAV of the Units.

### *No Recourse to Reference Obligations*

The obligation to make quarterly distributions and to redeem the Units on the Maturity Date in accordance with the terms hereof is an obligation of the Trust. Unitholders will not have, and the Units will not represent any proprietary interest whatsoever in the reference obligations in the Portfolio. Accordingly, Unitholders will have no recourse whatsoever, directly or indirectly, to the reference obligations in the Portfolio to satisfy amounts owing to them under the Trust Agreement.

The Units do not represent obligations of, nor are they insured or guaranteed by, the Trustee, JPMorgan or any of their respective affiliates. None of the Trustee, the Reference Entities, JPMorgan or any of their respective affiliates, any Unitholders or any of their respective owners, beneficiaries, agents, officers, directors, employees, affiliates, successors or assigns will be personally liable for distributions in respect of the Units.

### *Disqualification as a Mutual Fund Trust*

If the Trust does not qualify as a mutual fund trust within the meaning of the *Income Tax Act* (Canada) (the "Tax Act"), the amount received by the Unitholders from the distributions made by the Trust could be treated differently under the Tax Act and, accordingly, be considered taxable income. In addition, there could be other adverse material tax effect on the Unitholders.

### *Fluctuations in Quarterly Distributions*

Although the quarterly distributions are targeted to be approximately \$1.50 per Unit, there can be no assurance that the Trust will be able to maintain the quarterly distributions to the Unitholders should Credit Events occur. The eventual occurrence of Credit Events in excess of the First Loss Tranche will decrease the quarterly distributions to be paid to Unitholders.

**Schedule B**  
**REFERENCE PORTFOLIO**  
**As at December 31, 2007**

Name	Moody's Industries	Moody's Rating		S&P Rating	
		Initial May 2, 2003	Dec. 31, 2007	Initial May 2, 2003	Dec. 31, 2007
1 ACE Limited	Insurance	A3	A3	BBB+	A-
2 Agrium Inc.	Farming and Agriculture	Baa2	Baa2	BBB	BBB
3 Albertsons Inc.	Grocery	Baa1	B1	BBB+	B+
4 Alcoa Inc.	Mining, Steel, Iron and Non-precious Metals	A2	Baa1	A	BBB+
5 Amerada Hess Corp.	Oil and Gas	Baa3	Baa3	BBB	BBB+
6 American International Group Inc.	Insurance	Aaa	Aa2	AAA	AA
7 Amgen Inc.	Healthcare, Education and Childcare	A2	A2	A+	A+
8 AOL Time Warner Inc.	Leisure, Amusement, Motion Pictures, Entertainment	Baa1	Baa2	BBB+	BBB+
9 Aramark Corp.	Personal, Food and Misc. Services	Baa3	B3	BBB-	B+
10 Arrow Electronics Inc.	Electronics	Baa3	Baa3	BBB-	BBB-
11 ArvinMeritor Inc.	Automobile	Baa3	B2	BBB-	B+
12 AT&T Corp.	Telecommunications	Baa2	A2	BBB+	A
13 Bank of America Corp.	Banking	Aa2	Aa1	A+	AA
14 Baxter International Inc.	Healthcare, Education and Childcare	A3	A3	A	A+
15 BCE Inc.	Telecommunications	Baa1	Baa2	A	BB-
16 BellSouth Corp.	Telecommunications	A1	A2	A+	A
17 Boeing Capital Corp.	Aerospace and Defense	A3	A2	A+	A+
18 Carnival Corp.	Leisure, Amusement, Motion Pictures, Entertainment	A3	A3	A	A-
19 Caterpillar Inc.	Machinery (Non-agriculture, Non-construction, Non-electronic)	A2	A2	A+	A
20 Cendant Corp.	Diversified/Conglomerate Services	Baa1	Ba1	BBB	BB+
21 Centex Corp.	Buildings and Real Estate	Baa2	Ba1	BBB	BBB-
22 Cingular Wireless LLC	Telecommunications	A3	A3	A+	A
23 Citigroup Inc.	Banking	Aa1	Aa3	AA-	AA
24 Clear Channel Communications Inc.	Broadcasting	Baa3	Baa3	BBB-	B+
25 CNA Financial Corp.	Insurance	Baa2	Baa3	BBB-	BBB-
26 Columbia Energy Group	Oil and Gas	Baa2	Baa3	BBB	BBB-
27 Comcast Cable Communications	Broadcasting	Baa3	Baa2	BBB	BBB+
28 Computer Associates International Inc.	Electronics	Baa2	Ba1	BBB+	BB
29 Conagra Foods Inc.	Beverage, Food and Tobacco	Baa1	Baa2	BBB+	BBB+
30 ConocoPhillips	Oil and Gas	A3	A1	A-	A
31 Cooper Industries Inc.	Machinery (Non-agriculture, Non-construction, Non-electronic)	A3	A3	A-	A-
32 Countrywide Home Loans Inc.	Finance	A3	Baa3	A	BBB+
33 Cox Enterprises Inc.	Broadcasting	Baa1	Baa3	BBB	BBB-
34 CSX Corp.	Cargo Transport	Baa2	Baa3	BBB	BBB-
35 CVS Corp.	Retail Stores	A2	Baa2	A	BBB+
36 Deere and Company	Farming and Agriculture	A3	A2	A-	A
37 Devon Energy Corp.	Oil and Gas	Baa2	Baa1	BBB	BBB
38 Eastman Kodak Company	Healthcare, Education and Childcare	Baa1	B2	BBB+	B+
39 Electronic Data Systems Corp.	Electronics	Baa2	Ba1	A-	BBB-
40 ERAC USA Finance Company	Personal Transportation	Baa1	Baa2	BBB+	BBB
41 Federated Department Stores Inc.	Retail Stores	Baa1	Baa2	BBB+	BBB
42 FirstEnergy Corp.	Utilities	Baa2	Baa3	BBB	BBB
43 FleetBoston Financial Corp. <sup>(1)</sup>	Banking	A1	Aa1	A	AA
44 Ford Motor Credit Company	Finance	A3	B1	BBB	B

(1) On April 1, 2004, Bank of America acquired all of the outstanding stock of FleetBoston Financial Corp.

Name	Moody's Industries	Moody's Rating		S&P Rating	
		Initial May 2, 2003	Dec. 31, 2007	Initial May 2, 2003	Dec. 31, 2007
45 FPL Group Capital Inc.	Utilities	A2	A2	A	A
46 General Electric Capital Corp.	Finance	Aaa	Aaa	AAA	AAA
47 General Motors Acceptance Corp.	Finance	A2	Ba3	BBB	BB+
48 Goodrich Corp.	Aerospace and Defense	Baa3	Baa2	BBB	BBB
49 Harrah's Entertainment Inc.	Hotels, Motels, Inns and Gaming	Baa3	Ba2	BBB-	BB
50 Hewlett-Packard Company	Electronics	A3	A2	A-	A
51 Household Finance Corp.	Finance	A2	Aa3	A	AA-
52 Inco Ltd.	Mining, Steel, Iron and Non-precious Metals	Baa3	Baa3	BBB-	BBB
53 International Business Machines Corp.	Electronics	A1	A1	A+	A+
54 International Lease Finance Corp.	Diversified/Conglomerate Services	A1	A1	AA-	AA-
55 International Paper Company	Printing and Publishing	Baa2	Baa3	BBB	BBB
56 Laboratory Corp. of America Holdings	Healthcare, Education and Childcare	Baa3	Baa3	BBB	BBB
57 Marriott International Inc.	Hotels, Motels, Inns and Gaming	Baa2	Baa2	BBB+	BBB
58 MBIA Insurance Corp.	Insurance	Aaa	Aaa	AAA	AAA
59 MBNA Corp.	Banking	Baa2	Aa1	BBB	AA+
60 McDonald's Corp.	Personal, Food and Misc. Services	A2	A3	A+	A
61 McKesson Corp.	Healthcare, Education and Childcare	Baa2	Baa3	BBB	BBB
62 Merrill Lynch and Company Inc.	Finance	Aa3	A1	A+	A+
63 MetLife Inc.	Insurance	A2	A2	A	A
64 Monsanto Company	Chemicals, Plastics and Rubber	Baa1	Baa1	A	A
65 Motorola Inc.	Electronics	Baa2	Baa1	BBB	A-
66 Nabors Industries Inc.	Oil and Gas	A3	A3	A-	A-
67 National Rural Utilities Coop. Finance Corp.	Utilities	A2	A2	A	A
68 Newmont Mining Corp.	Mining, Steel, Iron and Non-precious Metals	Baa3	Baa1	BBB	BBB+
69 News America Inc.	Broadcasting	Baa3	Baa2	BBB-	BBB+
70 Nordstrom Inc.	Retail Stores	Baa1	Baa1	A-	A-
71 Omnicom Group Inc.	Broadcasting	Baa1	Baa1	A-	A-
72 PSEG Power LLC	Utilities	Baa1	Baa1	BBB	BBB
73 Radian Group Inc.	Insurance	A2	A2	A	A
74 Raytheon Co.	Aerospace and Defense	Baa3	Baa1	BBB-	BBB+
75 Rydersystem Inc.	Personal Transportation	Baa1	Baa1	BBB	BBB+
76 Sabre Holdings Corp.	Electronics	Baa2	Caa1	BBB+	B+
77 Safeway Inc.	Grocery	Baa2	Baa2	BBB	BBB-
78 SBC Communications Inc.	Telecommunications	A1	A2	AA-	A
79 Sears Roebuck Acceptance Corp.	Finance	Baa1	Ba2	BBB+	BB
80 Sempra Energy	Utilities	Baa1	Baa1	A-	BBB+
81 Simon Property Group L.P.	Buildings and Real Estate	Baa2	A3	BBB+	A-
82 Southwest Airlines Company	Personal Transportation	Baa1	Baa1	A	A-
83 Supervalu Inc.	Grocery	Baa3	B1	BBB	BB-
84 Target Corp.	Retail Stores	A2	A2	A+	A+
85 Temple-Inland Inc.	Printing and Publishing	Baa3	Ba1	BBB	BBB-
86 Textron Inc.	Diversified/Conglomerate Services	A3	A3	A	A-
87 The Dow Chemical Company	Chemicals, Plastics and Rubber	A3	A3	A-	A-
88 The Hertz Corp.	Personal Transportation	Baa2	Ba3	BBB	BB-
89 The PMI Group Inc.	Insurance	A1	A1	A+	A
90 Toys R Us Inc.	Retail Stores	Baa3	Caa1	BBB-	B
91 Transocean Inc.	Oil and Gas	Baa2	Baa2	A-	BBB+
92 Tyson Foods Inc.	Beverage, Food and Tobacco	Baa3	Ba2	BBB	BBB-
93 Verizon Global Funding Corp.	Telecommunications	A2	A3	A+	A-
94 Viacom Inc.	Broadcasting	A3	Baa3	A-	BBB
95 Visteon Corp.	Automobile	Baa2	Caa2	BBB	B
96 Walt Disney Company	Broadcasting	Baa1	A2	BBB+	A
97 Weyerhaeuser Company	Diversified Natural Resources, Precious Metals, and Minerals	Baa2	Baa2	BBB	BBB
98 Wyeth	Healthcare, Education and Childcare	A3	A3	A	A+
99 XL Capital Ltd.	Insurance	A1	A3	A+	A-