



CRESTSTREET

# Excellence

in Flow-through Investing



**Q2** 2004

Creststreet 2003 (II) Limited Partnership

## Message to Limited Partners

We are pleased to present the June 30, 2004 interim report for the Creststreet 2003 (II) Limited Partnership.

The Partnership's investment strategy focuses primarily on Canadian natural gas producers. North American natural gas production continues to be constrained as historical long life reserves are depleted and offsetting new production has higher declines and shorter production lives. Natural gas prices remained strong throughout the second quarter, with additional support from record high crude oil prices making energy substitution less economic. Crude oil prices rose through the quarter from \$34 USD per barrel to over \$37 USD per barrel, peaking at \$42 on June 2nd. Oil price increases were driven by a combination of geopolitical events and global supply disruptions. The equity markets have reacted favorably to these higher commodity prices with the TSX energy index returning 1.7% in the quarter. Creststreet will continue to focus the Partnership's investments on natural gas weighted producers due to the strong supply and demand fundamentals as we anticipate that natural gas prices will remain high for the remainder of 2004 and into the years beyond.

As of August 6, 2004, the net asset value of the Partnership was \$8.42 per unit. This net asset value represents an attractive 26.8% after-tax return for an individual investor in Ontario taxable at the highest marginal tax rate. The Partnership has a solid portfolio of high quality natural gas producers and is extremely well positioned to continue to generate strong returns for unitholders.

We encourage investors to visit our website at [www.creststreet.com](http://www.creststreet.com) for timely and comprehensive updates on their investment.

Respectfully submitted,



Robert J. Toole  
*President*

August 2004

## Management Discussion and Analysis

### Financial Condition

At June 30, 2004, Creststreet 2003 (II) Limited Partnership had net assets of \$22,161,632 including investments in flow-through shares of resource companies of \$22,804,542, a loan payable of \$2,050,435 and net working capital of \$1,407,525.

### Change in Net Assets

The increase in the net assets of \$269,670 during the period January 1 to June 30, 2004 is related to realized gains on sale of investments in the amount of \$225,345, and unrealized appreciation of investments of \$ 457,815 primarily due to improved resource commodity prices, offset by a net loss from operations of \$413,490.

### Results of Operations

For the period of January 1, 2004 to June 30, 2004 the Partnership paid management fees of \$243,081 being 1/12 of 2% of the net assets of the Partnership, calculated and paid monthly, incurred administrative costs of \$149,316 and interest expenses of \$41,263 related to the operation of the Partnership.

## Statement of Net Assets

As at June 30, 2004 and December 31, 2003

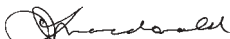
	(Unaudited) June 30, 2004	(Audited) December 31, 2003
<b>Assets:</b>		
Investments in		
Resource Companies (Note 3)	\$ 22,804,542	\$ 23,775,250
Cash and Cash Equivalents	1,480,821	256,903
Dividend Receivable	13,474	–
	24,298,837	24,032,153
<b>Liabilities:</b>		
Loan Payable (Note 4)	2,050,435	1,964,025
Accounts Payable and Accrued Liabilities	86,770	176,166
<b>Net Assets</b>	<b>\$ 22,161,632</b>	<b>\$ 21,891,962</b>
<b>Limited Partnership Units Outstanding</b>	<b>2,500,000</b>	<b>2,500,000</b>
<b>Net Asset Value Per Unit</b>	<b>\$ 8.86</b>	<b>\$ 8.76</b>

See accompanying notes to financial statements

Approved by Creststreet 2003 (II) Management Limited as General Partner  
on behalf of Creststreet 2003 (II) Limited Partnership



Director



Director

## Statement of Operations

For the Period ended June 30, 2004

	(Unaudited) Quarter Ended June 30, 2004	(Unaudited) Six Months Ended June 30, 2004
<b>Investment Income:</b>		
Interest and Dividend Income	\$ 19,165	\$ 20,170
<b>Expenses:</b>		
Management Fees (Note 5)	120,993	243,081
Administrative Costs	82,075	149,316
Interest Expense	19,809	41,263
	222,877	433,660
Net Loss	(203,712)	(413,490)
<b>Realized and Unrealized Gain on Investments:</b>		
Proceeds of Investments Sold	4,147,887	5,441,470
Cost of Investments Beginning of Period	23,747,550	24,761,550
Purchases during the Period	3,787,612	3,787,612
Cost of Investments at End of Period	(23,333,037)	(23,333,037)
Cost of Investments Sold	4,202,125	5,216,125
Net Realized Gain (Loss) on Sale of Investments	(54,238)	225,345
Unrealized Appreciation (Depreciation) of Investments	224,875	457,815
Net Gain on Investments	170,637	683,160
<b>Net Increase (Decrease) in Net Assets Resulting from Operations</b>	<b>\$ (33,075)</b>	<b>\$ 269,670</b>
Net Increase in Net Assets Resulting from Operations per Unit:		
Net Loss	\$ (0.08)	\$ (0.16)
Net Gain on Investments	0.07	0.27
Net Increase (Decrease) in Net Assets Resulting from Operations per Unit	\$ (0.01)	\$ 0.11

See accompanying notes to financial statements

## Statement of Changes in Net Assets

For the Period ended June 30, 2004

	(Unaudited) Quarter Ended June 30, 2004	(Unaudited) Six Months Ended June 30, 2004
<b>Operations:</b>		
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ (33,075)	\$ 269,670
<b>Net Assets at Beginning of Period</b>	<b>22,194,707</b>	<b>21,891,962</b>
<b>Net Assets at End of Period</b>	<b>\$ 22,161,632</b>	<b>\$ 22,161,632</b>

*See accompanying notes to financial statements*

## Statement of Investment Portfolio

As at June 30, 2004

(Unaudited)

Description	Number of Shares	Market Value
Hawker Resources Inc.	606,000	\$ 3,060,300
Ketch Resources Ltd.	228,100	2,623,150
Tusk Energy Inc.	550,000	2,420,000
Tesoro Energy Corp.	15,000,000	2,175,000
Provident Energy Ltd., Exchangable Shares	177,285	1,824,263
StarPoint Energy Ltd.	325,000	1,381,250
Compton Petroleum Corporation	170,000	1,275,000
High Point Resources Inc.	700,000	1,169,000
Mount Copper Wind Power Energy Inc.	500,000	1,000,000
Pubinco Point Wind Farm Inc.	4,000	1,000,000
Lightning Energy Ltd.	200,000	828,000
Bear Creek Energy Ltd.	150,000	825,000
APF Energy Trust	65,367	742,569
Thunder Energy Inc.	99,999	710,993
ExAlta Energy Inc.	315,000	488,250
Val Vista Energy Ltd.	279,167	376,875
Veteran Resources Inc.	741,667	333,750
ProVident Energy Trust	25,125	258,536
Metalex Ventures Inc.	150,000	207,000
Accrete Energy Inc.	58,670	105,606
<b>Total Investment Portfolio</b>		<b>\$ 22,804,542</b>

See accompanying notes to financial statements

## Notes to Financial Statements

For the period ended June 30, 2004

(Unaudited)

### 1. Creststreet 2003 (II) Limited Partnership

CRESTSTREET 2003 (II) LIMITED PARTNERSHIP (the "Partnership") was formed as a limited partnership under the laws of the Province of Ontario on September 16, 2003. The principal purpose of the Partnership is to invest in flow-through shares of resource companies involved in oil and gas exploration in Canada. Pursuant to a prospectus dated October 29, 2003, the Partnership commenced operations and the Limited Partners subscribed for 2,500,000 units of limited partnership interest. The General Partner of the Partnership is CRESTSTREET 2003 (II) MANAGEMENT LIMITED (the "General Partner").

### 2. Basis of Presentation

The interim period consolidated financial statements have been prepared by the Partnership in accordance with Canadian generally accepted accounting principles. The preparation of the financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual statements. These interim period financial statements do not include all the disclosures required by generally accepted accounting principles and accordingly should be read together with the audited annual financial statements and the accompanying notes included in the Partnership's 2003 Annual Report.

### 3. Cash Held in Escrow

In 2003, the Partnership entered into flow-through subscription agreements to purchase \$2,000,000 of common shares of resource companies upon receipt of satisfactory evidence of expenditures qualifying for Canadian Exploration Expenses ("CEE"). Accordingly, cash paid for these shares is held in escrow. The difference between the commitment amount and the market value of common shares is treated as an unrealized gain or loss and is included in Net Assets. The commitments for the purchase of the shares of the two resource companies is included in investments of the Partnership and is reflected in the Statement of Investment Portfolio as at June 30, 2004. At June 30, 2004, the amount held in escrow was \$457,465.

#### **4. Loan Payable**

A term facility for up to \$2.5 million matures on the earlier of May 15, 2005 and the dissolution date of the partnership. The facility is secured by a general security agreement and interest is calculated at prime. At June 30, 2004, the total loan payable was \$2,050,435. On July 8, 2004, \$1,250,000 of the loan was repaid, leaving a balance of \$800,435. The loan is subject to certain financial covenants.

#### **5. Related Party Transactions**

The General Partner is entitled to receive a fee equal to 2.0% per annum of the net value of the Partnership, calculated and payable monthly in arrears. For the period ended June 30, 2004, the management fee amounted to \$243,081. The General Partner also has a 0.01% beneficial interest in the Partnership.

#### **6. Liquidity of Partnership Units and Termination of the Partnership**

On or about January 21, 2005, the Partnership is scheduled to transfer all of its assets to Creststreet Resource Fund Limited, an open end mutual fund (the "Mutual Fund") in exchange for shares of the Mutual Fund. Upon this transfer the Partnership will be dissolved at which time the net assets will be allocated 99.99% to the Limited Partners and 0.01% to the General Partner. Upon dissolution, the Limited Partners will receive their pro rata share of the shares of the Mutual Fund.

#### **7. Tax Shelter Identification Number – TS 068668**

The identification number issued for this tax shelter Partnership shall be included in any income tax return filed by the Limited Partners. Issuance of the identification number is for administration purposes only and does not in any way confirm the entitlement of an investor to claim any tax benefits associated with the tax shelter.

**Directors of the General Partner**

John P. A. Budreski  
*Managing Director*  
Scotia Capital Inc.

Larry J. Macdonald  
*Chairman*  
Point Energy Inc.

Robert J. Toole  
*Managing Director*  
Creststreet Asset Management Limited

**Officers of the General Partner**

Robert J. Toole, President  
Donna Shea, Vice-President, Finance  
Sheryl Chiddenton, Secretary Treasurer

**Legal Counsel**

McCarthy Tétrault LLP  
Toronto, Ontario

**Auditors**

KPMG LLP  
Toronto, Ontario

**Registered Address**

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