

## 2008 > Interim Report

### Management Report of Fund Performance

For the six month period ended June 30, 2008

THIS INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE CONTAINS FINANCIAL HIGHLIGHTS AND IS PART OF THE SEMI-ANNUAL REPORT OF CRESTSTREET ALTERNATIVE ENERGY FUND (THE "FUND").

SHAREHOLDERS MAY OBTAIN A COPY OF THE INTERIM OR ANNUAL FINANCIAL STATEMENTS AT NO COST BY CALLING 1 866 864-6330, BY WRITING TO CRESTSTREET MUTUAL FUNDS LIMITED, 70 UNIVERSITY AVE., SUITE 1450, TORONTO, ON, M5J 2M4, OR BY VISITING OUR WEBSITE AT [WWW.CRESTSTREET.COM](http://WWW.CRESTSTREET.COM). SHAREHOLDERS MAY ALSO CONTACT CRESTSTREET USING ONE OF THESE METHODS TO REQUEST A COPY OF THE FUND'S PROXY VOTING POLICIES, PROXY VOTING DISCLOSURE RECORD, OR QUARTERLY PORTFOLIO DISCLOSURE.

### Results of Operations

#### > Investment Performance

In October 2007, Creststreet leveraged its expertise in conventional energy investment management and windpower operational experience to launch Creststreet Alternative Energy Fund (the "Fund"). The Fund seeks to capitalize on the growth in rapidly expanding sectors of the energy market which have emerged to reduce society's dependence on traditional carbon dioxide-emitting sources of energy.

The first half of 2008 was characterized by media headlines and news flow regarding the global credit crisis, talk of a U.S. recession, and the climb of crude oil to record levels. By the end of the period, attention had turned to the impact of soaring commodity prices and their inflationary pressures on the global economy. The Fund was shielded from the general market sell-off that occurred in January by taking advantage of its ability to short sell up to 20 percent of the Fund's assets.

During the period, the Fund benefited from strong performance across several subsectors of the alternative energy sector, particularly in select solar energy and uranium producer equities, which came back into favour following the dramatic rise in the price of energy commodities. During the period, we began to strategically rotate out of various solar-related names to crystallize gains and shelter the Fund from short-term price volatility, due in large part to news related to renewals of government incentive programs for solar power, primarily in the U.S., Germany, and Spain. We will continue to monitor government incentive programs for solar energy closely and reduce

exposure to short-term volatility; however, we remain very positive towards the long-term prospect of solar energy.

We continued to follow the alternative fuels trend, looking intently for companies that provide transportation solutions to reduce dependence on gasoline as a transportation fuel. These alternative fuels include cellulosic or algae-based biofuels and natural gas. We also monitored advancements in battery technology and will continue to monitor this sector as a potential investment opportunity for the Fund.

Alternative energy derived from non-carbon emitting sources continues to be a growing but relatively under covered sector. In light of the soaring price of crude, increased attention is turning to non-traditional energy sources, including solar power, wind, geothermal and run of river as a viable and more cost-effective solution, and the Fund will continue to be positioned to benefit from an increase in demand for alternative energy.

#### **> Revenues and Expenses**

The Fund earned a nominal amount of interest and dividend income during the period. The Manager does not expect there to be significant amounts of investment revenue in the future as the Fund's main focus is investing in growth-oriented alternative energy-related companies.

The Fund incurred expenses totalling \$1,408,935 during the six-month period ended June 30, 2008, the largest of which was performance fees of \$1,323,929. The performance fee is dependent on the Fund's performance and is discussed in greater detail in the "Related Party Transactions" section that follows. Other expenses, including management fees, amounted to \$85,006 and were incurred in the normal course of the Fund's operations.

## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the six month period ended June 30, 2008 and for the period from October 24 (date of inception) to December 31, 2007. This information is derived from the Fund's June 30, 2008 interim financial statements and annual financial statements.

### The Fund's Net Asset Value (NAV) per Share:

	<b>June 30,</b>		
	<b>2008</b>		<b>2007</b>
Net asset value, beginning of period	\$	15.56	\$ 10.00
<b>Increase (decrease) from operations:</b>			
Total revenue		0.23	0.06
Total expenses		(6.16)	(0.93)
Realized gain on investments		16.18	4.70
Unrealized gain (loss) on investments		(0.06)	2.12
Transaction costs		(1.53)	(0.62)
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Total increase from operations <sup>(1)</sup>		8.66	5.33
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<b>Distributions:</b>			
From capital gains		(2.17)	-
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Total annual distributions <sup>(3)</sup>		(2.17)	-
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<b>Net asset value, end of period (GAAP NAV)<sup>(2)</sup></b>	<b>\$</b>	<b>25.39</b>	<b>\$ 15.56</b>

(1) Net asset value is based on the actual number of shares outstanding at the relevant time. The increase from operations is based on the weighted average number of shares outstanding over the financial period.

(2) Distributions were reinvested into additional shares of the Fund.

(3) These calculations are prescribed by securities regulators and are not intended to be a reconciliation between the opening and closing net asset value per share.

## Ratios and Supplemental Data

	<b>June 30, 2008</b>	<b>2007</b>
Net assets (000's) <sup>(1)</sup>	\$ 11,045	\$ 379
Number of shares outstanding <sup>(1)</sup>	434,934	24,376
Management expense ratio (MER) <sup>(2)</sup>		
Expenses	3.17%	25.15%
Performance fee	49.33%	18.59%
Total MER	52.50%	43.74%
Portfolio turnover rate <sup>(3)</sup>	7912.71%	2428.03%
Trading expense ratio <sup>(4)</sup>	13.00%	43.67%
Closing Pricing NAV per share	\$ 25.46	\$ 15.66

(1) This information is provided as at June 30, 2008 and December 31 of the year shown.

(2) The management expense ratio has been split into two components: the Fund's normal operating expenses and the change in the contingent performance fee for the period. The MER calculated above is not indicative of future expense levels as the net assets of the Fund were much lower at the beginning of 2008. The Manager expects that the operating expense portion of the MER will be much lower in future periods once the Fund has increased in size and expenses are spread out over a full year. The portion of the MER based on the change in the contingent performance fee amount will depend on the performance of the Fund and the criteria used to calculate the performance fee. The performance fee is discussed in greater detail under "Related Party Transactions".

(3) The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100 percent is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of a year. The higher a fund's portfolio turnover rate, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund.

(4) The trading expense ratio represents the total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

## Summary of Investment Portfolio

As at June 30, 2008

Description	Total % of net assets
Alternative fuels	19.42%
Other	6.41%
Uranium	4.41%
Efficiency	4.16%
Solar energy	3.72%
Hydro / run of river	2.57%
	<b>40.69%</b>
Cash and cash equivalents	64.76%
Other net assets	-5.45%
	<b>100.00%</b>

### Investment portfolio

Company	% of net assets
MagIndustries Corp.	7.12%
ZCL Composites Inc.	5.35%
Uranium Participation Corporation	4.41%
Rubicon Technology, Inc.	3.76%
Raytec Metals Corp.	3.17%
Largo Resources Ltd.	2.63%
Great Lakes Hydro Income Fund	2.57%
GLG Life Tech Corporation	2.02%
Day4 Energy Inc.	1.90%
Phoscan Chemical Corp.	1.76%
ATS Automation Tooling Systems Inc.	1.34%
Advanced Battery Technologies, Inc.	1.29%
Zongshen PEM Power Systems Inc.	1.13%
HSE Integrated Ltd.	0.93%
Ascent Solar Technologies Inc.	0.48%
Forterra Environmental Corp.	0.43%
MicroPlanet Technology Corp.	0.40%
	<b>40.69%</b>

The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. The most recent annual report, semi-annual report or quarterly portfolio disclosure is available at no cost by calling 1 866 864-6330, by writing to us at Creststreet Mutual Funds Limited, Suite 1450, 70 University Avenue, Toronto ON, M5J 2M4, or by visiting our website at [www.creststreet.com](http://www.creststreet.com).

## Past Performance

The Fund's performance has not been presented because it commenced operations on October 24, 2007, and has not been in existence for a full financial period.

## Investment Objectives and Strategies

The Fund's investment objective is to provide stable long-term growth of capital while conservatively managing value at risk. The Fund invests primarily in securities of North American issuers whose businesses seek out opportunities to generate energy beyond what traditional dependence on carbon-emitting sources supply.

The Fund will establish core-holdings by employing a Growth at a Reasonable Price ("GARP") approach with an emphasis on long-term commercial viability, growth, and value creation. This will be achieved by following a top-down approach whereby macro-economic fundamental factors will be thoroughly analyzed to assess relative economics and determine emerging trends in alternative energy sub-sectors. The entire value chain and competitive landscape will be reviewed to identify companies best positioned to profit from those trends. Company-specific investment decisions will be made on the basis of management, valuation, and financial strength including access to capital. Valuation criteria will emphasize earnings before interest, depreciation, taxes, and amortization ("EBITDA") and sales multiples, as well as discounted cash flow analyses. Portfolio holdings will be typically concentrated within a limited number of companies, usually 15 to 30, to maintain awareness of corporate developments and communication with each company's management.

## Recent Developments

### **New financial statement disclosure requirements**

In December 2006, the Accounting Standards Board issued CICA Handbook Section 3862, *Financial Instruments – Disclosures* ("S.3862") and Section 3863, *Financial Instruments – Presentation* ("S.3863"). The new sections impact interim and annual financial statements for fiscal years beginning on or after October 1, 2007. The introduction of S.3863 will have no impact on the reporting of the Fund since the Fund is already in compliance with this section due to its adherence to reporting required by the Canadian Securities Administrators. S.3862, however, will require significantly more disclosure with respect to the risks associated with the financial instruments held by the Fund. This section requires that the Fund provide specific qualitative and quantitative disclosures about the various types of risk the Fund is exposed to and also requires sensitivity analysis for some types of risk. The purpose of S.3862 is to allow financial statement users to gain a more thorough understanding of the Fund's risk exposure, their potential impacts, and how the Fund manages those risks.

## **Section 3855 “Financial Instruments – Recognition and Measurement” – an update**

Prior to the implementation of Section 3855 in 2007, investment funds valued their publicly traded securities at the price the securities last traded. Section 3855 requires that securities traded on a public exchange be valued at their last bid price for securities held long and the last ask price for securities sold short for calculating the net asset value (“NAV”) for financial reporting purposes (“GAAP NAV”). The NAV calculated for pricing purposes for purchases and redemptions continues to use last traded market prices (“Pricing NAV”). This will generally result in a difference between Pricing NAV and GAAP NAV which is presented on the Statement of Net Assets. This change was adopted prospectively in 2007 with no restatement of prior periods but an adjustment to opening balances in 2007.

## **Related Party Transactions**

Management fees are paid to the Manager for the management of the Fund’s day-to-day administration. The Fund also pays a service fee to the Manager, which the Manager then remits to dealers as consideration for administering the Fund’s assets for the dealers’ clients.

The Manager is entitled to a performance fee of 20 percent of the amount of which the Fund’s cumulative total return exceeds the cumulative total return of the S&P 500 Index multiplied by the increase in net assets from operations.

In order to issue a prospectus to offer mutual fund securities for sale to the public, an investment of at least \$150,000 in the securities of the mutual fund must be made and those securities beneficially owned by the Manager or sponsor of the mutual fund. To meet this criteria, the parent of the Manager, Creststreet Capital Corporation, provided \$150,000 of seed capital upon the commencement of operations of the Fund in November, 2007. The seed capital must remain invested in the Fund until the Fund has received subscriptions of at least \$500,000 from persons unrelated to the Fund. The Fund has exceeded this amount, however, the seed capital remains invested in the Fund.

## **Management Fees**

The Manager provides investment and administrative services to the Fund. In consideration of these services, the Fund pays the Manager a fee equal to 2.0 percent per annum of the net value of the Fund, calculated and paid monthly in arrears. GST is paid on all management fees.

The Fund also pays a service fee to dealers as consideration for administering its assets held by those dealers. The service fee is calculated as a percentage of the assets each dealer has in place in the Fund and is based on the closing balance of client accounts at the end of each calendar month. The Fund pays service fees on a quarterly basis at a rate of 0.5 percent of the Fund’s net asset value. The Fund paid the following amounts to the Manager for the six months ended June 30:

**2008**

Management fees	\$ 45,389	80.70%
Service fees paid to dealers	<u>10,856</u>	<u>19.30%</u>
	<u>\$ 56,245</u>	<u>100.00%</u>

A further accrual of \$1,332,057 was made for performance fees, which would become payable on December 31, 2008, contingent on the Fund continuing to perform at a level above the threshold that would trigger payment of such a fee.

**Risk**

No major or significant changes have had an impact on the overall risk level of any investments in the Fund over the past six months. The investment philosophy, style and method for the Fund remain unchanged. The Fund's objective is to provide stable, long-term growth of capital while conservatively managing value at risk. The Fund invests primarily in the securities of North American companies seeking to capitalize on opportunities in the production of energy using alternative methods beyond traditional, carbon-based sources. The Fund is therefore subject to the risks associated with investing in an emerging market sector for which no benchmark index yet exists. A more detailed discussion of the Fund's risk exposures can be found in the Fund's prospectus and in the notes of the 2008 semi-annual financial statements.

## Statements of Net Assets

	As at June 30, 2008 (unaudited)	As at December 31, 2007
<b>Assets</b>		
Investments in securities at market value	\$ 4,493,555	\$ 340,225
Cash and cash equivalents	7,152,088	39,541
Due from broker	7,999,638	49,465
Subscriptions receivable	345,992	4,000
Dividend receivable	1,563	189
Accounts receivable	18,971	47
	<b>20,011,807</b>	<b>433,467</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	40,209	7,913
Redemptions payable	69,688	-
Due to broker	7,525,079	38,159
Performance fee payable (note 3)	1,332,057	8,128
	<b>8,967,033</b>	<b>54,200</b>
<b>Net assets - GAAP NAV (note 2)</b>	<b>11,044,774</b>	<b>379,267</b>
Adjustment from bid market prices to last traded market prices	27,894	2,402
<b>Net assets - Pricing NAV (note 2)</b>	<b>\$ 11,072,668</b>	<b>381,669</b>
Shares outstanding	434,934	24,376
<b>Net asset value per share - GAAP NAV (note 2)</b>	<b>\$ 25.39</b>	<b>\$ 15.56</b>
Adjustment from bid market prices to last traded market prices	0.07	0.10
<b>Net asset value per share - Pricing NAV (note 2)</b>	<b>\$ 25.46</b>	<b>\$ 15.66</b>

See accompanying notes to financial statements.

Approved by Creststreet Mutual Funds Limited



**Robert J. Toole**  
Director



**Stuart P. Hensman**  
Director

## Statement of Operations

For the six months ended June 30 (unaudited)	2008
<b>Investment income</b>	
Interest income	\$ 48,230
Dividend income	4,087
	<u>52,317</u>
<b>Expenses</b>	
Performance fee (note 3)	1,323,929
Management fee (note 3)	45,389
Operating expenses	18,749
Service fees	10,856
Shareholder reporting	3,251
Legal and filing fees	2,181
Custodian fees	2,059
Audit and accounting	1,998
Directors' fees	518
Capital tax	5
	<u>1,408,935</u>
Loss from investment operations	\$ <u>(1,356,618)</u>
Net realized gain on sale of investments	3,699,330
Net change in unrealized appreciation/depreciation of investments	(14,252)
Transaction costs (note 2)	(348,771)
Net gain on investments	<u>3,336,307</u>
<b>Increase in net assets from operations</b>	<b>\$ 1,979,689</b>
<b>Per share</b>	
(based on the average number of shares outstanding)	
<b>Increase in net assets from operations per share</b>	<b>\$ 8.66</b>

See accompanying notes to financial statements.

## Statement of Changes in Net Assets

For the six months ended June 30	2008
Net assets, beginning of period	\$ 379,267
<b>Operations</b>	
Increase in net assets from operations	1,979,689
<b>Dividends to shareholders:</b>	
Capital gain dividend (note 4)	(235,003)
<b>Share capital transactions:</b>	
Proceeds from issue of shares	9,289,878
Reinvested dividends	235,003
Redemptions	(604,059)
	<u>8,920,822</u>
<b>Increase in net assets</b>	<b>10,665,508</b>
<b>Net assets, end of period - GAAP NAV (note 2)</b>	<b>\$ 11,044,775</b>
Adjustment from bid market prices to last traded market prices	27,894
<b>Net assets - Pricing NAV (note 2)</b>	<b>\$ 11,072,669</b>

See accompanying notes to financial statements.

## Statement of Investment Portfolio

As at June 30, 2008

Issuer	Number of securities	Type of security	Cost	Fair Value
<b>Canadian securities</b>				
MagIndustries Corp.	230,000	Common shares	\$ 784,032	\$ 786,600
ZCL Composites Inc.	70,000	Common shares	577,759	590,800
Uranium Participation Corporation	50,000	Common shares	470,780	487,500
Raytec Metals Corp.	200,000	Common shares	294,075	340,000
Largo Resources Ltd.	250,000	Common shares	260,902	290,000
Great Lakes Hydro Income Fund	15,000	Trust units	260,929	284,250
GLG Life Tech Corporation	65,000	Common shares	261,310	222,950
Day4 Energy Inc.	50,000	Common shares	208,512	210,000
Phoscan Chemical Corp.	100,000	Common shares	227,418	194,000
ATS Automation Tooling Systems Inc.	20,000	Common shares	155,377	147,800
Zongshen PEM Power Systems Inc.	50,000	Common shares	149,255	125,000
HSE Integrated Ltd.	100,000	Common shares	110,635	103,000
Forterra Environmental Corp.	250,000	Common shares	53,140	47,500
MicroPlanet Technology Corp.	70,000	Common shares	47,006	44,100
Raytec Metals Corp. - purchase warrants	100,000	Common shares	-	10,000
			<b>\$ 3,861,130</b>	<b>\$ 3,883,500</b>
<b>U.S. securities</b>				
Rubicon Technology, Inc.	20,000	Common shares	\$ 439,541	\$ 415,139
Advanced Battery Technologies, Inc.	25,000	Common shares	131,536	142,360
Ascent Solar Technologies Inc.	5,000	Common shares	57,790	52,556
			<b>\$ 628,867</b>	<b>\$ 610,055</b>
Transaction costs			(25,712)	
Total investments			<b>\$ 4,464,285</b>	<b>\$ 4,493,555</b>

See accompanying notes to financial statements.

## Notes to Financial Statements

For the six month period ended June 30, 2008 (unaudited)

### 1. Creststreet Mutual Funds Limited

Creststreet Alternative Energy Fund ("the Fund"), along with Creststreet Resource Fund, Creststreet Managed Income Fund, and Creststreet Managed Equity Index Fund (together the "Funds") are share classes of Creststreet Mutual Funds Limited (the "Corporation"). The Corporation was formed under the Canada Business Corporations Act (the "CBCA") by articles of incorporation (the "Articles") dated October 13, 1999, as amended by articles of amendment dated July 18, 2000, May 16, 2001, December 11, 2001, January 11, 2002, December 5, 2002, May 15, 2003, April 26, 2004, September 2, 2004, December 22, 2004, March 29, 2005, February 10, 2006, January 29, 2007 and October 24, 2007. The Fund became available for sale to the public upon the receipt of its simplified prospectus on November 21, 2007

In order to conform to investment fund disclosure regulations, these financial statements present the financial position of the Fund as at June 30, 2008 and December 31, 2007, its investments held at June 30, 2008, and the statement of operations and the statement of changes in net assets for the six months ended June 30, 2008 and do not contain the financial statements of the Corporation. As the Funds are part of the Corporation, the Corporation as a whole is liable for the expenses and obligations of each of the Funds. There exists the possibility that the Fund could be liable for an expense or obligation of another of the Funds; however, the Manager is diligent to ensure that such a liability will not occur.

Creststreet Asset Management Limited is the manager (the "Manager") of the Fund.

### 2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the following is a summary of significant accounting policies followed by the Fund:

#### a. Cash and Cash Equivalents, and Other Monetary Balances

The carrying values of cash and cash equivalents, due from and to broker, dividends receivable, subscriptions receivable, dividends receivable, accounts receivable, accounts payable and accrued liabilities, redemptions payable, and performance fee payable approximate their fair value due to the relatively short periods to maturity of the instruments.

#### b. Valuation of Investments

Securities held by the Fund that are listed on a recognized public securities exchange are valued at their closing bid price or the closing ask price for securities sold short. Securities that are not listed or traded on a public securities exchange or actively traded on an over-the-counter market will be valued by the Manager at the fair value thereof determined in such manner as the Manager may from time to time determine and pursuant to the Manager's established pricing policies. Acquisition cost may be used as a fair value proxy, particularly if the acquisition date of the investment was within the current fiscal year. However, the Manager's policy is to, where

possible, use evidence of arm's length third party transactions in determining fair value of unlisted securities. Any change in value is recorded in "Net change in unrealized appreciation/depreciation of investments" on the statements of operations.

Canadian GAAP requires that securities traded on a public exchange be valued at their last bid price for securities held long and the last ask price for securities sold short for calculating the net asset value ("NAV") for financial reporting purposes ("GAAP NAV"). The NAV calculated for pricing purposes for purchases and redemptions continues to use last traded market prices ("Pricing NAV"). This will generally result in a difference between Pricing NAV and GAAP NAV which is presented on the Statement of Net Assets.

**c. Broker Commissions**

Brokers' commissions and other transaction costs are expensed in the period incurred and are disclosed on the statement of operations.

**d. Investment Transactions and Income Recognition**

Investment transactions are accounted for as of the trade date and any realized gains or losses from such transactions are calculated on an average cost basis. Dividend income and dividend expense on securities sold short are recognized on the record date and interest income is accrued as earned.

**e. Income Taxes**

The Fund qualifies as a mutual fund corporation as defined in the Income Tax Act (Canada). The Fund is subject to tax at the full corporate rate on its taxable income. Dividends received from taxable Canadian corporations are generally not included in the taxable income of the Fund but are subject to a special tax, refundable at a rate of 33 1/3 percent of taxable dividends distributed by the Fund to its shareholders. The Fund is eligible for a refund calculated on a formula basis when mutual fund shares are redeemed or when capital gains dividends are paid to shareholders. The Fund intends to distribute to its unitholders net income and net capital gains so that it will not be subject to income taxes. Accordingly, no provision for income taxes has been made.

**f. Use of Estimates**

The preparation of financial statements in accordance with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

### 3. Related Party Transactions

#### a. Management Fees, Performance Fees, and Other Expenses

The Manager provides investment and administrative services to the Fund. In consideration for these services, the Fund pays the Manager an annual fee of 2.0 percent, calculated and payable monthly in arrears. For the six months ended June 30, 2008 the management fee amounted to \$45,389.

The management expense ratio ("MER") is calculated based on the total expenses of the Fund as a percentage of the weighted average net assets of the Fund for the semi-annual period and is presented on an annualized basis. The Fund's annualized MER was 52.50 percent for the six months ended June 30, 2008. This MER is inclusive of the Goods and Services Tax ("GST") and also includes the performance fee in accordance with National Instrument 81-102. The portion of the MER based on the change in the contingent performance fee amount will depend on the performance of the Fund and the criteria used to calculate the performance fee.

The Manager is entitled to a performance fee equal to 20 percent of the amount by which the Fund's cumulative total return exceeds the cumulative total return of the S&P 500 Index in a calendar year multiplied by the increase in net assets from operations. The performance fee is estimated and accrued weekly, calculated at calendar year-end and is paid within 15 days after calendar year-end if positive. The performance fee will be pro rated for any period that the Fund exists that is less than a full calendar year except that the first performance period for purposes of the performance fee will end on December 31, 2008. No performance fee will be payable if the performance of both the Fund and the S&P 500 Index are negative during the period. The performance fee accrued as at June 30, 2008 was \$1,332,057.

#### b. Seed Investment

The Fund was seeded on October 24, 2007 with 15,000 Series A shares for cash consideration of \$150,000 from the parent company of the Manager of the Fund. Pursuant to policies of the Canadian securities regulators, seeded capital cannot be redeemed from the Fund until an additional \$500,000 has been invested by third-party investors in the Fund. The Fund has surpassed this amount and the Manager may redeem its units at any time, however the seed capital remains invested in the Fund.

### 4. Dividends paid to Shareholders

On March 7, 2008, the Fund paid a capital gain dividend totalling \$235,003 or \$2.1686 per share to Fund shareholders of record as at February 29, 2008. For the six months ended June 30, 2008, \$235,003 was reinvested into the Fund.

## 5. Financial Instrument Risk

The Fund's objective is to provide stable, long-term growth of capital while conservatively managing value at risk. The Fund invests primarily in the securities of North American companies seeking to capitalize on opportunities in the production of energy using alternative methods beyond traditional, carbon-based sources. Accordingly, the Fund's portfolio is comprised mainly of equities issued by North American solar energy, alternative fuels, and wind energy companies. The Fund may invest in foreign securities up to a maximum of 50 percent of the Fund's NAV, although typically, the weighing of foreign securities does not exceed 30 percent of the Fund's NAV. The Fund invests its cash balances in a short-term money market fund to maximize its yield on idle cash while maintaining a maximum amount of flexibility to ensure that sufficient cash is on hand to seize upon investment opportunities. The Fund's use of financial instruments gives rise to a number of risk factors.

### Market Risk

Market risk is simply the risk that the fair value of a financial instrument will fluctuate because of volatility of market prices. Market risk is comprised of three types of risk: *currency risk*, *interest rate risk*, and *other price risk*.

### Currency Risk

Currency risk is the risk that the fair value of a financial instrument could fluctuate due to changes in foreign currency exchange rates. The Fund's functional currency is Canadian dollars, and the Fund is exposed to foreign currency risk when it invests in securities denominated in another currency since the fair value of those securities is determined by converting the price of the security into Canadian dollars. The table below details the Fund's the currency risk exposure in Canadian dollar terms as at June 30, 2008:

Foreign currency	Monetary instruments	Non-monetary instruments	Total	As a % of net assets
US dollars	\$ 610,055	\$ -	\$ 610,055	5.6%

As at June 30, 2008, had the Canadian dollar appreciated or depreciated by 5 percent in relation to the American dollar, net assets would have depreciated or appreciated by approximately \$30,503 (or \$0.07 per share) respectively.

### Interest Rate Risk

Interest rate risk is the risk that the fair value of a financial instrument could fluctuate due to changes in market interest rates. The immediate impact of interest rate risk is greatest on debt and fixed income securities that have a relatively long duration (generally a year or more to maturity). The Fund did not hold any such securities as at June 30, 2008, or at any time during the period. The Fund does invest excess cash balances in a short-term money market mutual fund and changes in interest rates would only increase or decrease future interest income and would have little, if any, impact on the Fund's NAV at June 30, 2008.

### **Other Price Risk**

Other price risk is the risk that the fair value of a financial instrument could fluctuate due to changes in market conditions other than currency or interest rate risk. These changes could be due to a number of factors including, but not limited to; changes in relation to a specific security or the issuer of a security, changes in the prices of a market sector's underlying commodity, or changes due to shifts in overall market sentiment. The Fund's Manager mitigates other price risk by managing and allocating the investment portfolio within the parameters of the Fund's investment objectives. As at June 30, 2008 and assuming all other variables were held constant, had the general price level of the equities markets been 5 percent higher or lower, the NAV of the Fund may have been \$189,035 higher or lower (\$0.43 per share or 4.2 percent), respectively. This estimation is based on statistical tools that measure the relationships between each security in the Fund's portfolio and how their returns relate to the return of the overall equities markets. In reality, results could differ from this estimate and the difference could be material.

### **Credit Risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligations or commitments that it has entered into with the Fund. The Fund does not typically invest in debt securities, thereby minimizing the Fund's exposure to credit risk. The Fund is exposed to credit risk to the extent that the Fund's custodian may not be able to settle trades for cash. Canadian securities regulations require that the Fund employs a custodian that meets certain capital requirements. These regulations state that, among other things, a fund's custodian be either a bank listed in Schedule I, II, or III of the *Bank Act (Canada)*, or a company incorporated in Canada affiliated with a bank with shareholders' equity of not less than \$10,000,000. The Fund's custodian, National Bank Correspondent Network, meets all Canadian Securities Administrators' requirements to act as custodian.

### **Liquidity Risk**

The Fund is subject to the possibility of net redemptions on a weekly basis. The Fund invests the majority of its net assets in securities that are traded on a public exchange and can be readily liquidated if and as required in order to meet its redemption obligations. The fund also retains sufficient cash and cash equivalents to maintain liquidity. The Fund is also permitted to borrow up to 5 percent of its net assets to fund redemptions, however the Manager is diligent to ensure such action is not required. No such borrowings occurred during the period.





## Creststreet Mutual Funds Limited

### Board of Directors

**Jeffrey S. Boyce**

President and Chief Executive Officer  
SURE Energy Inc.

**Stuart P. Hensman\*\***

Corporate Director

**John Thompson\***

President and Chief Executive Officer  
Sirius Energy Inc.

**Robert J. Toole, C.A.**

Managing Director  
Creststreet Capital Corporation

### Officers

**Robert J. Toole, C.A.**

President and Chief Executive Officer

**Donna Shea, C.A.**

Vice-President, Finance and  
Chief Financial Officer

**Aaron C.B. Maybin**

Vice-President

**Sheryl Chiddenton**

Secretary and Treasurer

### Transfer Agent and Registrar

International Financial Data Services  
(Canada) Limited  
Toronto, Ontario

### Investment Advisor

Creststreet Asset Management Limited  
Toronto, Ontario

### Custodian

National Bank Correspondent Network  
Toronto, Ontario

### Clearing and Settlement Services

FundSERV Inc.

### Fund Symbols

CAM 100, CAM 106, CAM 200,  
CAM 300, CAM 400

### Auditors

KPMG LLP  
Toronto, Ontario

### Registered Address

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\* Member of the audit committee

\*\* Chair of the audit committee