Creststreet Alternative Energy Fund

2008 > Annual Report

Management Report of Fund Performance

For the year ended December 31, 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. 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

Creststreet Alternative Energy Fund was launched in October 2007 and 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. In doing this, the Fund employs a strategy of identifying companies in high-growth sectors that are best positioned within the value chain to capture the economic rent generated by that growth.

In 2008, the Fund continued to build on its strong performance from late 2007, finishing the year with an annual return of 142.1%. After remaining market neutral for January, the Fund maintained net market exposure of approximately 25% to 50% from February to July. As financial market uncertainty increased in August, the Fund decreased its net market exposure to between 10% and 20% for the remainder of the year. This allowed the Fund to maintain liquidity and position itself to profit from market volatility during the closing months of the year.

The Fund has taken positions in companies exposed to the solar, wind, geothermal, energy efficiency, smart grid, uranium, hydro, advanced batteries, and biofuel sectors. For 2009, the Fund expects to continue strategically taking positions in these areas and may also invest in companies exploring other emerging technologies such as tidal, carbon sequestration and storage, and clean coal. The Fund maintains a broad coverage universe, and will actively rotate capital into those companies and sectors that are best positioned for sustained profitability.

With the incoming Obama administration and increased concerns over the environment and energy security, the Fund expects government policy in the United States to become more and more supportive of alternative energy by increasing public-sector spending on the sector and eventually implementing nationwide renewable portfolio standards and an economy-wide cap-and-trade program. The Fund believes these policies will make renewable energy an attractive investment area despite overall global economy uncertainty in 2009.

> Revenues and Expenses

All revenues and expenses are generally higher in 2008 as compared to 2007 since the inception of the Fund was October 24, 2007 and the operations in 2007 covered a 2 month period as compared to a full year in 2008.

The Fund earned interest income of $265,995 in 2008 compared to $544 in 2007 due to higher cash balances. Dividend income earned was $35,230 during 2008 compared to $606 in 2007 due to the increase in the size of the Fund.

The Fund incurred expenses totalling $2,356,555 during 2008, the largest of which was performance fees of $1,835,484. 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 $521,071 and were incurred in the normal course of the Fund's operations. The increases in management fees from $632 to $223,126 and in service fees from $51 to $43,825 are directly related to the increase in the weighted average net assets from $301,100 in 2007 to $11,790,981 in 2008.

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 year ended December 31, 2008 and for the period from October 24 (date of inception) to December 31, 2007. This information is derived from the Fund's annual financial statements.

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

	2008	2007
Net asset value, beginning of period	$ 15.56	$ 10.00
Increase (decrease) from operations:		
Total revenue	0.74	0.06
Total expenses	(5.79)	(0.93)
Realized gain on investments	24.06	4.70
Unrealized gain on investments	0.11	2.12
Transaction costs	(2.37)	(0.62)
Total increase from operations(1)	16.75	5.33
Distributions:		
From capital gains	2.17	-
Total annual distributions(2)	2.17	-
Net asset value, end of period (GAAP NAV)(3)	$ 33.99	$ 15.56

(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

	2008	2007
Net assets (000's)(1)	$ 23,703	$ 379
Number of shares outstanding(1)	697,291	24,376
Management expense ratio (MER)(2)		
Expenses	4.42%	25.15%
Performance fee	15.57%	18.59%
Total MER	19.99%	43.74%
Portfolio turnover rate(3)	12403.17%	2428.03%
Trading expense ratio(4)	8.19%	43.67%
Closing Pricing NAV per share	$ 34.01	$ 15.66

(1) This information is provided as at December 31 for the years shown.

(2) The management expense ratio has been split into two components: the Fund’s normal operating expenses and the change in the accrued performance fee for the periods. The portion of the MER based on the change in the accrued 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 December 31, 2008

Description	% of total net assets
Energy efficiency	2.55%
Solar energy	1.98%
Carbon	1.15%
Other	1.10%
	6.78%
Cash and cash equivalents	105.20%
Other net assets	-11.98%
	100.00%

Investment	% of net assets
Comverge Inc.	2.55%
5N Plus Inc.	1.98%
World Energy Solutions Inc.	1.15%
Ultrashort S&P 500 Proshares	1.10%
	6.78%

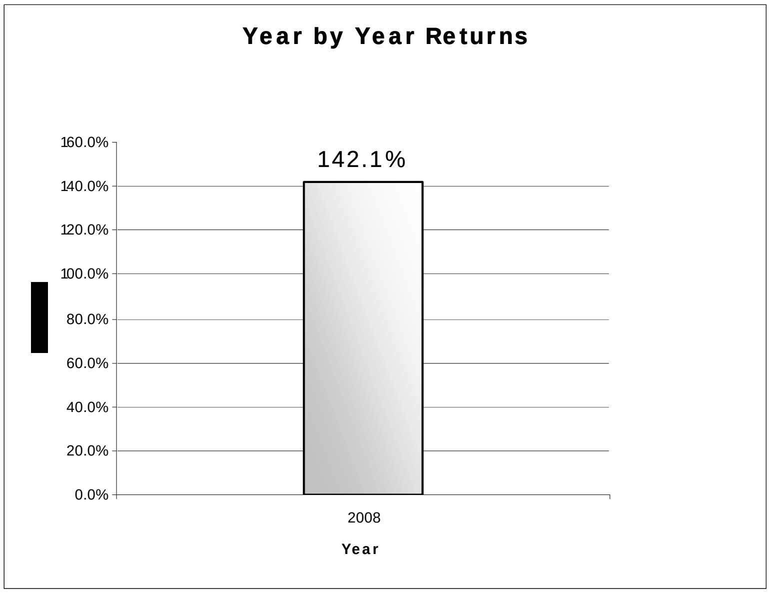
The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. The most recent annual report, semi-annual report or quarterly portfolio disclosure is available at no cost by calling 1 866 864-6330, by writing to us at Creststreet Mutual Funds Limited, Suite 1450, 70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

Past Performance

The performance information shown assumes that distributions made by the Fund were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, or other optional charges that would have reduced returns or performance. The Fund's past performance is not necessarily indicative of its future performance.

> Year-by-Year Returns

The following bar chart shows the Fund's annual return for 2008, the Fund's first complete financial period. In percentage terms, the bar chart shows how much an investment made on the first day of each financial year would have grown or decreased by the last day of the financial year.



> Annual Compound Returns

The following table shows the Fund's historical annual compound total returns for the periods indicated, compared with the S&P 500 Index.

	Creststreet Alternative Energy Fund	S&P 500 Index
1 year	142.1%	-38.4%
Since inception	190.2%	-36.2%

> About the Indices and Fund Performance

The S&P 500 includes a representative sample of 500 leading companies in leading industries of the US economy. Industries comprising the largest components of the index include financials, industrials, health care, energy, consumer staples, and information technology. The index focuses on the large cap segment of the market and has approximately 75% coverage of US equities. The S&P 500 fell 38.4% over the year, with the majority of the decline occurring over the final four months. The Fund was able to return 142.1% for the year despite the weakness in the major US indices by maintaining long exposure during a bull market for alternative energy equities in the first half of 2008 and then lowering market exposure to benefit from market volatility for the second half of the year.

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

> Changeover to International Financial Reporting Standards ("IFRS")
As at December 31, 2008 the Manager has developed a changeover plan to meet the timetable published by the CICA for changeover to IFRS. The key elements of the plan include disclosures of the qualitative impact on the December 31, 2008, 2009 and 2010 financial statements, disclosures of the quantitative impact, if any, in the December 31, 2010 financial statements and the preparation of the December 31, 2011 financial statements in accordance with IFRS.

Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, the Manager does not expect that net assets attributable to shareholders or net asset value per share will be impacted by the changeover to IFRS. Currently, the Manager expects that the impact of IFRS on the Fund's financial statements will result in additional disclosures and potentially different presentation of shareholder interests and certain other items.

> 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 had no impact on the reporting of the Fund since the Fund was already in compliance with this section due to its adherence to reporting required by the Canadian Securities Administrators. S.3862, however, required significantly more disclosure with respect to the risks associated with the financial instruments held by the Fund. This section required that the Fund provide specific qualitative and quantitative disclosures about the various types of risk the Fund is exposed to and also required 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 year ended December 31, 2008 and the period from inception on October 24 to December 31, 2007:

	2008		2007	
Management fees	$ 223,126	83.6%	$ 632	92.5%
Service fees paid to dealers	43,825	16.4%	51	7.5%
	$ 266,951	100.0%	$ 683	100.0%

Performance fees of $1,843,612 were accrued at December 31, 2008 and covered the period from inception of the fund on October 24, 2007 to December 31, 2008. Subsequent to 2008, performance fees will be calculated for each calendar year.

Risk

Although the current economic conditions have had a negative impact on the overall risk level of investments in the Fund over the past year, the reduction in net market exposure allowed the fund to maintain liquidity and profit from market volatility. The investment philosophy, style and method for the Fund remain unchanged in the long-term. 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 annual financial statements.

Management's Responsibility for Financial Reporting

These financial statements form the basis for all of the financial information that appears in this annual report. The financial statements and all of the information in this annual report are the responsibility of the management of Creststreet Mutual Funds Limited and have been reviewed and approved by its board of directors. The board of directors is responsible for ensuring that management fulfills its financial reporting responsibilities.

Management has prepared the financial statements according to Canadian generally accepted accounting principles ("GAAP"). Under these principles, management has made certain estimates and assumptions that are reflected in the financial statements and notes. Management believes that these financial statements fairly present the entity's financial position, results of operations and changes in net assets. Management has a system of internal controls designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects. Management believes that the internal controls provide reasonable assurance that our financial records are reliable and form a proper basis for preparing the financial statements, and that our assets are properly accounted for and safeguarded.

KPMG LLP, the shareholders' external auditors, has audited the financial statements in accordance with Canadian generally accepted auditing standards and their report follows. KPMG LLP has free and full access to the board's audit committee.

Robert J. Toole
President
Chief Executive Officer
Creststreet Mutual Funds Limited

Donna Shea
Vice-President, Finance
Chief Financial Officer
Creststreet Mutual Funds Limited

February 27, 2009

Auditor's Report to the Shareholders

We have audited the statements of net assets of Creststreet Alternative Energy Fund (a class of shares of Creststreet Mutual Funds Limited) as at December 31, 2008 and 2007, the statement of investment portfolio as at December 31, 2008, and the statements of operations and changes in net assets for the year ended December 31, 2008 and the period from October 24 (date of inception) to December 31, 2007. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 2008 and 2007, the investments held as at December 31, 2008, and the results of its operations and changes in net assets for the year ended December 31, 2008 and the period from October 24 (date of inception) to December 31, 2007 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
February 27, 2009

Statements of Net Assets

As at December 31		2008		2007
Assets				
Cash and cash equivalents	$	24,935,071		39,541
Investments at market value		1,607,283		340,225
Subscription receivable		51,488		4,000
Dividend receivable		48,200		189
Accounts receivables		2,223		47
Due from broker		-		49,465
		26,644,265		433,467
Liabilities				
Accounts payable and accrued liabilities		120,005		7,913
Performance fee payable		1,843,613		8,128
Redemptions payable		22,103		-
Due to broker		956,019		38,159
		2,941,740		54,200
Net assets - GAAP NAV (note 2)	$	23,702,525	$	379,267
Adjustment from bid market prices to last traded market prices		10,727		2,402
Net assets - Pricing NAV (note 2)	$	23,713,252	$	381,669
Shares outstanding		697,291		24,376
Net assets per share - GAAP NAV (note 2)	$	33.99	$	15.56
Adjustment from bid market prices to last traded market prices		0.02		0.10
Net assets per share - Pricing NAV (note 2)	$	34.01	$	15.66

See accompanying notes to financial statements

Approved by Creststreet Mutual Funds Limited

Robert J. Toole
Director

Stuart P. Hensman
Director

Statements of Operations

For the year ended December 31, 2008 and the period from October 24 (date of inception) to December 31, 2007

	2008	2007
Investment Income		
Interest revenue	$ 265,995	$ 544
Dividend revenue	35,230	606
	301,225	1,150
Expenses		
Performance fees	1,835,484	8,128
Management fees (note 3)	223,126	632
Operating expenses	159,606	5,203
Service fees	43,825	51
Securityholder reporting costs	27,372	3,021
Audit fees	27,015	1,998
Legal and filing fees	17,927	89
Custodial fees	12,532	-
Director's fees	9,305	-
Capital tax	363	-
	2,356,555	19,122
Loss from investment operations	(2,055,330)	(17,972)
Net realized gain on sale of investments	9,791,691	96,174
Change in unrealized appreciation of investments	45,860	43,522
Transaction costs (note 2)	(965,985)	(12,607)
Net realized and unrealized gain on investments	8,871,566	127,089
Increase in net assets from operations	$ 6,816,236	$ 109,117
Per share		
(based on average number of shares outstanding)		
Increase in net assets from operations	$ 16.75	$ 5.33

See accompanying notes to financial statements

Statements of Changes in Net Assets

For the year ended December 31, 2008 and the period from October 24 (date of inception) to December 31, 2007

		2008		2007
Net assets at the beginning of the year	$	379,267	$	-
Operations				
Increase in net assets from operations		6,816,236		109,117
Dividends to shareholders:				
Capital gain dividend (note 4)		(235,003)		-
Capital transactions				
Proceeds from the issue of shares		20,662,054		270,150
Reinvested dividends		235,003		-
Redemptions		(4,155,032)		-
Net assets at the end of the year - GAAP NAV (note 2)	$	**23,702,525**	$	**379,267**
Adjustment from bid market prices to last traded market prices		10,727		2,402
Net assets per share - Pricing NAV (note 2)	$	**23,713,252**	$	**381,669**

See accompanying notes to financial statements

Statement of Investment Portfolio

As at December 31, 2008

Description	Number of shares	Type of Security		Cost		Market Value
Comverge Inc.	100,000	Common Share	$	588,555	$	603,674
5N Plus Inc.	100,000	Common Share		423,750		470,000
World Energy Solutions Inc.	769,200	Common Share		248,664		273,066
Ultrashort S&P 500 Proshares	3,000	Common Share		267,455		260,543
Raytec Metals Corporation	100,000	Warrants		-		-
OPEL International Inc.	5,800	Warrants		-		-
Transaction costs (note 2)				(8,967)		
Total investments			**$**	**1,519,457**	**$**	**1,607,283**

See accompanying notes to financial statements

Notes to Financial Statements

For the year ended December 31, 2008 and the period from the date of inception on October 24, 2007 to December 31, 2007

1. Creststreet Mutual Funds Limited

Creststreet Alternative Energy Fund ("the Fund"), along with Creststreet Resource 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 December 31, 2008 and 2007, its investments held at December 31, 2008, and the statement of operations and the statement of changes in net assets for the year ended December 31, 2008 and the period from October 24 (inception date) to December 31, 2007 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
Cash and cash equivalents are comprised of cash on deposit and short term debt instruments with terms of maturity of less than 1 year at acquisition. Cash and cash equivalents are deemed to be held for trading and are carried at fair value.
The carrying values of 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 marker 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 ("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 year ended December 31, 2008 the management fee amounted to $223,126 (2007 - $632). The Fund is responsible for the payment of all expenses relating to its operations and the carrying on of its business.

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. The MER for 2007 is calculated for the period from October 24 (date of inception) to December 31 and is presented on an annualized basis. The Fund's total annualized MER was 20.0 percent for the year ended December 31, 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 was 15.6% and will vary year to year depending 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 December 31, 2008 was $ 1,843,613 (2007 - $8,128).

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 year ended December 31, 2008, $235,003 was reinvested into the Fund. No dividends were declared in 2007.

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. As at December 31, 2008, the Fund did not hold any securities denominated in foreign currency so there was no currency risk exposure to the Fund at December 31, 2008.

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 December 31, 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 December 31, 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 December 31, 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 $18,927 higher or lower ($0.03 per share or 0.1 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 when 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 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.

6. Changeover to International Financial Reporting Standards ("IFRS")

As at December 31, 2008 the Manager has developed a changeover plan to meet the timetable published by the CICA for changeover to IFRS. The key elements of the plan include disclosures of the qualitative impact on the December 31, 2008, 2009 and 2010 financial statements, disclosures of the quantitative impact, if any, in the December 31, 2010 financial statements and the preparation of the December 31, 2011 financial statements in accordance with IFRS.

Based on the Manager's current evaluation of the differences between Canadian GAAP and IFRS, the Manager does not expect that net assets attributable to shareholders or net asset value per share will be impacted by the changeover to IFRS. Currently, the Manager expects that the impact of IFRS on the Fund's financial statements will result in additional disclosures and potentially different presentation of shareholder interests and certain other items.

Creststreet Mutual Funds Limited

Board of Directors

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SURE Energy Inc.

Stuart P. Hensman**
Corporate Director

John Thompson*
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Sirius Energy Inc.

Robert J. Toole, C.A.
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Creststreet Asset Management Limited
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Custodian
National Bank Correspondent Network
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Clearing and Settlement Services
FundSERV Inc.

Fund Symbols
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CAM300
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