

## Creststreet **Alternative Energy Fund**

### 2009 > Interim Report

#### Management Report of Fund Performance

For the six month period ended June 30, 2009

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").

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### Results of Operations

#### > Investment Performance

The 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.

During the first half of 2009, the Fund continued to build on its strong performance from 2008 posting a return of 11.6% for the period. This compares to a return of 81.7% for the same period in 2008 and an annual return of 142.1% for the full year in 2008.

For the first two plus months of the year global equity markets steadily declined, reaching multi-year lows near the beginning of March out of fears that the magnitude of the current economic downturn would rival the Great Depression and lead to the nationalization of the US banking system. This sentiment began to shift in March as across the globe national governments responded to such fears by implementing substantial fiscal stimulus packages and quantitative easing monetary policy leading the global rate of economic contraction to subside. As the softening of this contraction became increasingly visible and credit markets began to loosen, an appetite for risk returned amongst investors, helping to lead to a substantial equity market rebound from March until June.

As a result of continued financial market uncertainty, the Fund remained neutral to the market during the period while adding gross exposure. This allowed the Fund to maintain liquidity and position itself to profit from market volatility during the first half of 2009.

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 new 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**

The Fund held higher cash balances for the first six months of 2009 compared to 2008 as it reduced net market exposure in response to economic conditions and therefore earned interest income of \$71,572 in 2009 compared to \$48,230 in 2008. Dividend income earned was \$104,459 during 2009 compared to \$4,087 in 2008 due to the increase in the size of the Fund as well as investing in more dividend paying securities.

The Fund incurred expenses totalling \$1,417,691 in 2009 compared to \$1,408,935 in 2008. The largest expense is performance fees which is dependent on the Fund's performance and is discussed in greater detail in the "Related Party Transactions" section that follows. The decrease in performance fees from \$1,323,929 in 2008 to \$558,073 in 2009 is directly related to higher returns in 2008. Management fees, which are calculated at 2.0 percent per annum of the Fund's net asset value, are calculated monthly and paid in arrears. The increase from \$45,389 to \$343,876 was directly related to the increase in the net asset value of the Fund. The increase in legal and filing fees from \$2,181 in 2008 to \$84,321 was due to the increase in the net asset value of the Fund as well as costs related to restructuring the Fund to offer a series of shares that does not pay service fees to investment dealers. The increase in other expenses from \$37,436 in 2008 to \$415,341 in 2009 is a result of the increase in the net asset value of the Fund and an increase in service provider fees.

### **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 months ended June 30, 2009, 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:**

<b>SERIES A</b>		<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Net Assets, beginning of period<sup>(1)</sup></b>	<b>\$</b>	<b>33.99</b>	<b>15.56</b>	<b>10.00</b>
<b>Increase (decrease) from operations:</b>				
Total revenue		0.19	0.74	0.06
Total expenses		(1.53)	(5.79)	(0.93)
Realized gains (losses) for the period		4.99	24.06	4.70
Unrealized gains (losses) for the period		0.83	0.11	2.12
Transaction costs		(0.59)	(2.37)	(0.62)
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$</b>	<b>3.89</b>	<b>\$ 16.75</b>	<b>\$ 5.33</b>
<b>Distributions<sup>(3)</sup>:</b>				
From capital gains		-	2.17	-
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$</b>	<b>37.86</b>	<b>\$ 33.99</b>	<b>\$ 15.56</b>
<hr/>				
<b>SERIES B</b>		<b>2009</b>		
<b>Net Assets, beginning of period<sup>(1)</sup></b>	<b>\$</b>	<b>34.04</b>		
<b>Increase (decrease) from operations:</b>				
Total revenue		0.13		
Total expenses		(0.76)		
Realized gains (losses) for the period		4.43		
Unrealized gains (losses) for the period		0.49		
Transaction costs		(0.53)		
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$</b>	<b>3.76</b>		
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$</b>	<b>38.31</b>		
<hr/>				
<b>SERIES F</b>		<b>2009</b>		
<b>Net Assets, beginning of period<sup>(1)</sup></b>	<b>\$</b>	<b>34.04</b>		
<b>Increase (decrease) from operations:</b>				
Total revenue		0.20		
Total expenses		(1.56)		
Realized gains (losses) for the period		6.29		
Unrealized gains (losses) for the period		(0.53)		
Transaction costs		(0.75)		
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$</b>	<b>3.65</b>		
<b>Net Assets, end of period<sup>(4)</sup></b>	<b>\$</b>	<b>38.29</b>		

(1) This information is derived from the Fund's annual financial statements. The inception date of Series B and Series F was Jan 30, 2009 at which time they were offered for sale for \$34.04 until February 6, 2009.

(2) 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.

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

(4) 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,</b>	<b>Dec 31,</b>	<b>Dec 31,</b>
<b>SERIES A</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Total net asset value (\$) (000's) <sup>(1)</sup>	31,999	23,703	379
Number of units outstanding <sup>(1)</sup>	843,182	697,291	24,376
Management expense ratio <sup>(2)</sup>			
Expenses	5.26%	4.42%	25.15%
Performance fee	4.22%	15.57%	18.59%
Total MER	9.48%	19.99%	43.74%
Trading expense ratio <sup>(3)</sup>	3.42%	8.19%	43.67%
Portfolio turnover rate <sup>(4)</sup>	397.69%	12403.17%	2428.03%
Net asset value per unit (\$)	37.95	34.01	15.66
<hr/>			
	<b>June 30,</b>		
<b>SERIES B</b>	<b>2009</b>		
Total net asset value (\$) (000's) <sup>(1)</sup>	2,773		
Number of units outstanding <sup>(1)</sup>	72,207		
Management expense ratio <sup>(2)</sup>			
Expenses	5.57%		
Performance fee	-		
Total MER	5.57%		
Trading expense ratio <sup>(3)</sup>	3.42%		
Portfolio turnover rate <sup>(4)</sup>	397.69%		
Net asset value per unit (\$)	38.40		
<hr/>			
	<b>June 30,</b>		
<b>SERIES F</b>	<b>2009</b>		
Total net asset value (\$) (000's) <sup>(1)</sup>	13,580		
Number of units outstanding <sup>(1)</sup>	353,796		
Management expense ratio <sup>(2)</sup>			
Expenses	4.27%		
Performance fee	-		
Total MER	4.27%		
Trading expense ratio <sup>(3)</sup>	3.42%		
Portfolio turnover rate <sup>(4)</sup>	397.69%		
Net asset value per unit (\$)	38.38		

(1) This information is provided as at June 30, 2009 and 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 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.

(4) 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.

## Summary of Investment Portfolio

As at June 30, 2009

Description	% of net assets
<b>Long Position:</b>	
Energy efficiency	7.2%
Index	4.6%
Hydro	3.7%
Carbon	2.9%
Infrastructure	2.3%
<i>Total Long Positions</i>	20.7%
<b>Short Position:</b>	
Wind	-0.8%
Index	-3.3%
Other	-3.6%
<i>Total Short Positions</i>	-7.7%
<b>Total Investments</b>	<b>12.9%</b>
Cash and cash equivalents*	85.9%
Other net assets	1.2%
	<b>100.0%</b>

### Top Positions

Company	% of net assets
<b>Long Positions:</b>	
Horizons Betapro S&P/TSX 60 Inverse ETF	4.6%
RuggedCom Inc.	4.2%
Great Lakes Hydro Income Fund	2.8%
Telvent GIT, S.A.	2.6%
HTC Pureenergy Inc.	1.9%
Algonquin Power Income Fund	1.7%
World Energy Solutions, Inc.	1.0%
Tonbridge Power Inc.	1.0%
China Information Security Technology, Inc.	0.8%
Pure Technologies Ltd.	0.1%
	<b>20.7%</b>
<b>Short Positions:</b>	
Canadian Hydro Developers, Inc.	-0.8%
SPDR Trust Series 1 ETF	-3.3%
Birchcliff Energy Ltd.	-3.6%
	<b>-7.7%</b>
<b>Total Net Asset Value</b>	<b>\$ 48,238,373</b>

\* Cash and cash equivalents include cash received from securities sold short.

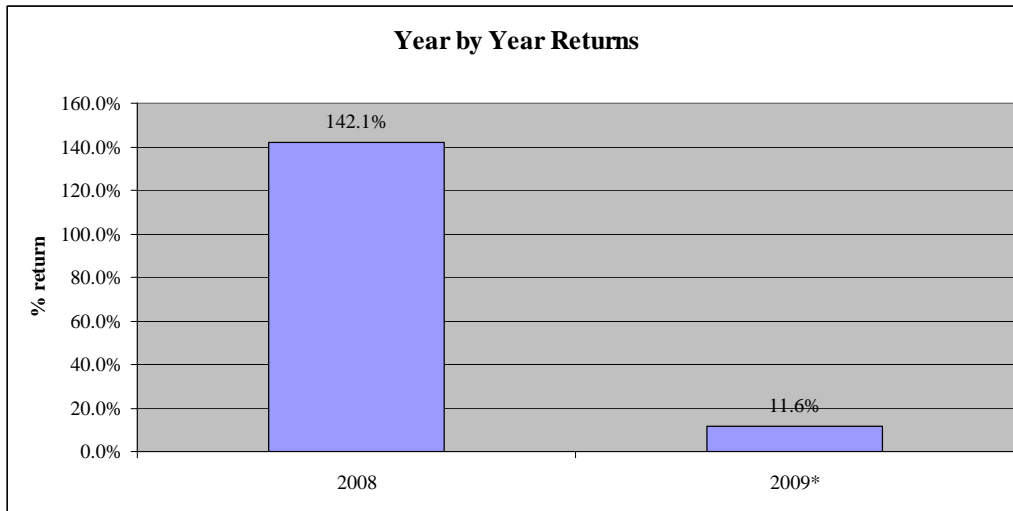
The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. The most recent annual report, semi-annual report or quarterly portfolio disclosure is available at no cost by calling 1 866 864-6330, by writing to us at Creststreet Mutual Funds Limited, Suite 1450, 70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

## Past Performance

The 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.

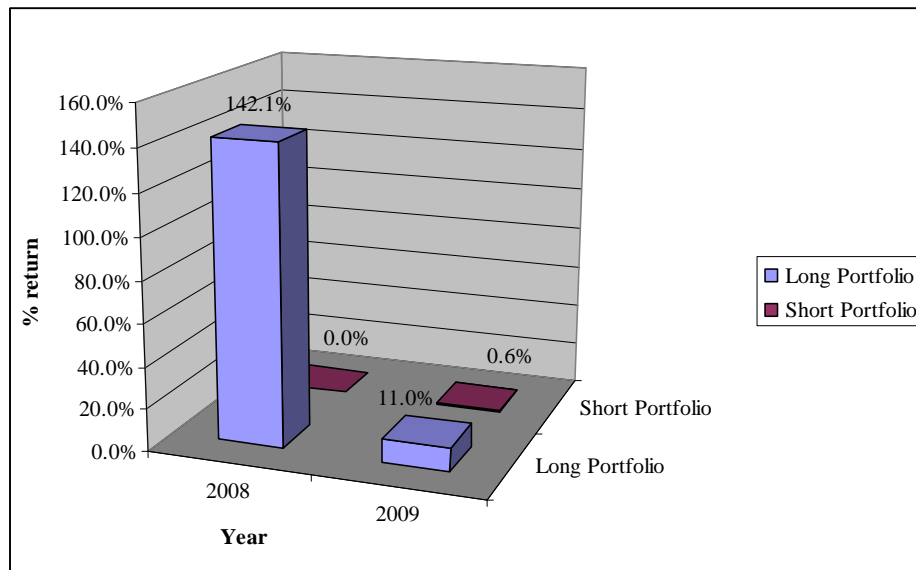
### > Year-by-Year Returns

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.



\*Total return for the six month period ended June 30, 2009

The following bar chart shows the annual returns generated by the Fund's long and short portfolio.



## 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 June 30, 2009 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.

## 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 period ended June 30, 2009 and the period from inception on October 24 to June 30, 2008:

	<u>2009</u>		<u>2008</u>	
Management fees	343,876	82.1%	45,389	80.7%
Service fees paid to dealers	<u>74,982</u>	<u>17.9%</u>	<u>10,856</u>	<u>19.3%</u>
	<u>\$ 418,858</u>	<u>100.0%</u>	<u>\$ 56,245</u>	<u>100.0%</u>

## Risk

Although economic conditions had a negative impact on the overall risk level of investments in the Fund in 2008 and early 2009, the reduction in net market exposure beginning in 2008 allowed the fund to maintain liquidity and profit from market volatility. The Fund has slowly begun to increase market exposure in 2009 as the markets slowly begin to recover. 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.

## Statements of Net Assets

	As at June 30, 2009 (unaudited)	As at December 31, 2008
<b>Assets</b>		
Cash and cash equivalents	\$ 41,444,851	24,935,071
Investments at market value	9,955,350	1,607,283
Subscription receivable	325,122	51,488
Dividend receivable	17,400	48,200
Accounts receivables	629	2,223
Due from broker	5,205,810	-
	<u>56,949,162</u>	<u>26,644,265</u>
<b>Liabilities</b>		
Securities sold short at market value	3,722,975	-
Dividend payable	9,537	-
Accounts payable and accrued liabilities	303,171	120,005
Performance fee payable	558,074	1,843,613
Redemptions payable	1,536,745	22,103
Due to broker	2,580,287	956,019
	<u>8,710,789</u>	<u>2,941,740</u>
<b>Net assets - GAAP NAV (note 2)</b>	<b>\$ 48,238,373</b>	<b>\$ 23,702,525</b>
Net assets - GAAP NAV comprised of:		
- Series A	\$ 31,923,981	\$ 23,702,525
- Series B	2,766,345	-
- Series F	13,548,047	-
Total net assets	<u>\$ 48,238,373</u>	<u>\$ 23,702,525</u>
Adjustment from bid market prices to last traded market prices		
- Series A	75,310	10,727
- Series B	6,529	-
- Series F	31,959	-
<b>Net assets - Pricing NAV (note 2)</b>	<b>\$ 48,352,171</b>	<b>\$ 23,713,252</b>
Net assets - Pricing NAV comprised of:		
- Series A	\$ 31,999,291	\$ 23,713,252
- Series B	2,772,874	-
- Series F	13,580,006	-
Total net assets	<u>\$ 48,352,171</u>	<u>\$ 23,713,252</u>
Units outstanding		
- Series A	843,182	697,291
- Series B	72,207	-
- Series F	353,796	-
Total units outstanding	<u>1,269,185</u>	<u>697,291</u>
Net Assets per Unit		
- Series A	\$ 37.86	\$ 33.99
- Series B	38.31	-
- Series F	38.29	-
Net Asset Value per Unit		
- Series A	\$ 37.95	\$ 34.01
- Series B	38.40	-
- Series F	38.38	-

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 six months ended June 30 (unaudited)	2009		2008	
<b>Investment Income</b>				
Interest revenue	\$	71,572	\$	48,230
Dividend revenue		104,459		4,087
		176,031		52,317
<b>Expenses</b>				
Performance fees		558,073		1,323,929
Management fees (note 3)		343,876		45,389
Operating expenses		193,944		18,749
Service fees		74,982		10,856
Securityholder reporting costs		28,750		3,251
Audit fees		62,500		1,998
Legal and filing fees		84,321		2,181
Custodial fees		20,484		2,059
Director's fees		34,681		518
Capital tax		-		5
Dividends paid on securities sold short		16,080		-
		1,417,691		1,408,935
<b>Loss from investment operations</b>		(1,241,660)		(1,356,618)
Net realized gain on sale of investments		4,861,113		3,699,330
Change in unrealized appreciation/depreciation of investments		595,830		(14,252)
Transaction costs (note 2)		(577,986)		(348,771)
<b>Net realized and unrealized gain on investments</b>		4,878,957		3,336,307
<b>Increase in net assets from operations</b>	\$	3,637,297	\$	1,979,689
Increase in net assets from operations comprised of:				
- Series A	\$	3,007,271	\$	1,979,689
- Series B		149,113		-
- Series F		480,913		-
Increase in net assets per unit from operations comprised of: (based on average number of shares outstanding)				
- Series A	\$	3.89	\$	8.66
- Series B		3.76		-
- Series F		3.65		-
See accompanying notes to financial statements				

## Statements of Changes in Net Assets

For the six months ended June 30 (unaudited)	Series A		Series B	
	2009	2008	2009	2008
<b>Net assets at the beginning of period</b>	\$ 23,702,525	\$ 379,267	\$ -	\$ -
<b>Operations</b>				
Increase in net assets from operations	3,007,271	1,979,689	149,113	-
<b>Dividends to shareholders:</b>				
Capital gain dividend (note 4)	-	(235,003)	-	-
<b>Capital transactions</b>				
Proceeds from the issue of shares	12,170,774	9,289,878	2,617,374	-
Reinvested dividends	-	235,003	-	-
Redemptions	(6,956,589)	(604,059)	(142)	-
<b>Net assets at the end of period - GAAP NAV (note 2)</b>	\$ 31,923,981	\$ 11,044,775	\$ 2,766,345	\$ -
Adjustment from bid market prices to last traded market prices	75,310	27,894	6,529	-
<b>Net assets - Pricing NAV (note 2)</b>	\$ 31,999,291	\$ 11,072,669	\$ 2,772,874	\$ -

	Series F		Total	
	2009	2008	2009	2008
<b>Net assets at the beginning of period</b>	\$ -	\$ -	\$ 23,702,525	\$ 379,267
<b>Operations</b>				
Increase in net assets from operations	480,913	-	3,637,297	1,979,689
<b>Dividends to shareholders:</b>				
Capital gain dividend (note 4)	-	-	-	(235,003)
<b>Capital transactions</b>				
Proceeds from the issue of shares	13,090,637	-	27,878,785	9,289,878
Reinvested dividends	-	-	-	235,003
Redemptions	(23,503)	-	(6,980,234)	(604,059)
<b>Net assets at the end of period - GAAP NAV (note 2)</b>	\$ 13,548,047	\$ -	\$ 48,238,373	\$ 11,044,775
Adjustment from bid market prices to last traded market prices	31,959	-	113,798	27,894
<b>Net assets - Pricing NAV (note 2)</b>	\$ 13,580,006	\$ -	\$ 48,352,171	\$ 11,072,669

## Statement of Investment Portfolio

As at June 30, 2009

Description	Number of Securities	Type of Security	Cost (Proceeds)	Fair Value
<b>Investment in securities held in long positions</b>				
Horizons BetaPro S&P/TSX 60 Inverse ETF	155,000	Index Units	\$ 2,262,691	\$ 2,210,300
RuggedCom Inc.	75,000	Common shares	1,926,668	2,025,750
Great Lakes Hydro Income Fund	85,000	Common shares	1,332,513	1,344,700
Telvent GIT SA	50,000	Common shares	971,950	1,252,513
HTC Pureenergy Inc.	448,900	Common shares	907,518	906,778
Algonquin Power Income Fund	245,000	Common shares	670,918	835,450
World Energy Solutions Inc.	85,000	Common shares	372,849	488,750
Tonbridge Power Inc.	1,975,000	Common shares	454,250	474,000
China Information Security Technologies Inc.	110,000	Common shares	388,712	365,359
Pure Technologies Ltd.	15,000	Common shares	52,394	51,750
Raytec Metals Corp.	100,000	Warrants	-	-
OPEL International Inc.	5,800	Warrants	-	-
			<u>9,340,463</u>	<u>9,955,350</u>
<b>Investment in securities held in short positions</b>				
Birchcliff Energy Ltd.	(285,000)	Common shares	(1,803,597)	(1,727,100)
SPDR Trust Series 1 ETF	(15,000)	Index Units	(1,568,678)	(1,604,225)
Canadian Hydro Developers Inc.	(105,000)	Common shares	(385,491)	(391,650)
			<u>(3,757,766)</u>	<u>(3,722,975)</u>
Transaction costs			(34,036)	
<b>Total investments</b>			<b>\$ 5,548,661</b>	<b>\$ 6,232,375</b>
See accompanying notes to financial statements				

## Notes to Financial Statements

For the six months ended June 30, 2009 and 2008

### 1. Creststreet Mutual Funds Limited

Creststreet Alternative Energy Fund (“the Fund”), along with Creststreet Resource Fund, Creststreet Managed Equity Index Fund and Creststreet Managed Income 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. On October 24, 2008 the Creststreet Managed Income Fund was terminated as a class of the Corporation with its shareholders receiving an amount equal to the net asset value of the Creststreet Managed Income Fund as determined on October 24, 2008.

In order to conform to investment fund disclosure regulations, these financial statements present the financial position of the Fund as at June 30, 2009 and as at December 31, 2008, its investments held at June 30, 2009, and the statement of operations and the statement of changes in net assets for the six months ended June 30, 2009 and 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:

#### Adoption of New accounting standards

On January 1, 2008, the Fund adopted CICA Handbook Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation.” The new standards replaced CICA Handbook Section 3861, “Financial Instruments – Disclosures and Presentation.” These new sections require enhanced disclosure and presentation of the nature and the extent of the risks arising from financial instruments. These standards impacted the Fund’s disclosures provided but do not affect the Fund’s net assets. Refer to Note 4 for the disclosure relating to this requirement.

Effective January 1, 2009, the Fund adopted CICA issued Emerging Issues Committee Abstract 173 “Credit Risk and the Fair Value of the Financial Assets and Financial Liabilities” (“EIC-173”). EIC-173 provides guidance on the determination of the fair value of financial assets and liabilities under Section 3855, “Financial Instruments – Recognition and Measurement”. It states that the entity’s own credit risk and the credit risk of the counterparty should be considered in determining the value of financial instruments. The Fund adopted EIC-173 retrospectively without restatement of prior periods to all financial assets and liabilities. The adoption of the EIC-173 did not have an impact on the financial statements.

#### 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, accounts receivable, dividend payable, 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 ("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 for Series A, Series B and Series F, calculated and payable monthly in arrears. For the six months ended June 30, 2009 the management fee amounted to \$343,876 (2008 - \$45,389). 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 for the semi-annual period and is presented on an annualized basis. The Fund's total annualized MER was 8.81% for the six months ended June 30, 2009. 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 4.22% 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, 2009. 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, 2009 was \$558,073 (2008 - \$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. 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 June 30, 2009, had the Canadian dollar appreciated or depreciated by 5% in relation to the applicable foreign currency, the NAV of the Fund will be higher or lower as detailed below:

Currency	Investments	Cash & Cash Equivalents	Total	Impact on the NAV	Impact as a % of the NAV
US dollars	\$ 13,646	\$ -	\$ 13,646	\$ 682	0.001%

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.

### **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, 2009, 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, 2009.

### **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, 2009 and 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 \$141,017 (December 31, 2008: \$18,927) higher or lower (0.29 percent, December 31, 2008: 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 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.

## **5. Changeover to International Financial Reporting Standards ("IFRS")**

As at June 30, 2009 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 2008, 2009 and 2010 financial statements, disclosures of the quantitative impact, if any, in the 2010 financial statements and the preparation of the 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.

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## 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

**Stephen R. Martin, C.F.A.**

Vice-President

**Sheryl Chiddenton**

Secretary and Treasurer

### Administrator

RBC Dexia Investor Services Trust  
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

CAM100  
CAM300  
CAM400, CAM401, CAM402

### Auditors

KPMG LLP  
Toronto, Ontario

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\* Member of the audit committee

\*\* Chair of the audit committee