



## **Creststreet Energy Opportunities Fund**

**2008 > Annual Report**

### **Auditor's Report to the Shareholders**

We have audited the statements of net assets of Creststreet Energy Opportunities Fund (a class of shares of Creststreet Opportunities Fund Inc.) 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 years ended December 31, 2008 and 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 years ended December 31, 2008 and 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	
<b>Assets</b>				
Cash and cash equivalents	\$	3,081,926	\$	176,817
Investments in securities at market value		986,030		5,662,840
Due from broker		185,017		1,076,793
Interest receivable		4,173		-
		4,257,146		6,916,450
<b>Liabilities</b>				
Securities sold short at market value		346,729		1,026,349.00
Due to broker		-		953,472
Accounts payable and accrued liabilities		96,700		70,303
Redemptions payable		-		163,205
		443,429		2,213,329
<b>Net assets - GAAP NAV (note 2)</b>	<b>\$</b>	<b>3,813,717</b>	<b>\$</b>	<b>4,703,121</b>
Adjustment from bid market prices to last traded market prices		143		72,365
<b>Net assets - Pricing NAV (note 2)</b>	<b>\$</b>	<b>3,813,860</b>	<b>\$</b>	<b>4,775,486</b>
<b>Net assets (pricing NAV) comprised of:</b>				
- Series I	\$		\$	1,109,547
- Series II				177,505
- Series III				1,397,419
- Series IV				455,353
- Series VI				500,661
- Series IX				132,167
- Series X				102,842
- Series 911				899,992
- Series A		2,066,154		-
- Series F		1,747,706		-
<b>Total net assets</b>	<b>\$</b>	<b>3,813,860</b>	<b>\$</b>	<b>4,775,486</b>

## Statements of Net Assets (continued)

Units outstanding		
- Series I		75,000
- Series II		12,340
- Series III		97,191
- Series IV		31,458
- Series VI		34,640
- Series IX		9,545
- Series X		6,968
- Series 911		53,196
- Series A	244,229	-
- Series F	206,046	-
<b>Total units outstanding</b>	<b>450,275</b>	<b>320,338</b>
NAV per Unit		
- Series I		14.79
- Series II		14.38
- Series III		14.3781
- Series IV		14.47
- Series VI		14.45
- Series IX		13.8467
- Series X		14.76
- Series 911		16.92
- Series A	8.46	
- Series F	8.48	

See accompanying notes to financial statements

**Approved by Creststreet Opportunities Fund Inc.**



**Robert J. Toole**  
Director



**Donna E. Shea**  
Director

## Statements of Operations

For the Years Ended December 31	2008	2007
<b>Investment Income</b>		
Dividend revenue	\$ 31,470	\$ 6,103
Interest revenue	27,823	29,797
Other income	3,088	16,058
	<u>62,381</u>	<u>51,958</u>
<b>Expenses</b>		
Performance fees	511,949	18,237
Management fees	115,056	83,584
Legal and filing fee	108,489	1,293
Operating expenses	106,616	9,402
Servicing fees	30,646	21,298
Audit fees	25,790	12,060
Interest and borrowing fees	25,473	38,391
Securityholder reporting costs	22,798	34,358
Dividends paid on securities sold short	12,208	11,898
	<u>959,025</u>	<u>230,521</u>
<b>Loss from investment operations</b>	<u>(896,644)</u>	<u>(178,563)</u>
Net realized gain(loss) on sale of investments	(473,199)	819,970
Change in unrealized appreciation(depreciation) of investments	(1,895,396)	1,434,545
Transaction costs (note 2)	(550,606)	(499,674)
<b>Net realized and unrealized gain (loss) on investments</b>	<u>(2,919,201)</u>	<u>1,754,841</u>
<b>Increase (decrease) in net assets from operations</b>	<u>\$ (3,815,845)</u>	<u>\$ 1,576,278</u>

See accompanying notes to financial statements

## Statements of Operations (continued)

Increase (decrease) in net assets from operations comprised of:			
- Series I	\$	267,678	\$ 398,496
- Series II		41,511	48,583
- Series III		330,617	434,238
- Series IV		107,414	133,607
- Series V		-	74,505
- Series VI		56,010	138,021
- Series VII		-	45,932
- Series VIII		-	(43)
- Series IX		32,277	30,369
- Series X		25,195	1,529
- Series XI		3,460	-
- Series XII		(14,268)	-
- Series XIII		(186,273)	-
- Series XIV		(433,486)	-
- Series XV		(6,296)	-
- Series 911		402,114	271,041
- Series A		(2,439,380)	-
- Series F		(2,002,418)	-
<b>Total net assets</b>	<b>\$</b>	<b>(3,815,847)</b>	<b>\$ 1,576,278</b>

(Decrease) increase in net assets per unit from operations comprised of:			
- Series I	\$	3.57	\$ 3.74
- Series II		3.36	3.94
- Series III		3.41	3.79
- Series IV		3.41	3.92
- Series V		-	3.85
- Series VI		3.11	3.98
- Series VII		-	4.01
- Series IX		3.38	3.18
- Series X		3.62	0.22
- Series XI		2.23	-
- Series XII		(1.15)	-
- Series XIII		(4.17)	-
- Series XIV		(4.26)	-
- Series XV		(1.75)	-
- Series 911		7.78	4.84
- Series A		(9.74)	-
- Series F		(9.72)	-

See accompanying notes to financial statements

## Statements of Changes in Net Assets

For the Years Ended December 31	2008	2007
<b>Net assets at the beginning of the year</b>	\$ 4,703,121	\$ 4,544,312
Initial adoption of new accounting policy (note 2)	-	(9,733)
<b>Operations</b>		
Increase in net assets from operations	(3,815,845)	1,576,278
<b>Share Capital transactions</b>		
Proceeds from the issue of shares	3,640,417	200,000
Redemptions	(713,976)	(1,607,736)
	2,926,441	(1,407,736)
Increase (decrease) in net assets	(889,404)	158,809
<b>Net assets at the end of the year - GAAP NAV (note 2)</b>	<b>\$ 3,813,717</b>	<b>\$ 4,703,121</b>
Adjustment from bid market prices to last traded market prices	143	72,365
<b>Net asset value per share - Pricing NAV (note 2)</b>	<b>\$ 3,813,860</b>	<b>\$ 4,775,486</b>

See accompanying notes to financial statements

## Statement of Investment Portfolio

As at December 31, 2008

Issuer	Number of Securities	Type of Security	Cost (Proceeds)	Market Value
<b>Investment in securities held in long positions</b>				
Verenex Energy Inc.	57,490	Common shares	\$ 404,240	\$ 393,808
Athabasca Oil Sands Corp.	91,700	Common shares	91,700	229,250
Athabasca Oil Sands Corp.	115,000	Warrants	-	143,750
Xtreme Coil Drilling Corp.	70,200	Common shares	564,515	108,108
Laricina Energy Ltd.	9,000	Common shares	198,000	99,000
Rodinia Oil Corp.	40,381	Common shares	27,533	12,114
Rodinia Oil Corp.	36,710	Warrants	-	-
			1,285,987	986,030
<b>Investment in securities held in short positions</b>				
Exxon Mobil Corporation	(1,820)	Common shares	(172,697)	(179,385)
Storm Exploration Inc.	(12,100)	Common shares	(142,970)	(167,344)
			(315,667)	(346,729)
Transaction costs (note 2)			(1,664)	
<b>Investments at market value</b>			<b>\$ 968,656</b>	<b>\$ 639,301.0</b>

See accompanying notes to financial statements

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

### 1. Creststreet Energy Opportunities Fund

Creststreet Energy Opportunities Fund (the "Fund") is a class of shares of Creststreet Opportunities Fund Inc. (the "Corporation"). The Corporation was incorporated on August 27, 2008 under the *Canada Business Corporations Act*. Pursuant to a purchase agreement between the Fund and Creststreet Energy Hedge Fund L.P. (the "Partnership") dated September 5, 2008, the Partnership agreed to sell all of the assets of the Partnership (the "Partnership Assets") to the Fund for an amount equal to the value of the Partnership Assets to be satisfied by the Fund (i) as to an amount equal to the liabilities of the Partnership, by the assumption of such liabilities, and (ii) as to the balance, by the issuance of non-voting Series A shares in the capital of the Fund (the "Shares") having an aggregate net asset value equal to the balance. The sale was affected on a tax-deferred "rollover" basis under the Income Tax Act (Canada). Subsequent to the sale of Partnership Assets on September 24, 2008, the Partnership was dissolved. The Fund has identical investment objectives and strategies as the Partnership which is to provide shareholders with long term capital growth through fundamental securities selection by taking both long and short investment positions in equity, debt and derivative securities, primarily of issuers engaged in the global energy sector, and through strategic trading. Since the Fund is essentially a continuation of the Partnership, the financial results of the Fund and the Partnership have been combined for 2008 and presented with comparative amounts for the Partnership for 2007. All performance data for the Fund will also be a continuation from the Partnership. The net increase (decrease) in net assets in the statement of operations is presented for the various series from the beginning of the year to the period ended September 24, 2008 and then for Series A & Series F for the period from September 25 to December 31, 2008.

Creststreet Asset Management Limited (the "Manager") is the investment 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 Partnership and the Fund.

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

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

#### b) Valuation of Investments

Securities held by the Partnership and 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 Statements of Net Assets.

**c) Broker Commissions**

Brokers' commissions and other transaction costs are expensed in the period incurred and are disclosed on the statements 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 ex-dividend date and interest income is accrued as earned.

**e) Allocation of Partnership Income and Loss**

The net profit and loss of the Partnership for each fiscal year is allocated 0.001 percent to the General Partner and 99.999 percent to the limited partners. The Partnership is not itself a taxable entity. Accordingly, no provision for income taxes is required.

**f) Use of Estimates**

The preparation of financial statements in accordance with GAAP requires management to make 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**

The Manager is entitled to receive a management fee equal to 2 percent per annum of the net asset value of the Partnership and the Fund on the last business day of the month, calculated and payable monthly in arrears. For the year ended December 31, 2008, the management fee amounted to \$115,056 (2007 – \$83,584).

The Manager is also entitled to receive a performance fee equal to 20 percent of the increase in the net asset value of each series of units or shares in each month. The performance fee is calculated and accrued monthly and paid quarterly in arrears. If the NAV of a series does not exceed the relevant highwater mark (as defined in the Limited Partnership Agreement) for that series, the Investment Manager will not be entitled to a performance fee in that month. For the year ended December 31, 2008, the performance fee amounted to \$511,949 (2007 – \$18,237).

The Partnership and the Fund pay a service fee to the Manager, who then remits the amounts to dealers as consideration for the dealers administering the Partnership's or Fund's assets for clients. The service fee is calculated at a rate of 1 percent per annum of the Partnership's or Fund's net asset value and is paid as soon as is practical after each calendar quarter based on the number of units held by dealers at the end of the relevant quarter. For the year ended December 31, 2008, service fees amounted to \$30,646 (2007 – \$21,298).

**4. Subscriptions & Redemptions of Units**

Shares may be purchased as at the close of business on the last business day of each month following the receipt by the Manager of a completed subscription form and the required payment no later than 4:00pm on a valuation date.

Shares may be redeemed at their net asset value, at the close of business on the last business day of each month. The redemption price for shares that have been held for 6 months or less will be reduced by 3% of the net asset value of the shares and, in the case of shares that have been held more than 6 months but less than 18 months, the redemption price will be reduced by 1.5% of the net asset value of the shares. Any redemption price reduction will be retained by the Fund to offset the cost of the redemption to the remaining shareholders.

## 5. Valuation of Private Investments

The following table details the Partnership's and Fund's changes in the valuations for securities not traded on a public exchange during the years ended from December 31, 2008 and 2007. The table is arranged in alphabetical order by investment.

	Prior fair value	New fair value	Valuation basis
<b><u>Athabasca Oil Sands Corp.</u></b>			
June 2007	\$ 460,000	\$ 592,825	Write-up from previous value as arm's-length third party share transaction provided new valuation basis.
August 2007	\$ 592,825	\$ 1,546,750	Write-up from previous value as arm's-length third party share transaction provided new valuation basis.
December 2007	\$ 1,303,150	\$ 1,652,473	Write-up from previous value as arm's-length third party share transaction provided new valuation basis.
May 2008	\$ 1,652,473	\$ 2,129,950	Write-up from previous value as arm's-length third party share transaction provided new valuation basis.
June 2008	\$ 2,129,950	\$ 2,522,680	Write-up from previous value as arm's-length third party share transaction provided new valuation basis.
July 2008	\$ 2,522,680	\$ 2,646,700	Write-up from previous value as arm's-length third party share transaction provided new valuation basis.
October 2008	\$ 2,646,700	\$ 1,716,550	Write-down from previous value due to market conditions based on Manager's valuation.
November 2008	\$ 1,716,550	\$ 1,303,150	Write-down from previous value due to market conditions based on Manager's valuation.
December 2008	\$ 1,303,150	\$ 373,000	Write-down from previous value as arm's-length third party share transaction provided new valuation basis.
<b><u>Laricina Energy Ltd.</u></b>			
December 2007	\$ 198,000	\$ 292,500	Write-up from cost as arm's length third party financing provided new valuation basis.
July 2008	\$ 292,500	\$ 360,000	Write-up from previous value as arm's-length third party share transaction provided new valuation basis.
December 2008	\$ 360,000	\$ 99,000	Write-down from previous value due to market conditions based on Manager's valuation.
<b><u>Rodinia Oil Corp.</u></b>			
August 2007	\$ 27,533	\$ 31,204	Write-up from cost as arm's length third party financing provided new valuation basis.
October 2008	\$ 31,204	\$ 12,114	Write-down from previous as arm's length third party financing provided new valuation basis.

## 6. Financial Instrument Risk

The Fund's investment objectives are to provide for the long-term growth of capital, through fundamental securities selection by taking both long and short investment positions primarily in the securities of issuers engaged in the global energy sector. The Fund's portfolio is comprised mainly of mid to large-capitalization Canadian resource issuers. The Fund earn interest on its cash balances 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 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 are 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 Partnership and Fund's currency risk exposure in Canadian dollar terms as at December 31, 2008:

Foreign currency	Monetary instruments	Non-monetary instruments	Total	As a % of net assets
US dollars	\$ (179,385)	\$ -	\$ (179,385)	-4.7%

As at December 31, 2008, had the Canadian dollar appreciated or depreciated by 5 percent in relation to the American dollar, net liabilities would have depreciated or appreciated by approximately \$8,969.

### 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 interest earned on cash balances is not significant so changes in interest rates 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 \$7,613 higher or lower (\$0.02 per share or 0.20 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 invests primarily in equity securities of Canadian Resource issuers and does not typically invest in debt securities, thereby minimizing the Fund's exposure to credit risk. All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker.

### ***Liquidity Risk***

The Fund is subject to the possibility of net redemptions on a monthly 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.

## **7. 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.

## **8. Filing Exemption**

The Partnership has elected to take a filing exemption available under section 2.11 of National Instrument 81-106. Under the terms of this exemption, the Partnership is not required to file its financial statements with the Ontario Securities Commission.

## Creststreet Opportunities Fund Inc.

### Board of Directors

**Robert J. Toole, C.A.**  
Director and President

**Donna E. Shea, C.A.**  
Director and Chief Financial Officer

**Stephen R. Martin, C.F.A.**  
Director and Vice-President

### Officers

**Robert J. Toole, C.A.**  
President and Chief Executive Officer

**Donna E. Shea, C.A.**  
Vice-President, Finance and Chief Financial Officer

**Stephen R. Martin, C.F.A.**  
Vice-President

**Sheryl Chiddenton**  
Secretary and Treasurer

### Prime Broker

Scotia Capital Inc.  
Toronto, Ontario

### Legal Counsel

McCarthy Tétrault LLP  
Toronto, Ontario

### Auditors

KPMG LLP  
Toronto, Ontario

### Toronto Office

Creststreet Opportunities Fund Inc.  
70 University Avenue, Suite 1450  
Toronto, Ontario M5J 2M4

Tel: (416) 864-6330

Toll Free: 1 (866)-864-6330

Fax: (416) 862-8950

E-mail: [info@creststreet.com](mailto:info@creststreet.com)

[www.creststreet.com](http://www.creststreet.com)