

# Creststreet Managed Equity Index Fund

## 2008 > Annual Report

### Management Report of Fund Performance

For the year ended December 31, 2008

THIS ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE CONTAINS FINANCIAL HIGHLIGHTS AND IS PART OF THE ANNUAL REPORT OF CRESTSTREET MANAGED EQUITY INDEX FUND (THE "FUND").

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

## Results of Operations

### > Investment Performance

The Creststreet Managed Equity Index Fund declined by 29.2% in 2008 as global equity markets experienced a volatile year and sold off in response to rapidly declining global economic fundamentals.

Global equity markets declined throughout the majority of the year as the credit crisis that began in the middle of 2007 transformed into a global economic crisis in the second half of 2008. The market decline accelerated in the last four months of the year when economic conditions worsened resulting in the evaporation of market liquidity as investors sought refuge in safer investments such as treasury bills and other government-backed securities. The U.S. Federal Reserve and other central banks around the world have now lowered interest rates to record levels and have also started to use more unconventional methods of monetary policy including quantitative easing. Additionally, the U.S. government was forced to inject capital into a number of large financial institutions resulting in partial nationalization of the banking sector. Similar problems occurred in Europe and elsewhere around the world where governments were forced to completely nationalize some of their banks.

Throughout the year, the Fund maintained exposure to broad domestic and foreign equity markets in accordance with its investment policy. The Fund's major position in the Canadian Index, which is weighted heavily to the energy and financial sectors, saw poor performance from large capitalization energy names, metals and mining corporations, and banks as global equity markets sold off. The Fund remained diversified with positions in index funds that contain a wide range of stocks from Europe, Australasia and the Far East. The Fund sold a small position with exposure to the U.S. markets via the S&P 500 Index early in the year. Investments in the latter two index funds are hedged to Canadian dollars in order to eliminate foreign currency risk. The Fund chose not to hold equity investments other than index participation units. However, the Fund did choose to increase its cash weighting in the second half of the year as the sell-off in global equity markets accelerated.

In 2009, we expect that global economic fundamentals will remain challenged. As such, market uncertainty and volatility will likely persist throughout much of the year depressing equity market prices. In response, we plan to take a cautious approach with the Fund through global diversification and a significant allocation to cash.

## > Revenues and Expenses

The Fund earned dividend income of \$70,011 for the year ended December 31, 2008, compared to \$126,706 in 2007. The decrease of 45% in dividend income was the result of a 26% reduction in the average portfolio combined with significantly lower year-end dividends declared by the index participation units. Interest income of \$12,691 in 2008 increased from \$1,284 in 2007 as a result of the Fund reducing its market exposure beginning in the August of 2008.

The Fund's largest expenses, management fees and service fees, are calculated on the net asset value (NAV) of the Fund. The average NAV decreased approximately 14%, and accordingly, management fees and service fees were down 16% and 14% respectively. The other expenses incurred by the Fund were in the normal course of the Fund's operations and totaled \$55,254 for 2007 compared to \$44,883 in 2007. The increase in the Fund's expenses is due mainly to increased charges from the transfer agent and other service providers.

## 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 past four years and the period from December 30 to December 31, 2004. This information is derived from the Fund's annual financial statements.

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

	2008	2007	2006	2005	2004
Net asset value, beginning of period	\$ 10.14	\$ 10.27	\$ 11.67	\$ 9.98	\$ 10.00
Initial adoption of new accounting policy <sup>(1)</sup>	-	(0.01)			
<b>Increase (decrease) from operations:</b>					
Total revenue	0.23	0.39	0.39	0.80	0.01
Total expenses	(0.24)	(0.24)	(0.22)	(0.20)	-
Realized gain on investments	0.06	0.11	-	-	-
Unrealized gain on investments	(2.81)	0.20	1.26	1.12	(0.03)
Transaction costs	-	(0.01)	-		
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>(2.76)</b>	<b>0.44</b>	<b>1.43</b>	<b>1.72</b>	<b>(0.02)</b>
<b>Distributions:</b>					
From capital gains	(1.03)	(0.56)	(2.85)	-	-
<b>Total annual distributions<sup>(3)</sup></b>	<b>(1.03)</b>	<b>(0.56)</b>	<b>(2.85)</b>	<b>-</b>	<b>-</b>
<b>Net asset value, end of period (GAAP NAV)<sup>(4)</sup></b>	<b>\$ 6.39</b>	<b>\$ 10.14</b>	<b>\$ 10.27</b>	<b>\$ 11.67</b>	<b>\$ 9.98</b>

(1) This line shows the impact of the adoption of a new accounting policy adopted on January 1, 2007. The implementation of this new policy impacts the way the Fund values the securities it holds and is discussed in greater detail under in the "Recent Developments" section of this report. The closing Pricing NAV is disclosed in the "Ratios and Supplemental Data" table that follows.

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

(3) Distributions were paid in cash or reinvested in additional units.

(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

	2008	2007	2006	2005	2004
Net assets (000's) <sup>(1)</sup>	\$ 2,785	\$ 3,185	\$ 3,431	\$ 1,495	\$ 151
Number of shares outstanding <sup>(1)</sup>	436,007	314,031	334,138	128,094	15,097
Management expense ratio (MER) <sup>(2)</sup>	2.94%	2.38%	2.19%	1.87%	0.00%
Portfolio turnover rate <sup>(3)</sup>	0.48%	1.95%	1.72%	0.00%	0.00%
Trading expense ratio <sup>(4)</sup>	0.03%	0.08%	0.13%	0.26%	0.13%
Closing Pricing NAV per share	\$ 6.40	\$ 10.16	\$ 10.27	\$ 11.67	\$ 9.98

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

(2) The management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

(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% 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 net assets
Index units	59.8%
Cash and cash equivalents	41.6%
Other net assets	-1.4%
	<b>100.0%</b>

Investment	% of net assets
iShares CDN S&P/TSX 60 Index Fund	39.0%
iShares CDN MSCI EAFE 100% Hedged to CAD Dollars Index Fund	20.7%
<b>Total</b>	<b>59.8%</b>

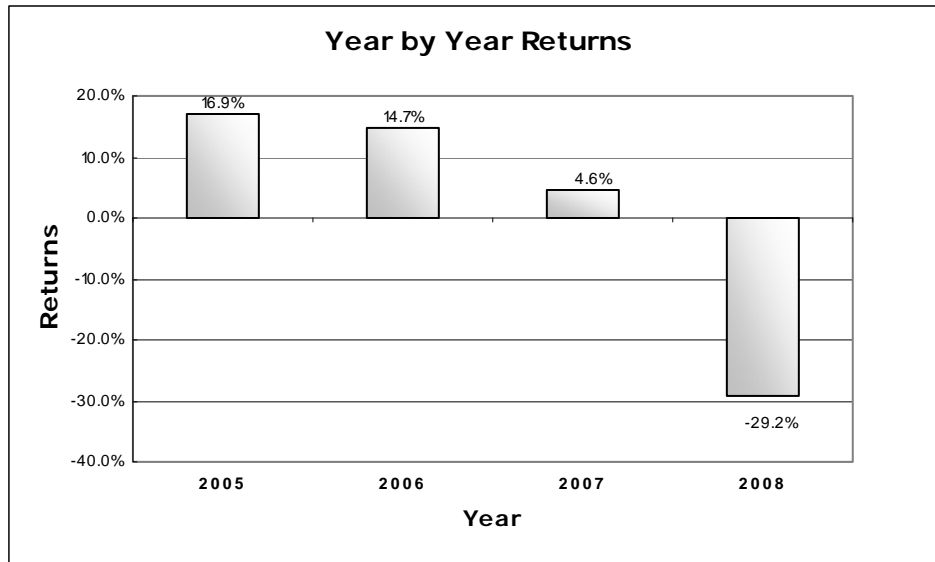
The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. The most recent annual report, semi-annual report or quarterly portfolio disclosure is available at no cost by calling 1 866 864-6330, by writing to us at Creststreet Mutual Funds Limited, Suite 1450, 70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

## Past Performance

The performance information shown assumes that any distributions made by the Fund in the period shown were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, distribution 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 the past three years. 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/TSX Composite Index and the S&P Global 1200 Index.

	Creststreet Managed Equity Index Fund	S&P/TSX Composite Index	S&P Global 1200 Index
1 year	-29.2%	-35.0%	-41.9%
3 years	-5.3%	-5.8%	-8.5%
Since inception	-0.2%	-0.7%	-5.4%

### > About the Indices and Fund Performance

The S&P Global 1200 Index is comprised of several international equity indices and is designed to track the performance of international equity markets. The S&P/TSX Composite Index covers approximately 95% of the Canadian-based Toronto Stock Exchange-listed companies and is designed to track the performance of the Canadian equities market as a whole.

The S&P Global 1200 Index (the "Global Index") declined 41.9% during 2008 to close the year at 1,028.30. The Global Index exhibited a high degree of volatility during the year and sold off in sympathy with rapidly declining global economic fundamentals.

The Fund declined 29.2% during 2008 largely as a result of holdings in Canadian index participation units, which declined 32.9% for the year. The Fund was negatively impacted by poor performance from a smaller position in index units weighted to equity markets in Europe, Australasia and the Far East. The Fund outperformed the Global Index largely as a result of a significant cash position that was held in the Fund throughout the second half of the year as global equity markets sold off.

## Investment Objectives and Strategies

The investment objective of the Fund is to provide long-term growth of capital through investments in index participation units of Canadian, U.S. and other foreign stock exchanges.

The investment style of the Fund is a combination of passive and active styles. The passive component will represent approximately 70% of the Fund's net assets. The Fund will invest in a portfolio of index participation units of Canadian, U.S. or other foreign equity markets or other similar instruments or directly in equity securities that constitute the Index or in a combination of those investments. The active component, representing up to 30% of net assets will follow a value-based approach to investing with an emphasis on long-term value as opposed to short-term market or momentum factors. This involves direct assessments and detailed analysis on a company basis of management, its industry, business and asset strengths, weaknesses and exposures. Greater emphasis will be placed on valuation criteria applicable to both corporations and trusts such as EBITDA (earnings before interest, taxes, depreciation, and amortization) multiples, cash flow multiples, net asset values and other industry specific measures. In addition, security specific factors such as cash-on-cash yields and stability ratings will be included. Assessments of the company's or trust's industry position, balance sheet strength, future growth potential, its ability to execute successful acquisitions, and its access to capital are also key components. The Fund's approach is a buy and hold strategy.

## 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.

**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 0.5% 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% of the Fund's net asset value. For the years ended December 31, the Fund paid the following amounts to the Manager:

	2008		2007	
Management fees	\$ 14,939	50.7%	\$ 17,694	51.1%
Service fees paid to dealers	14,504	49.3%	16,922	48.9%
	<u>\$ 29,443</u>	<u>100.0%</u>	<u>\$ 34,616</u>	<u>100.0%</u>

**Risk**

Current economic conditions have had a negative impact on the overall risk level of investments in the Fund and the performance of the Fund over the past year. The Manager began to reduce the net market exposure of the Fund beginning in August 2008. This has allowed the Fund to maintain liquidity and to outperform the related indexes. The investment philosophy, style and method for the Fund remain unchanged in the long-term. Investors in the Fund are exposed to the stock market risk to the same degree as each of the indexes. Investors are encouraged to read the Fund's prospectus for a more complete discussion of risks in investing in the Fund.

## 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 Managed Equity Index 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 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.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

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

## Statements of Net Assets

As at December 31	2008	2007
<b>Assets</b>		
Investments at market value	\$ 1,664,400	\$ 3,143,305
Cash and cash equivalents	1,159,140	55,916
Subscription receivable	8,900	-
Interest receivable	2,650	-
Other receivables	228	-
	<u>2,835,318</u>	<u>3,199,221</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	17,925	13,897
Redemptions payable	32,093	-
	<u>50,018</u>	<u>13,897</u>
<b>Net assets - GAAP NAV (note 2)</b>	<b>\$ 2,785,300</b>	<b>\$ 3,185,324</b>
Adjustment from bid market prices to last traded market prices	3,330	5,588
<b>Net assets - Pricing NAV (note 2)</b>	<b>\$ 2,788,630</b>	<b>\$ 3,190,912</b>
Shares outstanding	436,007	314,031
<b>Net assets per share - GAAP NAV (note 2)</b>	<b>\$ 6.39</b>	<b>\$ 10.14</b>
Adjustment from bid market prices to last traded market prices	0.01	0.02
<b>Net assets per share - Pricing NAV (note 2)</b>	<b>\$ 6.40</b>	<b>\$ 10.16</b>

See accompanying notes to financial statements

Approved by Creststreet Mutual Funds Limited



**Robert J. Toole**  
Director



**Stuart P. Hensman**  
Director

## Statements of Operations

<b>For the Years Ended December 31</b>	<b>2008</b>	<b>2007</b>
<b>Investment Income</b>		
Dividend revenue	\$ 70,011	\$ 126,706
Interest revenue	12,691	1,284
	<u>82,702</u>	<u>127,990</u>
<b>Expenses</b>		
Management fees	14,939	17,694
Audit fees	5,220	5,955
Custodial fees	2,585	2,692
Servicing fees	14,504	16,922
Securityholder reporting costs	6,768	5,662
Director's fees	3,512	636
Legal and filing fee	5,333	12,605
Operating expenses	28,607	17,333
Capital tax	3,229	-
	<u>84,697</u>	<u>79,499</u>
<b>Income (loss) from investment operations</b>	<u>(1,995)</u>	<u>48,491</u>
Net realized gain on sale of investments	21,391	36,309
Change in unrealized appreciation (depreciation) of investments	(1,008,775)	62,076
Transaction costs (note 2)	(933)	(2,784)
<b>Net realized and unrealized gain (loss) on investments</b>	<u>(988,317)</u>	<u>95,601</u>
<b>Increase (Decrease) in net assets from operations</b>	<u>\$ (990,312)</u>	<u>\$ 144,092</u>
<b>Per share</b>		
(based on average number of shares outstanding)		
<b>Increase (decrease) in net assets from operations</b>	<u>\$ (2.76)</u>	<u>\$ 0.44</u>

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>	\$ 3,185,324	\$ 3,431,289
Initial adoption of new accounting policy (note 2)	-	(4,444)
<b>Operations:</b>		
Increase (decrease) in net assets from operations	(990,312)	144,092
<b>Dividends to shareholders:</b>		
Capital gain dividend (note 4)	(297,124)	(176,464)
<b>Capital transactions:</b>		
Proceeds from the issue of shares	1,646,657	228,094
Reinvested dividends	291,074	172,007
Redemptions	(1,050,319)	(609,250)
<b>Net assets at the end of the year - GAAP NAV (note 2)</b>	<b>\$ 2,785,300</b>	<b>\$ 3,185,324</b>
Adjustment from bid market prices to last traded market prices	3,330	5,588
<b>Net assets per share - Pricing NAV (note 2)</b>	<b>\$ 2,788,630</b>	<b>\$ 3,190,912</b>

See accompanying notes to financial statements

## Statement of Investment Portfolio

As at December 31, 2008				
Issuer	Number of shares	Type of Security	Cost	Market Value
iShares CDN S&P/TSX 60 Index Fund	80,000	Index Units	\$ 1,246,670	\$ 1,087,200
iShares CDN EAFE 100% Hedged to Canadian Dollars Index Fund	37,000	Index Units	968,987	577,200
Transaction costs (note 2)			75	
<b>Total investments</b>			<b>\$ 2,215,732</b>	<b>\$ 1,664,400</b>

See accompanying notes to financial statements

## Notes to Financial Statements

For the years ended December 31, 2008 and 2007

### 1. Creststreet Mutual Funds Limited

Creststreet Managed Equity Index Fund (the "Fund"), along with Creststreet Resource Fund and Creststreet Alternative Energy 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, October 24, 2007, September 25, 2008 and December 17, 2008. 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 December 31, 2007, its investments held as at December 31, 2008, and the results of operations and the changes in net assets for the years ended December 31, 2008 and 2007 and do not contain the financial statements of the Corporation. Because the Funds listed 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 (the "Manager") is 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 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 interest receivable, subscriptions receivable, other receivables, 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

The Canadian Institute of Chartered Accountants has introduced new accounting guidelines that govern the reporting of financial assets and liabilities (CICA Handbook Section 3855 – "Financial Instruments – Recognition and Measurement"). The new guidelines are applicable to annual and semi-annual financial statements relating to fiscal years beginning on or after October 1, 2006. Prior to this change in policy, Canadian Generally Accepted Accounting Principles ("GAAP") required publicly traded securities to be valued at the price at which it last traded. This applied to securities held long and sold short. Section 3855 requires publicly traded securities to be valued at the last available bid price for securities held long and at the last available ask price for securities sold short.

This accounting policy change impacts financial reporting ("GAAP NAV") but does not impact the NAV calculated for purchases and redemptions ("Pricing NAV"). The net difference between valuations using last bid/ask prices and closing price is presented as "Adjustment from bid market prices to last traded market prices" on the Statements of Net Assets and is used to reconcile the GAAP NAV per share to the Pricing NAV per share.

This change in accounting policy has been applied prospectively. Prior period balances have not been restated, however, an adjustment has been made to the opening net asset value for the difference at January 1, 2007 on the Statements of Changes in Net Assets.

The complete, amended policy is as follows:

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 for which no published market price exists are valued at cost until a third party transaction establishes a different value or unless a different fair market value is determined by the Manager. Any change in value is recorded in "Net change in unrealized appreciation/depreciation of investments" on the statements of operations. Brokers' commissions and other transaction costs are expensed in the period incurred.

#### **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 is 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% 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 pay out sufficient 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 Canadian generally accepted accounting principles 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. Management Fee and Operating Expenses**

The Manager provides investment and administrative services to the Fund. In consideration for such services the Manager receives a fee equal to 0.5 percent per annum of the net asset value of the Fund. For the year ended December 31, 2008, the management fee amounted to \$14,939 (2007 - \$17,694). 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 management 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. This MER is inclusive of the Goods and Services Tax ("GST") in accordance with National Instrument 81-106. The Fund's MER was 2.94 percent for the year ended December 31, 2008 (2007 - 2.38 percent).

### **4. Dividends paid to Shareholders**

On March 7, 2008, the Fund paid a capital gain dividend totalling \$297,124 (2007 - \$176,464) or \$1.0253 per share (2007 - \$0.5572 per share) to Fund shareholders of record as at February 29, 2008. For the year ended December 31, 2008, \$291,074 was reinvested into the Fund (2007 - \$172,007).

## 5. Financial Instrument Risk

The Fund's objective is to provide long-term growth of capital by investing primarily in index participation securities that mirror the performance of major Canadian, American, and international stock market indices. Accordingly, the Fund is exposed to all of the risks associated with an investment in diversified portfolio of publicly traded equity securities. 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 1/3 of the Fund's NAV. The Fund may invest its cash balances in a short-term money market fund to maximize its yield on idle cash. 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, 20.7 percent of the Fund's NAV was invested in iShares MSCI EAFE Index Fund. This security seeks to replicate the performance of the MSCI EAFE index – an index of international securities maintained by Morgan Stanley Capital International – and is 100 percent hedged against foreign currency risk. Therefore, the Fund is not exposed to foreign currency risk. All things being equal, there would have been no effect on the Fund's NAV as a result of an increase or decrease in the value of the Canadian dollar against other foreign currencies.

### **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. Since the Fund is invested exclusively in index participation securities, the Fund's portfolio is fully diversified and is exposed only to risks that affect these markets as a whole. As at December 31, 2008 and assuming all other variables were held constant, had the general price level of equities markets been 5 percent higher or lower, the NAV of the Fund may have been \$78,737 higher or lower (\$0.18 per share, or 2.83 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 returns of the overall equities markets. In reality, results could differ from this estimate and the difference could be material.

### **Credit Risk**

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

### **Liquidity Risk**

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

## **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

**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.**

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**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

### Registered Address

Creststreet Mutual Funds Limited  
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)

\* Member of the audit committee

\*\* Chair of the audit committee