

## Interim Report > 2006

### Interim Management Report of Fund Performance

For the six-month period ended June 30, 2006

THIS INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE CONTAINS FINANCIAL HIGHLIGHTS AND IS PART OF THE SEMI-ANNUAL REPORT OF THE 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 US USING ONE OF THESE METHODS TO REQUEST A COPY OF THE FUND'S PROXY VOTING POLICIES, PROXY VOTING DISCLOSURE RECORD, OR QUARTERLY PORTFOLIO DISCLOSURE.

### 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 two years and the six-month period ended June 30, 2006. This information is derived from the Fund's unaudited semi-annual and audited annual financial statements.

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

	January 1 to June 30, 2006	For the years ended December 31,	
		2005	2004
Net asset value, beginning of period	\$ 11.67	\$ 9.98	\$ 10.00
<b>Increase (decrease) from operations</b>			
Total revenue	0.06	0.80	0.01
Total expenses	(0.11)	(0.20)	–
Realized gain on investments	–	–	–
Unrealized gain (loss) on investments	0.24	1.12	(0.03)
Total (decrease) increase from operations <sup>(1)</sup>	0.19	1.72	(0.02)
<b>Distributions</b>			
From income (excluding dividends)	–	–	–
From dividends	–	–	–
From capital gains	(2.85)	–	–
Return of capital	–	–	–
<b>Total annual distributions<sup>(2)</sup></b>	<b>(2.85)</b>	–	–
<b>Net asset value, end of period<sup>(3)</sup></b>	<b>\$ 9.24</b>	<b>\$ 11.67</b>	<b>\$ 9.98</b>

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

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

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

## Interim Management Report of Fund Performance (cont'd)

### > Ratios and Supplemental Data

	June 30, 2006	December 31,	
		2005	2004
Net assets (000's) <sup>(1)</sup>	\$ 2,398	\$ 1,495	\$ 151
Number of shares outstanding <sup>(1)</sup>	259,388	128,094	15,097
Management expense ratio ("MER") <sup>(2)</sup>	2.19%	1.87%	0.00%
Portfolio turnover rate <sup>(3)</sup>	4.42%	0.00%	0.00%
Trading expense ratio <sup>(4)</sup>	0.11%	0.26%	0.13%

(1) This information is provided as at June 30, 2006 and 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.

## Results of Operations

During the first half of 2006, Canadian markets delivered relatively flat performance overall, with the S&P/TSX Composite Index appreciating a modest 3%. Market sentiment was volatile during the period, as investors reacted to the United States Federal Reserve's comments and concern of new signs of inflationary pressure in the U.S. The S&P/TSX Composite Index retreated from its high of 12,494.72 on April 19 to a low of 10,860.72 on June 13, a 13% swing.

Global equity indices, as measured by the S&P Global 1200 Index ("the Global Index"), returned 5.2% in the six months ended June 30, 2006. Global markets were also temporarily shaken by the inflationary comments from the U.S. Federal Reserve, with the Global Index selling off 11.5% from its high of 1,549.40 on May 9 to its low of 1,371.46 on June 13. The Fund returned 3.2% for the six months ended June 30, 2006, assuming that distributions were reinvested into the Fund.

The Fund maintained its strategy of being heavily weighted to Canadian index participation units in an effort to track the domestic equity markets. As a source of diversification, the Fund kept exposure to international equity markets by also holding global index participation units. The Fund did not choose to hold other equity investments other than index participation units.

The Fund earned dividend income of \$9,180 for the six months ended June 30, 2006, compared to dividend income of \$4,400 during the same period last year. The rise in dividend income was the result of the Fund's increased holdings of dividend-paying securities in 2006 compared to 2005.

The Fund's largest expenses, management fees and service fees, are calculated on the net asset value (NAV) of the Fund and are therefore driven by performance. For the 2006 semi-annual period, the Fund incurred these fees on a weighted average NAV of approximately \$1.9 million. The weighted average NAV for the 2005 semi-annual period was approximately \$0.6 million. The other expenses incurred by the Fund were in the normal course of the Fund's operations and totaled \$13,620 for the 2006 semi-annual period compared to \$3,566 during the same period last year. The increase in the Fund's expenses is due mainly to the increase in Fund's average net asset value.



## Summary of Investment Portfolio

As at June 30, 2006

Description	Total % of net assets
<b>Investments in long positions</b>	
Index participation units	78.37%
Cash and cash equivalents	20.91%
Other net assets	0.72%
	<b>100.00%</b>

### > Top Positions

As at June 30, 2006

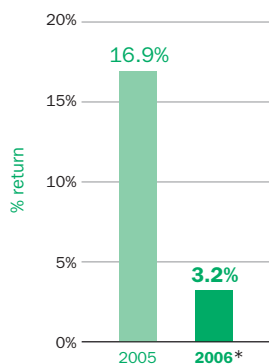
Description	Cost	Market value	% of net assets
iUnits S&P/TSX 60 Index Fund	\$ 1,089,223	\$ 1,233,041	51.42%
iUnits International Equity C\$ Index Fund	646,129	646,152	26.95%
<b>Total</b>	<b>\$ 1,735,352</b>	<b>\$ 1,879,193</b>	<b>78.37%</b>
Cash and cash equivalents		501,415	20.91%
Other net assets		17,275	0.72%
<b>Total net asset value</b>		<b>\$ 2,397,883</b>	<b>100.00%</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



This bar chart shows the Fund's annual return for 2005 and the total return for the six-month period ended June 30, 2006. 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 and the six-month period ended June 30, 2006.

\* Total return for the six-month period ended June 30, 2006.

## Interim Management Report of Fund Performance (cont'd)

### 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, American, 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, American, 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-by-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

In July 2006, Creststreet Capital Corporation ("CCC") acquired Creststreet Holdings Limited ("CHL"), a related Creststreet company, through a common share exchange as part of an internal restructuring of the Creststreet group of companies. The Manager is a wholly-owned subsidiary of CHL. This acquisition did not and will not result in any change in directors, management personnel, or operations of the Manager. As a result of this transaction, the Fund is deemed to have had a year-end for tax purposes and will be required to pay out sufficient dividends so that the Fund will not be subject to any income taxes.

### Related Party Transactions

Management fees are paid to Creststreet Asset Management Limited (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 administers 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 six months ended June 30, the Fund paid the following amounts to the Manager:

	2006		2005			
Management fees	\$	<b>4,819</b>	51.55%	\$	1,373	49.55%
Service fees paid to dealers		<b>4,529</b>	<b>48.45%</b>		1,398	50.45%
Total fees paid to the Manager	\$	<b>9,348</b>	<b>100.00%</b>	\$	2,771	100.00%

## Risk

No major or significant changes have had an impact on the overall risk level of any investments in the Fund. The investment philosophy, style and method for the Fund remain unchanged.

**Statements of Net Assets**

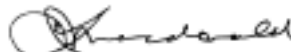
	<b>June 30, 2006 (unaudited)</b>	December 31, 2005 (audited)
<b>Assets</b>		
Investments at market value	\$ 1,879,193	\$ 1,464,842
Cash and cash equivalents	501,415	34,501
Subscriptions receivable	23,534	-
	<b>2,404,142</b>	1,499,343
<b>Liabilities</b>		
Accounts payable and accrued liabilities	6,259	4,031
	<b>6,259</b>	4,031
<b>Net assets</b>	<b>2,397,883</b>	1,495,312
Shares outstanding	<b>259,388</b>	128,094
<b>Net asset value per share</b>	<b>\$ 9.24</b>	\$ 11.67

See accompanying notes to financial statements.

Approved by Creststreet Mutual Funds Limited



**Robert J. Toole**  
Director



**Larry J. Macdonald**  
Director



## Statements of Operations

For the six months ended June 30 (unaudited)

	2006	2005
<b>Investment income</b>		
Dividend income	\$ 9,180	\$ 4,400
Interest income	1,299	492
	<b>10,479</b>	4,892
<b>Expenses</b>		
Legal and filing fees	5,372	32
Management fees (note 3)	4,819	1,373
Service fees	4,529	1,398
Operating expenses	2,175	1,590
Audit fees	1,062	128
Capital tax	1,028	–
Custodian fees	727	208
Shareholder reporting	468	904
Directors' fees	360	–
	<b>20,540</b>	5,633
Loss from investment operations	<b>(10,061)</b>	(741)
<b>Realized and unrealized gain on investments</b>		
Cost of investments, beginning of period	1,366,562	140,106
Investments purchased during the period	405,974	847,983
	<b>1,772,536</b>	988,089
Cost of investments, end of period	1,735,352	988,089
Cost of investments sold	37,184	–
Proceeds of investments sold	37,802	–
Net realized gain on sale of investments	618	–
Net change in unrealized appreciation/depreciation of investments	45,561	15,493
Net gain on investments	46,179	15,493
<b>Increase in net assets from operations</b>	<b>\$ 36,118</b>	<b>\$ 14,752</b>
<b>Per share</b> (based on the average number of shares outstanding)		
<b>Increase in net assets from operations per share</b>	<b>\$ 0.19</b>	<b>\$ 0.25</b>

See accompanying notes to financial statements.

## Statements of Changes in Net Assets

For the six months ended June 30 (unaudited)

	2006	2005
Net assets, beginning of period	\$ 1,495,312	\$ 150,596
<b>Operations</b>		
Increase in net assets from operations	36,118	14,752
<b>Dividends to shareholders</b>		
Capital gain dividend (note 5)	(393,002)	–
<b>Share capital transactions</b>		
Proceeds from issue of shares	878,796	872,181
Reinvested dividends	390,129	–
Redemptions	(9,470)	–
	1,259,455	872,181
<b>Increase in net assets</b>	<b>902,571</b>	<b>886,933</b>
<b>Net assets, end of period</b>	<b>\$ 2,397,883</b>	<b>\$ 1,037,529</b>

See accompanying notes to financial statements.

## Statement of Investment Portfolio

As at June 30, 2006 (unaudited)

	Number of securities	Type of security	Cost	Market value
iUnits S&P/TSX 60 Index Fund	18,725	Index participation units	\$ 1,089,223	\$ 1,233,041
iUnits International Equity C\$ Index Fund	26,065	Index participation units	646,129	646,152
<b>Total investment portfolio</b>			<b>\$ 1,735,352</b>	<b>\$ 1,879,193</b>

See accompanying notes to financial statements.



## Notes to Financial Statements

For the six months ended June 30, 2006 and 2005 (unaudited)

### 1. Creststreet Mutual Funds Limited

Creststreet Managed Equity Index Fund (“the Fund”), along with Creststreet Resource Fund and Creststreet Managed Income Fund (together the “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 and March 29, 2005. In order to conform to investment fund disclosure regulations, these financial statements present the financial position of the Fund as at June 30, 2006 and December 31, 2005, and the results of operations and the changes in net assets for the semi-annual periods ended June 30, 2006 and 2005, 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 (“GAAP”) and the following is a summary of significant accounting policies followed by the Fund:

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

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

#### **b. Valuation of Investments**

Securities listed on a recognized public securities exchange are valued at their closing sale price. Securities not traded on a valuation date are valued at the average of the closing bid and ask prices. Securities for which no published market exists are valued at cost unless a different fair market value is determined by the Manager. Any change in value is recorded in “Change in net unrealized appreciation/depreciation of investments” on the statements of operations.

#### **c. Investment Transactions and Income and Expense 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.

## Notes to Financial Statements (cont'd)

### d. 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 $\frac{1}{3}$ % 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.

### e. Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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. 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% per annum of the net value of the Fund. In the six month period ended June 30, 2006, the management fee amounted to \$4,819 (2005 – \$1,373). 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 GST in accordance with National Instrument 81-102. The Fund's MER was 2.19% for the six-month period ended June 30, 2006 (2005 – 1.84%).

## 4. Brokerage Commissions

The Fund paid brokerage commissions amounting to \$988 for the six-month period ended June 30, 2006 (2005 – \$2,181).

## 5. Dividends Paid to Shareholders

On March 10, 2006, the Fund paid a capital gain dividend totaling \$393,002 (2005 – nil) or \$2.8519 per share (2005 – nil) to Fund shareholders of record as at March 3, 2006. The dividend reduced the net asset value per share by \$2.8519 and was automatically reinvested in additional shares, leaving the total value of a shareholder's investment unchanged. For the six-month period ended June 30, 2006, \$390,129 was reinvested into the Fund (2005 – nil).



## 6. Subscription and Redemption of Securities

Securities of the Fund may be subscribed or redeemed at the net asset value per share next determined after receipt of a subscription or redemption request at the registered office of the Fund or its transfer agent. Requests received before 4:00 p.m. EST on a valuation day will receive the net asset value per share on that valuation day. Subscription or redemption requests received after 4:00 p.m. EST will receive the net asset value per share on the next valuation day. Subscription or redemption requests may be provided electronically or in written form, provided that all documentation is in good order and has been signature guaranteed as necessary. Appropriate signature guarantors include Canadian chartered banks and trust companies, a dealer, a member of a recognized stock exchange in Canada or any guarantor acceptable to the Fund.

## 7. Comparative Figures

The Fund has reclassified the comparative figures, where necessary, to conform to the current period's presentation.

## Creststreet Mutual Funds Limited

### Board of Directors

**Stuart P. Hensman**

Corporate Director

**Larry J. Macdonald**

Chairman

Point Energy Inc.

**John Thompson**

President and Chief Executive Officer

Timing Energy Inc.

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

Managing Director

Creststreet Capital Corporation

### Officers

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

President and Chief Executive Officer

**Donna Shea, C.A.**

Vice-President, Finance and

Chief Financial Officer

**Aaron C.B. Maybin**

Vice-President, Energy Investment

Management

**Sheryl J. Chiddenton**

Secretary and Treasurer

### Transfer Agent and Registrar

International Financial Data Services

(Canada) Limited

Toronto, Ontario

### Investment Advisor

Creststreet Asset Management Limited

Toronto, Ontario

### Custodian

National Bank

Correspondent Network

Toronto, Ontario

### Clearing and Settlement Services

FundSERV Inc.

### Fund Symbols

CAM 100, CAM 105, CAM 200,

CAM 300

### Auditors

KPMG LLP

Toronto, Ontario

### Registered Address

Creststreet Mutual Funds Limited

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