

**ESI Premium Portfolio**  
**Financial Statements**  
For the period from the date of inception,  
October 26, 2007 to December 31, 2007

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## Auditors' Report

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### **To the Unitholders of ESI Premium Portfolio**

We have audited the statements of investments and net assets of ESI Premium Portfolio as at December 31, 2007 and the statements of operations and changes in net assets from the date of inception, October 26, 2007 to December 31, 2007. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 misstatements. 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 financial position of the Fund as at December 31, 2007 and the results of its operations and changes in net assets for the period from inception, October 26, 2007 to December 31, 2007 in accordance with Canadian generally accepted accounting principles.

*"BDO Dunwoody LLP"*

(Signed)

Chartered Accountants, Licensed Public Accountants  
Oakville, Ontario  
February 8, 2008

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**ESI Premium Portfolio  
Statement of Net Assets**

**December 31, 2007**

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**Assets**

Investments at market value (cost - \$309,984)	\$ 301,069
Cash and cash equivalents	1,648
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	302,717

**Liabilities**

Accrued liabilities	99
Management fees payable	609
	<hr/>
	708

**Net assets representing unitholders' equity** **\$ 302,009**

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**Number of units outstanding** (Note 4) **31,337**

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**Net asset value per unit** **\$ 9.64**

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Approved by the Board of Directors of the Manager,  
Crystal Wealth Management System Limited

*"Clayton Smith"* (Signed) \_\_\_\_\_ Director

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## ESI Premium Portfolio Statement of Operations

For the period from the date of inception,  
October 26, 2007 to December 31, 2007

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<b>Income</b>	
Interest	\$ 477
<b>Expenses</b> (Note 5)	
Management fees	889
Administration fees and other (Note 8)	2,032
	<u>2,921</u>
<b>Net investment loss for the period</b>	(2,444)
<b>Unrealized loss on investments</b>	<u>(8,916)</u>
<b>Decrease in net assets from operations</b>	\$ (11,360)
<b>Earnings (loss) per unit</b>	<u>\$ (0.36)</u>

The accompanying notes are an integral part of these financial statements.

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**ESI Premium Portfolio**  
**Statement of Changes in Net Assets**

**For the period from the date of inception,  
October 26, 2007 to December 31, 2007**

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<b>Decrease in net assets from operations</b>	\$ (11,360)
<b>Capital transactions</b>	
Proceeds from sale of units	<u>313,369</u>
<b>Increase in net assets during the period and net assets, end of period</b>	<b>\$ 302,009</b>

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The accompanying notes are an integral part of these financial statements.

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## ESI Premium Portfolio Statement of Investments

**December 31, 2007**

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No. of Units	Name	Cost (\$)	Market (\$)
<b>Investment Funds (99.7%)</b>			
<b>Canada</b>			
27	Epic LP	149,984	149,984
5,202	Sextant Strategic Opportunities Hedge - F	<u>160,000</u>	<u>151,085</u>
	Total invested assets	<u>309,984</u>	301,069
	Other assets, net (0.3%)		<u>940</u>
	Total net assets (100.0%)		<u>302,009</u>

The accompanying notes are an integral part of these financial statements.

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# ESI Premium Portfolio Notes to Financial Statements

December 31, 2007

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## 1. The Fund

ESI Premium Portfolio (the "Fund") is an open-ended unit trust formed under the laws of the Province of Ontario on October 26, 2007, by an amendment to Schedule A, dated October 26, 2007, of the Master Declaration of Trust dated as of April 12, 2007.

Crystal Wealth Management System Limited is the trustee, the manager ("Manager"), portfolio advisor and a promoter of the Fund.

The Fund is not a reporting issuer under securities legislation and therefore is relying on Part 2.11 of National Instrument 81-106 for exemption from the requirement to file financial statements with the applicable securities regulatory authorities.

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## 2. Summary of Significant Accounting Policies

### (a) Basis of presentation

These financial statements, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), include estimates and assumptions made by management that affect the reported amounts of assets, liabilities, income and expenses during the reporting period. Actual results could differ from those estimates.

### (b) Adoption of new accounting standards

The Canadian Institute of Chartered Accountants ("CICA") issued *Section 3855: Financial Instruments – Recognition and Measurement* ("Section 3855") of the CICA Accounting Handbook which establishes standards for the fair valuation and recording of portfolio investments for financial reporting purposes. Section 3855 is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

Section 3855 requires that the fair value of financial instruments which are traded in active markets be measured based on the bid price for long securities and the ask price for securities held short. Under prior standards, the fair value was based on the last traded price for the day, when available.

Section 3855 also requires transaction costs, such as brokerage commissions, incurred in the purchase and sale of securities to be charged to net income in the period. Under prior standards, these costs were added to the cost of the securities purchased or deducted from the proceeds of sale.

On the date of inception, October 26, 2007, the Fund adopted Section 3855 for financial reporting purposes.

Canadian securities regulatory authorities have granted temporary relief to investment funds from complying with Section 3855, for the purpose of calculating and reporting of net asset value ("NAV"), other than for financial reporting purposes, up to September 30, 2008. Accordingly, there is a "Transactional NAV" used for pricing purposes and a "GAAP NAV" in accordance with Section 3855 for financial reporting purposes. As at

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## ESI Premium Portfolio Notes to Financial Statements

December 31, 2007

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### 2. Summary of Significant Accounting Policies - (Continued)

December 31, 2007, there is no difference between Transactional NAV and GAAP NAV.

(c) New accounting pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have potential implication for the Fund are as follows:

*Capital disclosures*

The CICA Accounting Handbook *Section 1535: Capital Disclosures*, requires disclosure of an entity's objectives, policies and processes for managing capital. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Fund is currently assessing the impact of the new standard.

*Financial Instruments - disclosures and presentation*

The CICA Accounting Handbook *Section 3862: Financial Instruments - Disclosure*, increases the disclosures currently required to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. The CICA Accounting Handbook *Section 3863: Financial Instruments - Presentation*, replaces the existing requirements on the presentation of financial instruments, which have been carried forward unchanged. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Fund is currently assessing the impact of the adoption of these changes on the disclosure and presentation within its financial statements.

(d) Cash and cash equivalents

The Fund considers all cash and highly liquid investments purchased with an initial maturity of one year or less to be cash and cash equivalents.

(e) Investment transactions and income recognition

Investment transactions are recorded on a trade date basis.

Interest income is accrued as earned and dividend income is recognized on the ex-dividend date. Realized gains and losses on investment transactions and the unrealized gains and losses on investments are computed on an average cost basis.

The average cost of mutual fund units includes the original cost of purchases plus the reinvestment of distributions received or receivable at year end. The Fund recognizes as investment income that portion of the distributions relating to dividends, interest income and realized gains.

(f) Foreign currency translation

The market value of investments and other assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the year end date. The proceeds from sale of investments and investment income in foreign currencies are translated into Canadian dollars at the approximate rate of exchange prevailing on the dates of such transactions.

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## ESI Premium Portfolio Notes to Financial Statements

**December 31, 2007**

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### 2. Summary of Significant Accounting Policies - (Continued)

(g) Earnings (loss) per unit

Earnings (loss) per unit in the Statement of Operations represents the increase (decrease) in net assets from operations, divided by the weighted average number of units outstanding during the year.

(h) Valuation of fund units

The Fund's units are issued and redeemed at the net asset value per unit, which is determined as of the close of business each week. The net asset value per unit of the Fund is determined by dividing the total market value of the Fund's net assets by the number of units outstanding.

For each mutual fund unit sold, the Fund receives an amount equal to the net asset value per unit on the date of sale, which amount is included in unitholders' equity. Units are redeemable at the option of the unitholders at their net asset value on the redemption date. For each unit redeemed, the number of issued and outstanding units is reduced and the equity in the Fund is reduced by the related net asset value on the date of redemption.

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### 3. Taxation

The Fund qualifies as a "quasi mutual fund trust" within the meaning of the Income Tax Act (Canada). The Fund is subject to applicable federal and provincial taxes on the amounts of its net income for tax purposes for the year, including net realized taxable capital gains, to the extent such net income for tax purposes has not been paid or made payable to unitholders in the year.

No provision for income taxes is recorded in the financial statements as all income and net realized capital gains are distributed to the unitholders.

As at December 31, 2007, the Fund has non-capital loss carry forwards of \$2,146 expiring in 2016.

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### 4. Unitholders' Equity

The Fund is authorized to issue an unlimited number of units, which are sold and redeemable at the then current net asset value per unit at the option of the unitholder. The following units were sold during the period:

Units issued and outstanding, end of period	<u>31,337</u>
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## ESI Premium Portfolio Notes to Financial Statements

**December 31, 2007**

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### **5. Management Fees and Expenses**

(a) Management fees

Pursuant to the management agreement between the Fund and the Manager, the Manager is to provide management and investment advisor services to the Fund. For this service, the Fund agrees to pay the Manager a management fee, which is calculated daily and payable monthly based on an annual rate of 2.20% of the net asset value.

To encourage large investments in the Fund, the Manager may reduce the management fee that would be charged to the Fund in respect of units held by an investor making a large investment. The amount of the reduction is distributed by the Fund (the "Management Fee Distribution") to the investor for whose benefit the fees were reduced. All Management Fee Distributions will be reinvested in additional units unless otherwise requested.

(b) Performance fees

In addition to the management fees, the Fund shall pay the Manager a performance fee equal to 20% of the amount by which the net quarterly return of the Fund exceeds 2%. The fee will accrue on each valuation date and is paid quarterly. When the fee is earned and paid, a new high water mark will be set with respect to the net asset value per unit. In order for the performance bonus to be paid subsequent to that, the latest net asset value per unit high water mark would need to be exceeded.

(c) Sub-advisor fees

The Fund may invest part of its proceeds in other investment funds or in segregated accounts managed by Sub-advisors. The Sub-advisors charge a management fee and may charge a performance fee to the Fund for managing any segregated accounts.

(d) Expenses

The Fund pays expenses relating to its operation including professional fees, brokerage commissions, interest and administrative costs relating to the issue and redemption of units as well as the cost of financial and other reports and compliance with all applicable laws, regulations and policies.

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### **6. Distributions to Unitholders**

All distributions made by the Fund are automatically reinvested in additional units at the then current net asset value per unit unless a Unitholder elects to receive his or her distribution in cash.

During the year, there were no distributions.

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## ESI Premium Portfolio Notes to Financial Statements

**December 31, 2007**

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### **7. Redemption of Units**

Unitholders may redeem their units at any time. Redemption requests must be in writing, stating the dollar amount or number of units of the Fund that are to be redeemed. Redemption is based on the net asset value per unit as of the last valuation date.

If unitholders redeem units within 180 days of acquisition the Fund may charge a short-term trading fee of 5% of the net asset value of the units redeemed. This fee is paid to the Fund.

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### **8. Brokerage Commissions**

The total brokerage commissions paid by the Fund, with respect to security transactions for the period was \$41.

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### **9. Related Party Transactions**

The Fund may invest in any one of the funds that are managed by the Manager ("Underlying Crystal Wealth Funds"). As of December 31, 2007, the Underlying Crystal Wealth Funds include Crystal Enhanced Mortgage Fund, ESI Managed Portfolio, and IFM Monitored World Equity.

No sales or redemption fees will be payable by the Fund in relation to its purchases or redemptions of units of the Underlying Crystal Wealth Funds, and no management fees or incentive fees will be payable by the Fund that would duplicate a fee payable by the Underlying Crystal Wealth Funds for the same service. Such a reduction in management fees is to be facilitated by an additional distribution from the Underlying Crystal Wealth Fund to the Fund and is included in investment income of the Fund.

As at December 31, 2007, the Fund has no investments in the Underlying Crystal Wealth Funds.

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### **10. Financial Instruments**

The fair value of financial instruments approximates their carrying value.

(a) Market risk

The Fund is subject to market risk with its marketable securities. The values of these financial instruments will fluctuate as a result of changes in market prices or factors affecting the net asset values of the underlying investments.

(b) Liquidity risk

The Fund is subject to liquidity risk with some of its securities owned. As a result, the Fund may be unable to realize the full fair value of these securities in the event that these financial assets need to be sold quickly.