

Crystal Enhanced Mortgage Fund
Financial Statements
For the year ended December 31, 2008

Crystal Enhanced Mortgage Fund
Financial Statements
For the year ended December 31, 2008

Contents

Auditors' Report	2
Financial Statements	
Statement of Net Assets	3
Statement of Operations	4
Statement of Changes in Net Assets	5
Statement of Investments	6
Notes to Financial Statements	7



BDO Dunwoody LLP
Chartered Accountants
and Advisors

3115 Harvester Road Suite 400
Burlington Ontario Canada L7N 3N8
Telephone: 905.639.9500
Toll Free: 1.888.236.2383
Fax: 905.633.4939

www.bdo.ca

Auditors' Report

To the Unitholders of Crystal Enhanced Mortgage Fund

We have audited the statements of investments and net assets of Crystal Enhanced Mortgage Fund ("the Fund") as at December 31, 2008 and the statements of operations and changes in net assets for the year then ended. 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, 2008 and the results of its operations and changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

"BDO Dunwoody LLP"

(Signed)

Chartered Accountants, Licensed Public Accountants
Burlington, Ontario
February 5, 2009

**Crystal Enhanced Mortgage Fund
Statement of Net Assets**

December 31	2008	2007
Assets		
Investments	\$ 23,130,124	\$ 14,248,197
Cash and cash equivalents	1,571,277	1,221,121
Accrued interest receivable	170,612	81,828
Subscriptions receivable	-	67,613
	<u>24,872,013</u>	<u>15,618,759</u>
Liabilities		
Accrued liabilities	-	5,747
Redemptions payable	-	2,100
Distributions payable	445	2,261
Management fee payable	-	14,053
	<u>445</u>	<u>24,161</u>
Net assets representing unitholders' equity	\$ 24,871,568	\$ 15,594,598
Number of units outstanding (Note 5)	2,472,895	1,551,916
Net assets per unit	\$ 10.06	\$ 10.05

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

"Clayton Smith" (Signed)

Director

Crystal Enhanced Mortgage Fund Statement of Operations

	Year ended December 31 2008	Period ended December 31 2007
Income		
Interest	\$ 2,241,253	\$ 1,062,751
Lender fees	168,796	80,367
	2,410,049	1,143,118
Other income		
Penalty fee income	66,553	73,054
Losses on foreclosures	(85,879)	(63,037)
	(19,326)	10,017
Expenses (Note 6)		
Administration fees	155,838	72,541
Management fees	265,365	72,383
Mortgage service and registration fees	189,258	83,529
	610,461	228,453
Net investment income and increase in net assets from operations	\$ 1,780,262	\$ 924,682
Earnings per unit	\$ 0.90	\$ 0.78

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

Crystal Enhanced Mortgage Fund Statement of Changes in Net Assets

	Year ended December 31 2008	Period ended December 31 2007
Increase in net assets from operations	\$ 1,780,262	\$ 924,682
Distributions to unitholders		
From net investment income	<u>(1,780,307)</u>	<u>(927,103)</u>
Capital transactions		
Proceeds from sale of units	15,843,962	17,428,685
Reinvested distributions (Note 7)	1,769,697	922,839
Payment for units redeemed (Note 8)	<u>(8,336,644)</u>	<u>(2,754,505)</u>
Net capital unit transactions	<u>9,277,015</u>	<u>15,597,019</u>
Increase in net assets during the year	9,276,970	15,594,598
Net assets, beginning of year	<u>15,594,598</u>	<u>-</u>
Net assets, end of year	\$ 24,871,568	\$ 15,594,598

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

Crystal Enhanced Mortgage Fund Statement of Investments

December 31, 2008

Mortgages (93.0%)

	Original Principal	Outstanding Principal
Residential	\$19,487,367	\$19,281,532
Commercial	3,850,000	3,848,592
Total invested assets	\$23,337,367	23,130,124
Other assets, net (7.0%)		1,741,444
Total net assets (100.0%)		\$24,871,568

Schedule of Mortgages

Rate	Number of Mortgages	Original Principal	Outstanding Principal
6.500 to 7.000	1	\$215,000	\$199,264
7.001 to 7.500	2	591,250	589,464
7.501 to 8.000	1	65,000	64,538
8.001 to 8.500	2	516,750	516,413
8.501 to 9.000	10	1,664,750	1,654,379
9.001 to 9.500	12	1,662,725	1,648,187
9.501 to 10.000	10	1,323,300	1,320,324
10.001 to 10.500	4	241,880	233,904
10.501 to 11.000	13	1,139,447	1,132,377
11.001 to 11.500	14	1,025,375	1,024,452
11.501 to 12.000	29	2,147,172	2,092,828
12.001 to 12.500	28	2,043,904	1,975,166
12.501 to 13.000	57	2,656,058	2,604,494
13.001 to 13.500	24	1,790,028	1,798,262
13.501 to 14.000	50	3,176,816	3,170,148
14.001 to 14.500	6	155,850	157,222
14.501 to 15.000	30	1,312,062	1,362,626
15.001 to 15.500	2	350,000	350,000
15.501 to 16.000	1	260,000	236,076
17.001 to 17.500	2	650,000	650,000
17.501 to 23.500	2	350,000	350,000
Total	300	\$23,337,367	\$23,130,124

* None of the mortgages are insured under the National Housing Act.

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

Crystal Enhanced Mortgage Fund

Notes to Financial Statements

December 31, 2008

1. The Fund

Crystal Enhanced Mortgage Fund (the "Fund") is an open-ended unit trust formed under the laws of the Province of Ontario by a Master Declaration of Trust dated as of April 12, 2007.

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

2. Investment Objective

The investment objective of the Fund is to generate a consistently high level of interest income while focusing on preservation of capital by investing primarily in residential mortgages in Canada.

3. 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

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, specifically January 1, 2008 for the Fund. This standard will impact the Fund's disclosures provided but will not affect the Fund's results or financial position. Refer to Note 12 for a discussion of the Fund's capital and how it is managed.

Financial Instruments - disclosures and presentation

The CICA Accounting Handbook *Section 3862: Financial Instruments - Disclosure*, and *Section 3863: Financial Instruments - Presentation* replaced *Section 3861: Financial Instruments - Disclosure and Presentation*, revising and enhancing the disclosure requirements relating to financial instruments, and carrying forward unchanged its presentation requirements. These new standards place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Fund manages those risks (Note 10). These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Fund. These standards will impact the Fund's disclosures provided but will not affect the Fund's results or financial position.

Crystal Enhanced Mortgage Fund Notes to Financial Statements

December 31, 2008

3. Summary of Significant Accounting Policies - (Continued)

(c) Valuation of investments

Investments are deemed to be categorized as held-for-trading and recorded at fair value in accordance with the CICA Accounting Handbook *Section 3855: Financial Instruments – Recognition and Measurement* ("Section 3855"), which was effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

Investments in mortgages are valued at outstanding principal which approximates fair value.

(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. Cash and cash equivalents are deemed to be classified as held-for-trading and therefore are carried at fair value.

(e) Investment transactions and income recognition

Investment transactions are accounted for on the date that an order is executed. Income from investments is recognized on an accrual basis. Lender fees received in advance on mortgage investments are deferred until the related administration expense is incurred. All transactions costs relating to the purchases and sales of investments are charged to net income in the period.

(f) Earnings per unit

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

(g) Valuation of transactions in fund units

The Fund's units are issued and redeemed at a defined net asset value per unit, which is determined as of the close of business each week. The net asset value per unit is determined by dividing the total of the current outstanding principal amounts plus the market value of any other investments, less liabilities, 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 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.

Crystal Enhanced Mortgage Fund

Notes to Financial Statements

December 31, 2008

4. 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 has been recorded in the accompanying financial statements as all income and net realized capital gains are distributed to the unitholders.

5. 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 and redeemed during the year:

	Year ended December 31 2008	Period ended December 31 2007
Units outstanding, beginning of year	1,551,916	-
Units issued	1,571,434	1,733,247
Units issued on reinvestment	175,967	91,789
Units redeemed	(826,422)	(273,120)
Units outstanding, end of year	2,472,895	1,551,916

6. 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. In the period there were total Management Fee Distributions of \$190,446 (2007 - \$145,493).

(b) Expenses

The Fund pays expenses relating to its operation including professional fees, investment transactions costs, 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.

Crystal Enhanced Mortgage Fund

Notes to Financial Statements

December 31, 2008

7. 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.

8. 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.

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, 2008, the Underlying Crystal Wealth Funds include IFM Monitored World Equity, ESI Managed Portfolio, and ESI Premium Portfolio.

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.

During the year, the Fund did not invest in any Underlying Crystal Wealth Funds.

During the year, the Fund distributed \$376,716 (2007 - \$435,739) of interest distributions and \$111,255 (2007 - \$120,950) of management fee distributions to the above-mentioned funds managed by Crystal Wealth Management System Limited.

10. Financial Instruments and Risk Management

In addition to the aforementioned financial instrument disclosures, the Fund's financial instruments include accrued interest receivable, subscriptions receivable, accrued liabilities, redemptions payable, distributions payable, and management fees payable. These financial instruments are carried at cost as they closely approximate their fair value given their short-term nature.

Crystal Enhanced Mortgage Fund Notes to Financial Statements

December 31, 2008

10. Financial Instruments and Risk Management - (Continued)

The fund may be exposed to a variety of financial risks including credit risk, liquidity risk and interest rate risk. The following is a summary of the most significant risks:

(a) Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that is entered into with the Fund. A deterioration in the Canadian economy may affect the ability of some borrowers to pay their monthly mortgage payments. The fair value of investments represents the maximum credit risk as at December 31, 2008, however, the Fund's exposure to credit risk is limited since all mortgages are collateralized by the underlying real estate.

(b) Liquidity risk

Liquidity risk is the risk of the Fund not being able to meet its obligations with respect to unit redemptions on time or at a reasonable price. The Fund is exposed to cash redemptions as detailed in Note 8. The Fund retains sufficient cash and cash equivalents positions to maintain liquidity.

(c) Interest rate risk

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or fair values of financial instruments. Mortgage interest rates are at fixed rates that are not directly impacted by changes in prevailing rates, thereby reducing the Fund's exposure to interest rate risk. Generally, the fair value of mortgages is impacted by changes in interest rates, however, given the short duration of the mortgages held by the Fund, their fair value approximates carrying values and any changes in prevailing interest rates would not have a significant impact on their fair value.

11. Comparative Amounts

The comparative amounts presented are for the period from the date of inception, April 12, 2007 to December 31, 2007.

12. Capital Management

The capital of the Fund is represented by issued redeemable units with no par value. They are entitled to distribution, if any, and to payment of a proportionate share based on the Fund's net asset value per unit upon redemption. The relevant movements are shown on the Statement of Changes in Net Assets. In accordance with its investment objectives and strategies, and the risk management practices outlined in Note 10, the Fund endeavours to invest the subscriptions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

Crystal Enhanced Mortgage Fund Notes to Financial Statements

December 31, 2008

13. Future Accounting Changes

The CICA Accounting Standards Board ("AcSB") confirmed that effective January 1, 2011, International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises, which includes investment funds. The Manager is currently evaluating the impact of adopting IFRS on the financial statements of the Fund.