



CRESTSTREET

# Excellence

in Flow-through Investing



**Q1** 2004

Creststreet Power & Income Fund LP

## Message to Limited Partners

Creststreet Power & Income Fund LP (the "Partnership") reports good progress in the first quarter of 2004.

Construction of the initial phases at Mount Copper Wind Power Energy Inc. Project ("Mount Copper") near Gaspé, Quebec and the Pubnico Point Wind Farm Inc. Project ("Pubnico Point") near Yarmouth, Nova Scotia are now approaching substantial completion. Both Mount Copper and Pubnico Point expect substantial completion of Phase I prior to the end of May 2004. The cost of Phase I including seven wind turbines and related infrastructure was funded primarily by the Partnership's initial public offering of \$42.5 million completed on December 19, 2003. Most of the cost of Phase I qualifies for Canadian Renewable and Conservation Expense which can be written off 100% by Limited Partners.

To date, seven 1.8 Megawatt Vestas V80 wind turbines and related infrastructure have been constructed including roads, hydro lines and substations. Both Projects have been interconnected to their respective electricity grids and are now capable of delivering power to their provincial utilities customers. Capital spending for the Projects during the quarter totalled \$14.7 million reflecting the continued construction of Phase I at both Projects. Deferred costs now total \$25.2 million representing 63% of the estimated cost of Phase I.

Upon final commissioning of Phase I, both Projects will enter a 120 day test period. Upon satisfactory completion of the test period, construction of Phase II will commence to install and commission the remaining 40 wind turbines at both Projects which is expected to cost \$95.7 million. The estimated cost to completion for both Projects has increased by \$3.5 million or 2.5%. \$2.8 million of this relates to Mount Copper where our planned connection to the nearby 161 kV transmission line in Quebec was switched by Hydro Quebec to a 69 kV transmission line. The balance is made up of increased financing costs and other operational expenses.

The Partnership is negotiating a Construction Loan Facility to finance Phase II with a syndicate of financial institutions and is expected to close in June, 2004.

In its continuing efforts to become a leading supplier of renewable energy in Canada, Creststreet Power & Income General Partner Limited (the "General Partner") is pleased to report significant enhancements to its management team. The General Partner has appointed Eric McFadden as President, Chief Executive Officer and Director and Erich Ossowski as

Vice President of Business Development. Mr. McFadden joins the General Partner after a distinguished 14 year career in investment banking with a major Canadian dealer where he developed industry leading expertise in the income trust market. Mr. Ossowski joins the General Partner from a major international wind turbine manufacturer where he was responsible for business development in the Canadian market. Mr. Ossowski has both an engineering and business degree and brings hands on windpower development and execution expertise to the General Partner.

We look forward to the completion of both Projects in the first quarter of 2005 at which time the Partnership expects to complete a further treasury offering in order to pay down the Construction Loan Facility, to list units on a recognized Canadian stock exchange and then to commence monthly cash distributions to Limited Partners.

The General Partner also continues to enhance its corporate governance practices. The General Partner has established an Audit Committee comprised of three Independent Directors who review and approve the Partnership's financial statements. It is the General Partner's intention to continue to enhance its governance practices in order that its operation is conducted at the highest standards of corporate governance.

Creststreet continues to be excited about the growth of wind power in Canada. Wind power government initiatives are under way in several provinces as both the public and industry expand their recognition of the environmental benefits, growing productivity and cost effectiveness of wind power. Creststreet's windpower financing structure remains the premier financing vehicle for new windpower projects and the Partnership is committed to capitalizing on the growth opportunities available in Canada.

On behalf of Creststreet Power & Income Fund LP by its  
General Partner



Eric McFadden  
*President and Chief Executive Officer*  
Creststreet Power & Income General Partner Limited

May 2004

## Management's Discussion and Analysis

### Financial Condition

At March 31, 2004, Creststreet Power & Income Fund Partnership had total assets of \$45,134,442 compared to \$42,719,858 at December 31, 2003. Deferred developments costs of \$14,660,751 were incurred related to the Mount Copper and Pubnico Point wind energy projects. Construction of the initial seven turbines is expected to be complete before the end of May 2004 with further costs to be incurred subsequent to March 31, 2004 of approximately \$18 million. Deferred costs will continue to be capitalized until the completion of the installation of 40 additional turbines expected in the first quarter of 2005, the cost of which will be financed by a construction debt facility. The deferred development costs are being funded primarily from cash held in escrow, which decreased by \$10,716,306 from \$28,982,363 at December 31, 2003 to \$18,266,057 at March 31, 2004. Net working capital, not including cash held in escrow, decreased \$3,217,756 from \$708,725 at December 31, 2003 to a deficit of \$2,509,031 at March 31, 2004 due to the accrual of deferred costs, which had not yet been paid from cash held in escrow.

### Results of Operations

Operations have not yet commenced at the Mount Copper and Pubnico Point wind energy projects. Revenues will commence on the completion of the construction of the initial seven turbines. For the period ended March 31, 2004 the Partnership earned \$10,836 in interest income on short-term investments, paid management fees of \$80,250 and incurred administrative costs of \$139,178 related to the operation of the Partnership.

### Change in Partners' Equity

For the period ended March 31, 2004, Partners' equity decreased by \$5,289,414 from \$36,424,470 at December 31, 2003 to \$31,135,056 at March 31, 2004. The decrease was due to a net loss from operations of \$208,592 and an increase in the future income tax liability of \$5,103,312. Future income taxes have been recorded based on the amount of Canadian Renewable and Conservation Expenses incurred to March 31, 2004 and are offset against Partners' equity to reflect the value of tax deductions flowed through to limited partners. Minority interest decreased by \$345,588 from \$3,577,353 at December 31, 2003 to \$3,231,765 at March 31, 2004 due to the issue of share capital of Mount Copper and Pubnico Point of \$912,791 offset by an increase in future tax liability attributable to minority shareholders of Mount Copper and Pubnico Point of \$1,258,379.

**Consolidated Balance Sheet**

As at March 31, 2004 and December 31, 2003

	(Unaudited) Quarter Ended <b>March 31, 2004</b>	Year Ended <b>December 31, 2003</b>
<b>Assets:</b>		
<b>Current Assets</b>		
Cash	\$ 929,111	\$ 1,866,367
Cash held in escrow (Note 3)	18,266,057	28,982,363
Accounts receivable	697,914	1,290,519
	19,893,082	32,139,249
Deferred development costs (Note 4)	25,241,360	10,580,609
	<b>\$ 45,134,442</b>	<b>\$ 42,719,858</b>
<b>Liabilities:</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 4,101,383	\$ 2,375,487
Due to related parties (Note 6)	34,673	72,674
	4,136,056	2,448,161
Future income tax liability (Note 7)	6,631,565	269,874
	10,767,621	2,718,035
Minority interest (Note 7)	3,231,765	3,577,353
<b>Partners' equity</b> (Note 7)	<b>31,135,056</b>	<b>36,424,470</b>
	<b>\$ 45,134,442</b>	<b>\$ 42,719,858</b>

Commitments (Note 5)

*See accompanying notes to consolidated financial statements*

Approved by Creststreet Power & Income General Partner Limited as  
General Partner on behalf of Creststreet Power & Income LP



Director



Director

**Consolidated Statement of Operations** *(unaudited)*

For the period from January 1 to March 31, 2004 and 2003

	Quarter Ended March 31, 2004	Quarter Ended March 31, 2003
<b>Investment Income:</b>		
Interest Income	\$ 10,836	\$ –
<b>Expenses:</b>		
Management Fees (Note 6)	80,250	–
Administrative Costs	139,178	–
Net Loss	\$ (208,592)	\$ –

**Consolidated Statement of Partner's Equity** *(unaudited)*

For the period from January 1 to March 31, 2004 and 2003

	Quarter Ended March 31, 2004	Quarter Ended March 31, 2003
<b>Partners' Equity – Beginning of Period</b>	\$ 36,424,470	\$ 10
Net Loss	(208,592)	–
Recovery of Costs of Issue	22,490	–
Future income tax liability	(5,103,312)	–
<b>Partners' Equity – End of Period</b>	<b>\$ 31,135,056</b>	<b>\$ 10</b>

*See accompanying notes to consolidated financial statements*

**Consolidated Statement of Cash Flows** *(unaudited)*

For the period from January 1 to March 31, 2004 and 2003

	Quarter Ended March 31, 2004	Quarter Ended March 31, 2003
Cash flow from operating activities		
Net loss	\$ (208,592)	\$ —
Decrease in accounts receivable	592,605	—
Increase in accounts payable	1,725,896	—
Decrease in amounts due to related parties	(38,001)	—
	<b>\$ 2,071,908</b>	<b>\$ —</b>
Cash flows from financing activities:		
Issue of share capital to minority interest	912,791	—
Decrease in issue costs	22,490	—
	935,281	—
Cash flows from investing activities:		
Increase in deferred costs	(14,660,751)	—
Net decrease in cash	(11,653,562)	—
Cash beginning of period	30,848,730	10
<b>Cash, end of period</b>	<b>\$ 19,195,168</b>	<b>\$ 10</b>
Cash is comprised of:		
Cash	929,111	10
Cash in escrow	18,266,057	—
	<b>\$ 19,195,168</b>	<b>\$ 10</b>

**Notes to Consolidated Financial Statements**

March 31, 2004

**1. Creststreet Power & Income Fund LP**

Creststreet Power & Income Fund LP (the "Partnership") invested in Flow-Through Shares of two Canadian companies, Mount Copper Wind Power Energy Inc. ("Mount Copper") and Pubnico Point Wind Farm Inc. ("Pubnico Point"), that are constructing and will then operate wind energy projects to generate electricity for sale to provincial electricity utilities pursuant to long-term power purchase agreements.

The General Partner of the Partnership is Creststreet Power & Income General Partner Limited ("General Partner"). The General Partner has a 0.01 percent beneficial interest in the Partnership.

The Partnership has entered into an agreement dated December 11, 2003 with Creststreet Power & Income Management Limited ("the Manager") pursuant to which the Manager will perform certain management, administration and other services for the Partnership.

The General Partner and the Manager are wholly-owned subsidiaries of Creststreet Asset Management Limited.

## 2. Basis of presentation

The interim period consolidated financial statements have been prepared by the Partnership in accordance with Canadian generally accepted accounting principles. The preparation of the financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated statements. These interim period financial statements do not include all the disclosures required by generally accepted accounting principles and accordingly should be read together with the audited annual consolidated financial statements and the accompanying notes included in the Partnership's 2003 Annual Report.

## 3. Cash Held in Escrow

In 2003, the Partnership entered into flow-through share subscription agreements to purchase \$25,947,836 of shares of Mount Copper and \$7,965,250 of shares of Pubnico Point upon receipt of satisfactory evidence of expenditures qualifying for Canadian Renewable Conservation Expenses ("CRCE"). Accordingly, cash paid for these share was held in escrow. At March 31, 2004, the amount held in escrow was \$18,266,057.

## 4. Deferred Development Costs

<b>Mount Copper</b>	March 31, 2004	December 31, 2003
Deferred development costs		
beginning of period	\$ 7,636,778	\$ 369,965
Development costs deferred	\$ 9,144,947	\$ 7,266,813
Deferred development costs,		
end of period	\$ 16,781,725	\$ 7,636,778

<b>Pubnico Point</b>	March 31, 2004	December 31, 2003
Deferred development costs		
beginning of period	\$ 2,943,831	–
Development costs deferred	\$ 5,515,804	\$ 2,943,831
Deferred development costs,		
end of period	\$ 8,459,635	\$ 2,943,831
<b>Total</b>	<b>\$ 25,241,360</b>	<b>\$ 10,580,609</b>

## 5. Commitments

Mount Copper's remaining commitment under the Engineering, Procurement and Construction Agreement ("EPC Agreement") and the Warranty, Maintenance and Service Agreements ("WMS Agreement") with Vestas-Canadian Wind Technology for the period ending March 31, 2004 is \$13,688,481. At March 31, 2004, \$13,450,981 of this amount was held in escrow under a letter of credit in favour of Vestas. The letter of credit will expire the earlier of December 17, 2004 and the date the stated amount has been reduced to nil.

Pubnico Point's remaining commitment under the Engineering, Procurement and Construction Agreement ("EPC Agreement") and the Warranty, Maintenance and Service Agreement ("WMS Agreement") with Vestas-Canadian Wind Technology for the period ending March 31, 2004, is \$1,626,555. At March 31, 2004, \$1,526,555 of this amount was held in escrow under a letter of credit in favour of Vestas. The letter of credit will expire the earlier of December 17, 2004 and the date the stated amount has been reduced to nil.

#### 6. Related Party Transactions

Amounts due to (from) related parties as at March 31, 2004 are as follows:

	Total
Due to the Manager	\$ 20,865
Due to 3Ci	\$ 13,808
	<hr/>
	\$ 34,673

For the period ended March 31, 2004, fees paid to the Manager by Creststreet Power & Income Fund Partnership in accordance with the Management Agreement amounted to \$87,750. There were no amounts paid to the General Partner.

#### 7. Flow Through Shares

Resource expenditure deductions for income tax purposes related to development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Pursuant to the terms of flow through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, partner's equity and minority interest will be reduced and a future tax liability will be recorded equal to the estimated amount of future income taxes payable by Mount Copper and Pubnico Point as a result of the renunciations, when the renunciations are made. Renunciations made during the first quarter of 2004 resulted in a future tax liability of \$6,361,691.

#### 8. Fair Value of Instruments

At March 31, 2004 the carrying amount of cash, accounts receivable, accounts payable and due to related parties approximates fair value due to their short-term nature.

### Directors of the General Partner

J. Warren Kinsella\*  
Partner  
Navigator Ltd.

Eric McFadden  
Managing Director  
Creststreet Capital Corporation

Robert S. McLeese\*  
President  
Access Capital Corp.

D. Michael Stewart\*  
Principal  
Ballinacurra Group

Robert J. Toole  
Managing Director  
Creststreet Capital Corporation

### Officers of the General Partner

Eric McFadden, President and Chief Executive Officer  
Donna Shea, Vice-President, Finance  
Sheryl Chiddenton, Secretary Treasurer

### Legal Counsel

McCarthy Tétrault LLP  
Toronto, Ontario

### Auditors

KPMG LLP  
Toronto, Ontario

### Registered Address

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\* Audit Committee Member

