



# Creststreet Windpower Development LP

## Quarterly Report > Q2 2006

### Management's Discussion and Analysis

August 24, 2006 (All tabular amounts in thousands except per unit amounts)

#### Forward-Looking Statements

Except for the historical and present factual information, certain statements contained in this Management's Discussion & Analysis ("MD&A") constitute "forward-looking statements" within the meaning of the *Securities Act* (Ontario). These forward-looking statements, by their nature, are not guarantees of future performance and involve risks and uncertainties, which could cause actual results to differ materially from those anticipated in these forward-looking statements. The Creststreet Windpower Development LP (the "Partnership") considers the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect. Some of these risks and uncertainties as well as additional information are outlined in this MD&A.

The Partnership disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required by law. These cautionary statements expressly qualify all forward-looking statements attributable to the Partnership.

The following is a discussion of the consolidated financial condition and results of operations of the Partnership for the three and six-month periods ended June 30, 2006, and it should be read in conjunction with the Partnership's unaudited interim consolidated financial statements for the same periods, along with the MD&A and consolidated financial statements for the year ended December 31, 2005, and the first quarter ended March 31, 2006. Where we say "we," "us," or the "Partnership," we mean Creststreet Windpower Development LP.

#### Overview

In late 2004, the Partnership raised \$12.0 million to invest in Canadian companies engaged in the development of commercial-scale windpower projects. A focus of the Partnership is to maximize financing expenditures that qualify as Canadian Renewable and Conservation Expenses ("CRCE") which are 100% tax deductible in the year incurred and that can be renounced to investors via flow-through shares. The Partnership entered into flow-through financing commitments of \$6.550 million during 2004 and \$1.665 million during 2005, investing in an additional \$900,000 note receivable and \$550,000 in equity investments in 2004 and 2005, respectively. The Partnership has also set aside an additional \$538,000 for equity investments in 2006. In aggregate, the Partnership has invested, committed or intends to invest \$10.203 million in wind energy companies. The remainder of the funds raised have been set aside for expenses of the Partnership.

The Partnership has invested in flow-through shares of seven Canadian companies: Dokie Wind Energy Inc., Bonavista Wind Power Inc., Windrise Power Inc., Benchlands Wind Power Corp., Grand Valley Wind Farms Inc., 4333233 Inc. (together the "Wind Energy Companies") and Kettles Hill Wind Energy Inc. The objective of the Partnership is to finance the development by Wind Energy Companies of projects that, upon completion, will produce wind energy and provide long-term cash flow and capital appreciation.

## Management's Discussion and Analysis (cont'd)

On July 11, 2005, the Partnership's first investment in a developing wind energy company moved into the construction phase when Creststreet Kettles Hill Windpower LP ("CKHLP"), a related party of the Partnership, completed its initial public offering, raising gross proceeds of \$40.0 million. The net proceeds of the initial public offering were used to finance the CRCE Phase as well as a portion of the Infill Phase of the planned 63 megawatt ("MW") Kettles Hill windpower project. CKHLP's investment in Kettles Hill reduced the Partnership's interest from 100% to 16.85% and resulted in a dilution gain of \$1.975 million. As of July 11, 2005, the Partnership no longer controlled Kettles Hill and as a result ceased consolidation accounting and commenced equity accounting for its investment.

The Kettles Hill Wind Energy Inc. ("Kettles Hill") project is situated near Pincher Creek, Alberta, approximately 200 kilometres south of Calgary and approximately 20 kilometres east of the Rocky Mountains. The site is adjacent to a 138 kV transmission line. In December 2005, Kettles Hill announced the closing of a senior secured debt facility of up to \$42.5 million and a commitment from Creststreet Power & Income Fund LP ("CPIF") to purchase up to \$31.0 million of subordinated notes. While CPIF has already invested \$20.9 million of its \$31.0 million commitment to date, the remainder of its investment requires approval from CPIF unitholders. CPIF has convened a special meeting of unitholders for September 6, 2006, to obtain this approval. Kettles Hill had erected and commissioned five test wind turbines as of March 2006 ("CRCE Phase") and is producing and selling power to the provincial grid. In late July 2006, Kettles Hill successfully completed its 120-day test period and commenced construction activities to erect its remaining 30 wind turbines (the "Infill Phase"). We expect the windpower project to be completed by the first quarter of 2007.

The Dokie Wind Energy Inc. ("Dokie") project is situated in the Peace River region of British Columbia, in the foothills of the Rocky Mountains. This project is expected to have the potential for an installed capacity of up to 600 MW of renewable energy. After completing key development studies and accumulating further wind data at various locations on the site, Dokie submitted bids for two separate projects to acquire an Electricity Purchase Agreement ("EPA") with BC Hydro. Subsequent to the second quarter of 2006, Dokie was awarded a 20-year, fixed-price EPA with BC Hydro for its planned 180-megawatt project and shortly thereafter received its environmental assessment certificate which allows the project to expand to up to 300 MW. It is anticipated that this project will be completed in the fall of 2009. In late August, Dokie completed a private placement of equity for \$9.6 million of Class A shares to raise money to fund development work on the project.

The Windrise Power Inc. ("Windrise") project is situated near Fort Macleod, Alberta, and is expected to have the development potential for an installed capacity of up to 100 MW of renewable energy. Windrise has conducted most of the required environmental, wind resource, and engineering studies. Because this project is in a transmission constrained area, its interconnection to the transmission grid is dependent on transmission upgrades which, as a result of several delays, are expected to be completed in 2008.

The Bonavista Wind Power Inc. ("Bonavista") project is situated near Burnt Ridge, Newfoundland, and is expected to have the development potential for an installed capacity of up to 40 MW of renewable energy. Bonavista has been developed to the extent that it is ready to bid for a power purchase agreement ("PPA") from Newfoundland and Labrador Hydro. This bid will be placed in August 2006, and a response is expected in late 2006.



The Benchlands Wind Power Corp. (“Benchlands”) project is situated near Tompkins, Saskatchewan, and is expected to have the development potential for an installed capacity of up to 70 MW of renewable energy. Benchlands filed a bid for a PPA with SaskPower in November 2005. Benchlands was not successful in obtaining this PPA and limited work will occur on this project until the next PPA bid, which is expected to occur in 2007. Benchlands also signed a PPA with SaskPower in early 2006 for 4.5 MW which has since been terminated because it was uneconomic given its small size and high interconnection costs.

Grand Valley Wind Farms Inc. (“Grand Valley”) is situated near Grand Valley, Ontario, and is expected to have the development potential for an installed capacity of up to 40 MW of renewable energy. Grand Valley has been developed to the extent that it is ready to bid for a PPA from the Ontario Power Authority. Grand Valley continues to pursue a PPA and expects a response in 2007.

4333233 Inc., renamed Buffalo Atlee Wind Energy Inc. (“Buffalo Atlee”), is situated near Brooks, Alberta, and is expected to have the development potential for an installed capacity of up to 360 MW of renewable energy. This site is at an early stage of development. Over the next year, preliminary development activities will be undertaken, including measuring the wind resource, investigating an interconnection, and various environmental and engineering studies.

In the second quarter of 2006, Creststreet Windpower Development (II) LP, a related party of the Partnership, entered into subscription agreements to subscribe for Class A shares of Dokie and Grand Valley for \$1.240 million and \$300,000, respectively.

## Results of Operations

For the three and six-month periods ended June 30, 2006, we earned \$33,000 and \$60,000, respectively, in interest income on short-term investments (2005 – \$16,000 and \$34,000), paid management fees of \$48,000 and \$96,000 (2005 – \$48,000 and \$96,000), respectively, and incurred administrative costs of \$11,000 and \$45,000 (2005 – \$30,000 and \$141,000), respectively, related to the operation of the Partnership. All of the Wind Energy Companies are in their development stages and have not started operations.

## Quarterly Financial Information

	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005	FY 2005
Revenue	\$ 23	\$ 18	\$ 16	\$ 79	\$ 27	\$ 140
Net income (loss)	\$ (330)	\$ (141)	\$ (62)	\$ 1,995	\$ (181)	\$ 1,611
Net income (loss) per unit	\$ (0.71)	\$ (0.12)	\$ (0.05)	\$ 1.66	\$ (0.15)	\$ 1.34

	Q1 2005	Q2 2006	Total
Revenue	\$ 27	\$ 33	\$ 60
Net income (loss)	\$ (55)	\$ (26)	\$ (81)
Net income (loss) per unit	\$ (0.05)	\$ (0.02)	\$ (0.07)

On July 11, 2005, CKHLP’s investment in Kettles Hill reduced the Partnership’s interest from 100% to 16.85% and resulted in a dilution gain of \$1.975 million in the third quarter of 2005.

## Management's Discussion and Analysis (cont'd)

### Financial Condition

#### > Liquidity

Cash and cash equivalents and cash held in escrow decreased to \$2.021 million at June 30, 2006, from \$3.489 million at December 31, 2005, primarily due to the funding of deferred development costs.

#### > Assets and Liabilities

At June 30, 2006, we had total assets of \$13.800 million compared with \$13.336 million at December 31, 2005. Total assets included \$301,000 of cash held in escrow, deferred development costs of \$5.936 million, pre-operating costs of \$326,000, long-term investments of \$4.397 million and net working capital of \$1.355 million. The deferred development costs and pre-operating costs were related to pre-construction development of the Wind Energy Companies projects and were funded primarily from cash held in escrow.

#### > Contractual Obligations

As at June 30, 2006, the Partnership has entered into subscription agreements with the Wind Energy Companies to subscribe for Class A shares to fund the companies' development costs as follows:

	Investment pursuant to subscription agreements	Amount advanced	Amount in escrow	Amount remaining to be advanced
Kettles Hill	\$ 3,600	\$ 3,600	\$ –	\$ –
Dokie	3,100	3,100	17	–
Bonavista	550	494	46	56
Windrise	740	685	35	55
Benchlands	215	162	45	53
Grand Valley	300	296	147	4
Buffalo Atlee	260	207	11	53
	\$ 8,765	\$ 8,544	\$ 301	\$ 221

### Related Party Transactions

Pursuant to joint venture agreements, for the three months and six months period ended June 30, 2006, Creststreet Capital Corporation ("CCC") earned \$33,000 and \$66,000 (2005 – \$23,000 and \$44,000), respectively, for financial and administrative services and Earth First Energy Inc., Windbreaker Energy Inc., Windworks Energy Corp., Land's End Corp., and Windcor Power Systems (collectively the "Joint Venture Partners") earned \$188,000 and \$449,000 (2005 – \$168,000 and \$318,000), respectively, for services related to the development of the projects. In addition, CCC and the Joint Venture Partners were entitled to reimbursement of certain out-of-pocket costs.

CCC is entitled to a monthly fee of \$15,000 in accordance with the Management Agreement for administrative services provided to the Partnership. For the three and six-months periods ended June 30, 2006, fees paid to CCC were \$45,000 and \$90,000 (2005 – \$45,000 and \$90,000), respectively.

In 2005, the Partnership invested in a \$900,000 subordinated note with Kettles Hill to finance Kettles Hill pre-development costs. Interest is charged at a rate of 10% per annum, maturing on July 31, 2025. For the three and six-months periods ended June 30, 2006, the Partnership earned \$23,000 and \$45,000, respectively, of interest income from the note.



The amounts paid to related parties were as follows:

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Earth First Energy Inc.	\$ 122	\$ 246	\$ 262	\$ 336
Creststreet Capital Corporation	81	73	162	152
Land's End Corp.	65	–	135	–
Windbreaker Energy Inc.	35	60	80	120
Windcor Power Systems	87	–	117	–
Windworks Energy Corp.	18	18	39	18
Wind Project Inc.	2	18	3	20
Creststreet Holdings Limited	–	2	1	2
	<b>\$ 410</b>	<b>\$ 417</b>	<b>\$ 799</b>	<b>\$ 648</b>

### Change in Partners' Capital and Retained Earnings

Partners' capital and retained earnings decreased to \$9.604 million at June 30, 2006, from \$10.208 million at December 31, 2005. The decrease was primarily due to a net loss from operations of \$81,000 and an increase in the future income taxes of \$523,000. Future income taxes were recorded based on the amount of renunciation of Canadian Renewable and Conservation Expenses ("CRCE") to June 30, 2006, and were offset against partners' equity to reflect the value of tax deductions flowed through to limited partners.

### Outlook

The Manager is pleased with the Partnership's portfolio of investments and with its Joint Venture Partners who continue to develop the windpower projects within the Wind Energy Companies. The Partnership's first investment, totalling 37.5% of its gross raised capital, was Kettles Hill Wind Energy Inc. Kettle Hill has commenced activities to construct its remaining 30 wind turbines for the Infill Phase. Based on its current schedule, the Manager expects that the project will be completed during the first quarter of 2007. The Manager also expects a liquidity process to follow, from which the Partnership is expected to benefit.

Most notably, Dokie has made dramatic progress in advancing its major wind energy project in northeast BC. In July 2006, Dokie was awarded a 180 MW EPA with BC Hydro and shortly thereafter received its environmental certificate for up to 300 MW. The EPA was the largest windpower contract to be awarded in British Columbia. In late August, Dokie completed a private placement of equity for \$9.6 million of Class A shares to raise funds to finance development work on the project. It is currently expected that a liquidity process for Dokie will occur in the fall of 2007, given its current project plan.

The Partnership's investments are involved in five different provincial utility processes to acquire PPAs for six different windpower projects. Each process is highly competitive and subject to delays and changes; however, we are confident that our quality portfolio of windpower projects will succeed in several of these opportunities.

One of the biggest challenges facing the windpower industry today is obtaining turbines at competitive and economical prices on a timely basis. The Partnership is focused on working with manufacturers to obtain supply commitments at attractive prices. Lag times between bidding for PPAs from provincial utilities, being awarded a PPA and commencing construction also present challenges as other costs can vary during this period. Having already completed two wind energy projects and managing the construction of a third project gives us a significant competitive advantage over many competing developers. In addition, the current federal government is evaluating its support for renewable energy. While this process is expected to be positive for windpower, the uncertainty adds to the variables developers must consider when bidding for PPAs.

## Management's Discussion and Analysis (cont'd)

We expect to obtain liquidity on our Kettles Hill investment within the next 12 months, and with our Dokie investment by the end of 2007. These two projects are expected to provide early liquidity to our unitholders for a significant portion of their investment. We expect to provide a complete liquidity event on the remainder of the unit value by the end of 2008. We will continue to develop projects to bring them to the construction stage within 12 to 18 months. We are excited about the windpower project opportunities in our portfolio today, and the progress we are making on bringing them to fruition.

### Risks and Uncertainties

#### > **Failure of CPIF to Obtain Unitholder Approval for Further Investment in Kettles Hill**

In the event that CPIF's unitholders do not approve the further \$10.1 million investment in subordinated notes at the special meeting of CPIF unitholders, Kettles Hill will need to obtain another source of financing in order to be able to complete the construction of the Kettles Hill facility. There can be no assurance that such financing will be available on satisfactory terms and conditions. Failure to obtain approval would also result in the non-satisfaction of a condition precedent of the Kettles Hill Credit Agreement, which could result in the Kettles Hill Senior Debt Facility being unavailable to Kettles Hill to fund the completion of the Kettles Hill facility.

#### > **WPPI Risk**

The 2005 federal budget provided \$200 million over five years and a total of \$920 million over 15 years to expand the WPPI program from 1,000 MW to 4,000 MW. Under the program, projects commissioned from April 1, 2002, to March 31, 2003, were eligible to receive an incentive payment of \$0.012 per kWh of production for the first 10 years of operation. Projects commissioned after March 31, 2003, and on or before March 31, 2006, were eligible to receive an incentive payment of \$0.01 per kWh of production for the first 10 years of operation, and projects commissioned after March 31, 2006, and on or before March 31, 2007, are eligible to receive an incentive payment of \$0.008 per kWh of production for the first 10 years of operation. The eligible production per project is determined by Natural Resources Canada. In October 2005, Natural Resources Canada issued a discussion paper on the possible expansion of WPPI. One of the proposed changes for any awards is to limit the incentive for any one project to a production level based upon a 30% capacity utilization factor. However, no further funding is available under the original WPPI program so that, absent expansion of the WPPI program, no WPPI payments would be available to Kettles Hill. Further information regarding the expanded WPPI program, including the eligibility requirements, therefore, is expected this fall. In the event that the Kettles Hill facility and the other wind projects do not qualify for WPPI under the expanded WPPI program, funding for the expanded WPPI program is not available or the expanded WPPI program is not implemented in the manner contemplated by the 2005 budget or at all, the revenue and income of the Partnership may be materially and adversely affected.

Readers are cautioned that additional risk factors are discussed in the Partnership's MD&A for the year ended December 31, 2005, and the Partnership's MD&A for the first quarter of 2006.

**Consolidated Balance Sheets**

As at June 30, 2006 and December 31, 2005

(Unaudited) (In thousands)	June 30, 2006	December 31, 2005
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,721	\$ 1,028
Cash held in escrow (Note 3)	301	2,461
Accounts receivable	70	174
Due from related parties (Note 7)	149	104
	<b>2,241</b>	3,767
Deferred development costs (Note 4)	5,936	4,135
Pre-operating costs (Note 5)	326	137
Note receivable from Kettles Hill (Note 8)	900	900
Long-term investment (Note 8)	4,397	4,397
	<b>\$ 13,800</b>	\$ 13,336
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 779	\$ 1,677
Due to related parties (Note 7)	107	204
	<b>886</b>	1,881
Future income tax liability	1,643	1,120
Non-controlling interest	1,667	127
	<b>4,196</b>	3,128
Partners' capital	8,404	8,927
Retained earnings	1,200	1,281
	<b>\$ 13,800</b>	\$ 13,336

Commitments (Note 6)

See accompanying notes to interim consolidated financial statements.

Approved by Creststreet Windpower Development General Partner Limited as General Partner on behalf of Creststreet Windpower Development LP

**Robert J. Toole**  
Director

**Eric McFadden**  
Director

## Consolidated Income Statements

For the three and six months ended June 30, 2006 and 2005

(Unaudited) (In thousands, except per unit data)	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
<b>Investment income</b>				
Interest income	\$ 33	\$ 16	\$ 60	\$ 34
<b>Expenses</b>				
Management fees (Note 7)	48	48	96	96
Administrative costs	11	30	45	141
	59	78	141	237
Net loss	(26)	(62)	(81)	(203)
Retained earnings (deficit), beginning of period	1,225	(472)	1,281	(331)
Retained earnings (deficit), end of period	\$ 1,200	\$ (534)	\$ 1,200	\$ (534)
Net loss per unit – basic and fully diluted	\$ (0.02)	\$ (0.05)	\$ (0.07)	\$ (0.17)
Weighted average number of units	1,200	1,200	1,200	1,200

See accompanying notes to interim consolidated financial statements.

## Consolidated Statements of Partners' Capital

For the three and six months ended June 30, 2006 and 2005

(Unaudited) (In thousands, except per unit data)	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
<b>Partners' capital – beginning of period</b>	\$ 8,385	\$ 8,921	\$ 8,927	\$ 11,199
Payment of agents' fees	–	–	–	(1)
Future income tax resulting from renunciation	19	(32)	(523)	(2,288)
Dividends on preferred shares	–	(22)	–	(43)
<b>Partners' capital – end of period</b>	\$ 8,404	\$ 8,867	\$ 8,404	\$ 8,867

See accompanying notes to interim consolidated financial statements.

**Consolidated Statements of Cash Flows**

For the three and six months ended June 30, 2006 and 2005

(Unaudited) (In thousands)	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Net income (loss)	\$ (26)	\$ (62)	\$ (81)	\$ (203)
	(26)	(62)	(81)	(203)
<b>Change in working capital</b>				
Decrease in accounts receivable	70	97	104	48
Decrease in accounts payable and accrued liabilities	(71)	(103)	(134)	(426)
Increase (decrease) in amounts due to related parties	(111)	21	(142)	2,314
	(138)	(63)	(253)	1,718
<b>Cash flows from financing activities</b>				
Issue costs	-	-	-	(1)
Increase in non-controlling interest	1,540	-	1,540	-
	1,540	-	1,540	-
<b>Cash flows from investing activities</b>				
Decrease in cash held in escrow	353	825	2,160	1,243
Increase in deferred development costs and pre-operating cost	(863)	(939)	(2,754)	(1,882)
	(510)	(114)	(594)	(639)
Net increase (decrease) in cash	892	(177)	693	1,078
Cash and cash equivalents, beginning of period	829	3,222	1,028	1,967
<b>Cash and cash equivalents, end of period</b>	\$ 1,721	\$ 3,045	\$ 1,721	\$ 3,045
<b>Supplemental cash information</b>				
Interest and cash taxes paid	\$ -	\$ -	\$ -	\$ -

See accompanying notes to interim consolidated financial statements.

## Notes to Consolidated Financial Statements

Three and six months ended June 30, 2006 and 2005

(All tabular amounts in thousands of dollars, except per unit information)

### 1. Business and Structure of the Partnership

Creststreet Windpower Development LP (the "Partnership") was formed as a limited partnership under the laws of the Province of Ontario on August 12, 2004. The Partnership was established to invest in securities of Canadian companies that are engaged in the development of commercial scale windpower projects. The objective of the Partnership is to finance the development of projects by Wind Energy Companies that, upon completion, will provide predictable energy production from wind, long-term cash flow and capital appreciation.

As at June 30, 2006, the Partnership has invested in flow-through shares of Dokie Wind Energy Inc. ("Dokie"), Bonavista Wind Power Inc. ("Bonavista"), Windrise Power Inc. ("Windrise"), Benchlands Wind Power Corp. ("Benchlands"), Grand Valley Wind Farms Inc. ("Grand Valley"), 4333233 Canada Inc. ("Buffalo Atlee") and Kettles Hill Wind Energy Inc. ("Kettles Hill") that will construct and operate wind energy projects to generate electricity for sale to provincial electricity utilities.

### 2. Significant Accounting Policies

The accompanying interim period consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and applied on a consistent basis with those used to prepare the audited consolidated statements for the year ended December 31, 2005, and should be read in conjunction with those statements. The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial statements and, accordingly, certain information and footnote disclosure normally included in annual financial statements have been condensed or omitted.

These financial statements include the accounts of the Partnership and its variable interest entities, Dokie, Bonavista, Windrise, Benchlands, Grand Valley, Buffalo Atlee and its investment in Kettles Hill. All significant transactions and balances between the Partnership and its variable interest entities have been eliminated on consolidation. In management's opinion, the accompanying unaudited financial statements include all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly the financial position of the Partnership as at June 30, 2006, and December 31, 2005, and the consolidated results of operations for the three and six months ended June 30, 2006 and 2005.

The results of operations of any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

### 3. Cash Held in Escrow

The Partnership entered into share subscription agreements to purchase \$3.6 million of shares of Kettles Hill, \$3.1 million of shares of Dokie, \$550,000 of shares of Bonavista and \$740,000 of shares of Windrise, \$215,000 of shares of Benchlands, \$300,000 of shares of Grand Valley, and \$260,000 of shares of Buffalo Atlee. Accordingly, cash received under the subscription agreements was held in escrow. At June 30, 2006, the amount held in escrow was \$301,000.



## 4. Deferred Development

	June 30, 2006	December 31, 2005
<b>Kettles Hill</b>		
Deferred development costs, beginning of period	\$ -	\$ 4,064
Development costs deferred	-	-
Deconsolidation of Kettles Hill (Note 8)	-	(4,064)
Deferred development costs, end of period	\$ -	\$ -
<b>Dokie</b>		
Deferred development costs, beginning of period	\$ 2,737	\$ 142
Development costs deferred	1,057	2,595
Deferred development costs, end of period	\$ 3,794	\$ 2,737
<b>Bonavista</b>		
Deferred development costs, beginning of period	\$ 498	\$ -
Development costs deferred	57	498
Deferred development costs, end of period	\$ 555	\$ 498
<b>Windrise</b>		
Deferred development costs, beginning of period	\$ 611	\$ 44
Development costs deferred	131	567
Deferred development costs, end of period	\$ 742	\$ 611
<b>Benchlands</b>		
Deferred development costs, beginning of period	\$ 122	\$ -
Development costs deferred	52	122
Deferred development costs, end of period	\$ 174	\$ 122
<b>Grand Valley</b>		
Deferred development costs, beginning of period	\$ 152	\$ -
Development costs deferred	250	152
Deferred development costs, end of period	\$ 402	\$ 152
<b>Buffalo Atlee</b>		
Deferred development costs, beginning of period	\$ 15	\$ -
Development costs deferred	254	15
Deferred development costs, end of period	\$ 269	\$ 15
Total deferred development costs, end of period	\$ 5,936	\$ 4,135

## Notes to Consolidated Financial Statements (cont'd)

## 5. Pre-operating Costs

	June 30, 2006	December 31, 2005
<b>Kettles Hill</b>		
Pre-operating costs, beginning of period	\$ -	\$ 136
Pre-operating costs deferred	-	-
Deconsolidation of Kettles Hill (Note 8)	-	(136)
Pre-operating costs, end of period	\$ -	\$ -
<b>Dokie</b>		
Pre-operating costs, beginning of period	\$ 85	\$ 1
Pre-operating costs deferred	67	84
Pre-operating costs, end of period	\$ 152	\$ 85
<b>Bonavista</b>		
Pre-operating costs, beginning of period	\$ 13	\$ -
Pre-operating costs deferred	7	13
Pre-operating costs, end of period	\$ 20	\$ 13
<b>Windrise</b>		
Pre-operating costs, beginning of period	\$ 29	\$ -
Pre-operating costs deferred	16	29
Pre-operating costs, end of period	\$ 45	\$ 29
<b>Benchlands</b>		
Pre-operating costs, beginning of period	\$ 9	\$ -
Pre-operating costs deferred	10	9
Pre-operating costs, end of period	\$ 19	\$ 9
<b>Grand Valley</b>		
Pre-operating costs, beginning of period	\$ 1	\$ -
Pre-operating costs deferred	74	1
Pre-operating costs, end of period	\$ 75	\$ 1
<b>Buffalo Atlee</b>		
Pre-operating costs, beginning of period	\$ -	\$ -
Pre-operating costs deferred	15	-
Pre-operating costs, end of period	\$ 15	\$ -
Total pre-operating costs, end of period	\$ 326	\$ 137



## 6. Commitments

As at June 30, 2006, the following commitments to purchase shares were made by the Partnership:

	Investment pursuant to subscription agreements	Amount advanced	Amount in escrow	Amount remaining to be advanced
Kettles Hill	\$ 3,600	\$ 3,600	\$ –	\$ –
Dokie	3,100	3,100	17	–
Bonavista	550	494	46	56
Windrise	740	685	35	55
Benchlands	215	162	45	53
Grand Valley	300	296	147	4
Buffalo Atlee	260	207	11	53
	\$ 8,765	\$ 8,544	\$ 301	\$ 221

## 7. Related Party Transactions

Pursuant to joint venture agreements, for the three and six-month periods ended June 30, 2006, Creststreet Capital Corporation (“CCC”) earned \$33,000 and \$66,000 (2005 – \$23,000 and \$44,000), respectively, for financial and administrative services and Earth First Energy Inc., Windbreaker Energy Inc., Windworks Energy Corp., Land’s End Corp., and Windcor Power Systems (collectively the “Joint Venture Partners”) earned \$188,000 and \$449,000 (2005 – \$168,000 and \$318,000), respectively, for services related to the development of the projects. In addition, CCC and the Joint Venture Partners are entitled to reimbursement for certain out-of-pocket costs.

CCC is entitled to a monthly fee of \$15,000 in accordance with the Management Agreement for administrative services provided to the Partnership. For the three months and six-months periods ended June 30, 2006, fees paid to CCC were \$45,000 and \$90,000 (2005 – \$45,000 and \$90,000), respectively.

The amounts due from (to) related parties as at June 30, 2006, and December 31, 2005, were as follows:

	June 30, 2006	December 31, 2005
Kettles Hill	\$ 149	\$ 104
CCC	(75)	(73)
Land’s End Corp.	–	(43)
Windbreaker Energy Inc.	(5)	(21)
Windworks Energy Corp.	(4)	(19)
Windcor Power Systems	(11)	(16)
Wind Project Inc.	–	(2)
Earth First Energy Inc.	(12)	(30)
	\$ (42)	\$ (100)

## Notes to Consolidated Financial Statements (cont'd)

### 8. Investment in Kettles Hill

On July 11, 2005, Creststreet Kettles Hill Windpower LP ("CKHLP"), a related party of the Partnership, completed its initial public offering and raised gross proceeds of \$40.0 million to finance the CRCE Phase as well as a portion of the Infill Phase of the planned 63-megawatt Kettles Hill wind energy project. CKHLP's investment in Kettles Hill reduced the Partnership's interest from 100% to 16.85%. As at December 31, 2005, the carrying value of the investment was \$4.397 million. The cost of the investment was \$3.600 million, which was decreased by the impact of tax renunciation of \$1.151 million. Prior to July 11, 2005, Kettles Hill had received \$27,000 in interest income on account of the subordinated notes that were issued by CWDLP to Kettles Hill. The acquisition of Kettles Hill by KHLPL resulted in a dilution gain of \$1.975 million.

As of July 11, 2005, the Partnership no longer controlled Kettles Hill, and as a result, has ceased consolidation accounting and commenced equity accounting for its investments.

In 2005, the Partnership invested in a subordinated note with Kettles Hill for \$900,000 to finance Kettles Hill's pre-development costs. Interest is charged at a rate of 10% per annum. For the three and six-month periods ended June 30, 2006, the Partnership earned interest income of \$23,000 and \$45,000, respectively, from the note.

### 9. 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 and pursuant to the terms of flow-through share agreements. Accordingly, partners' equity has been reduced and a future tax liability has been recorded equal to the estimated amount of future income taxes payable by Dokie, Bonavista, Windrise, Grand Valley, Buffalo Atlee and Benchlands as a result of the renunciations, when the renunciations were made.

Partner's capital has also been reduced by renunciations of \$1.151 million made by Kettles Hill prior to July 11, 2005.

### 10. Financial Instruments

At June 30, 2006, the carrying amount of cash, cash held in escrow, accounts receivable, accounts payable and due to due from related parties approximated fair value due to their short-term nature.

As at June 30, 2006, the carrying amount of notes receivable approximated fair value due to the short period of time that had elapsed between finalizing the terms of the agreements and the period-end date.



## 11. Income Taxes

The tax effects of temporary differences that gave rise to the future tax liabilities at June 30, 2006, were a result of the tax renunciations related to deferred development costs and pre-operating costs related to the entities presented below:

	<b>June 30, 2006</b>	December 31, 2005
Dokie	<b>\$ 930</b>	\$ 725
Windrise	<b>240</b>	168
Bonavista	<b>199</b>	191
Grand Valley	<b>108</b>	–
Buffalo Atlee	<b>85</b>	–
Benchlands	<b>81</b>	36
	<b>\$ 1,643</b>	\$ 1,120

## 12. Reclassification

Certain amounts have been reclassified on the comparative financial statements to conform with the current period's presentation.

## 13. Filing Exemption

The Partnership has elected to take a filing exemption available under section 2.11 of National Instrument 81-106. Under the terms of this exemption, the Partnership is not required to file its financial statements with the Ontario Securities Commission.

## Creststreet Windpower Development LP

### Directors of the General Partner

**Eric McFadden**

Managing Director  
Creststreet Capital Corporation

**Donna Shea, C.A.**

Vice-President, Finance  
Creststreet Capital Corporation

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

Managing Director  
Creststreet Capital Corporation

### Officers of the General Partner

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

President and Chief Executive Officer

**Donna Shea, C.A.**

Vice-President, Finance and  
Chief Financial Officer

**Erich Ossowski**

Vice-President  
Windpower

**Sheryl J. Chiddenton**

Secretary and Treasurer

### Auditors

Ernst & Young LLP  
Toronto, Ontario

### Legal Counsel

McCarthy Tétrault LLP  
Calgary, Alberta

### Toronto Office

70 University Avenue, Suite 1450  
Toronto, Ontario  
M5J 2M4  
Tel: (416) 864-6330  
Toll-free: 1 866 864-6330  
Fax: (416) 862-8950

### Calgary Office

444-5th Avenue S.W., Suite 1040  
Calgary, Alberta  
T2P 2T8  
Tel: (403) 215-2266  
Fax: (403) 265-4438  
E-mail: [info@creststreet.com](mailto:info@creststreet.com)

### Website

[www.creststreet.com](http://www.creststreet.com)