



CRESTSTREET

# Creststreet Kettles Hill Windpower LP

## Quarterly Report > Q1 2006

### Management's Discussion and Analysis

(All amounts in thousands of dollars except per unit amounts or where otherwise stated)

The following is a discussion of the consolidated financial condition and results of operation of Creststreet Kettles Hill Windpower LP (the "Partnership"). It should be read in conjunction with the audited financial statements. The Partnership prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts in this management's discussion and analysis ("MD&A") are in Canadian dollars unless otherwise stated. Where we say "we," "us," or the "Partnership," we mean Creststreet Kettles Hill Windpower LP.

Certain statements contained in this 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. We consider 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.

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

### Overview

In July 2005, the Partnership completed its initial public offering ("IPO") of limited partnership units, raising gross proceeds of \$40,000 for investment in flow-through shares and subordinated notes of Kettles Hill Wind Energy Inc. ("Kettles Hill"). Kettles Hill is building and will operate a 63 MW wind energy project to generate electricity for sale to the Alberta power market.

Kettles Hill is situated near Pincher Creek, Alberta, approximately 200 kilometres south of Calgary and approximately 20 kilometers east of the Rocky Mountains. The site is adjacent to a 138 kV transmission line. Kettles Hill erected five CRCE Phase test wind turbines (the "CRCE Phase") by February 2006 that commenced commercial operations in March 2006. These turbines will operate for a 120-day test period, and subject to satisfactory test results, Kettles Hill will erect another 30 wind turbines (the "Infill Phase").

On December 19, 2005, Kettles Hill announced the closing of a construction loan facility with a major Canadian financial institution totaling \$42,500 to finance its Infill Phase. In addition, Creststreet Power & Income Fund LP ("CPIF") has provided a commitment to purchase up to \$31,000 of subordinated notes in Kettles Hill to fund the construction of the Infill Phase of the project and has also provided a non-binding expression of interest to potentially acquire ownership of the project after completion of construction expected in the fall of 2006. During the first quarter of 2006, CPIF advanced \$5,000 to Kettles Hill and a further \$1,000 subsequent to the first quarter.

### Results of Operations

#### > Revenue

The Partnership earned \$50 in revenue (2005 – nil) in the first quarter of 2006 from the delivery of 1,276 megawatt hours of electricity generated by the five CRCE turbines that began commercial operations in March 2006.

#### > Operating Costs

For the first quarter of 2006, the Partnership incurred operating costs of \$29 and recorded an operating margin of 42% of revenue. The expenses related to the operation of the projects are primarily fixed costs such as warranty and maintenance, power and telephone, service station electricity requirement, power pool trading charge, electricity charges and rent. Other operating costs for the first quarter included management fees of \$135 and administrative costs of \$100.

#### > Amortization

We reclassified the costs of construction in progress to plant and equipment and began amortizing these costs when the project began commercial operation of its CRCE Phase, in the first quarter of 2006. We recorded amortization of plant and equipment of \$128 in the first quarter of 2006.

We also began amortizing deferred charges and pre-operating costs upon substantial completion of the CRCE Phase and recorded amortization of deferred charges and pre-operating costs of \$61 in the first quarter of 2006.



## Quarterly Financial Information

(In thousands, except per unit amounts)	Q1	Q2	Q3	Q4	FY 2005
Revenue	\$ -	\$ -	\$ 34	\$ 62	\$ 96
Net loss	\$ -	\$ -	\$ (484)	\$ (190)	\$ (674)
Net loss per unit	\$ -	\$ -	\$ (0.14)	\$ (0.05)	\$ (0.36)

	Q1 2006
Revenue	\$ 50
Net loss	\$ (209)
Net loss per unit	\$ (0.05)

The CRCE Phase turbines at Kettles Hill began commercial production of electricity and the facility began generating revenue and incurring operating expenses in March 2006. The first quarter of 2006 reflected one month of revenue and operating expenses from the initial five turbines. Kettles Hill earned \$50 in electricity sales, paid operating costs of \$29, management fees of \$135 and administrative fees of \$100. In addition, Kettles Hill earned \$19 in interest income on short-term investments, incurred \$40 of interest expense on promissory notes, and earned \$139 in unrealized foreign exchange gain on derivatives in the first quarter of 2006.

Kettles Hill did not begin commercial production of electricity until the first quarter of 2006. As such, all revenue earned in 2005 was interest income. During the third quarter of 2005, Kettles Hill earned \$34 in interest income on short-term investments and paid management fees of \$471, including a one-time fee of \$342 upon completion of the IPO.

During the fourth quarter of 2005, Kettles Hill earned \$62 in interest income on short-term investments and paid management fees of \$128.

## Financial Condition

### Liquidity

Cash decreased to \$449 at March 31, 2006, from \$507 at December 31, 2005, primarily due to the payment of construction costs, which were partially offset by the funds advanced by CPIF by way of subordinated notes payable. Cash held in escrow decreased to \$1,004 at March 31, 2006, from \$2,904 at December 31, 2005, due to the funding of construction costs.

### Assets and Liabilities

At March 31, 2006, the Partnership had total assets of \$52,567 compared with \$48,260 at December 31, 2005. Net plant and equipment related to the project was \$30,616 and construction in progress related to the Infill Phase totaled \$13,700 as at March 31, 2006. We completed the CRCE Phase construction in March 2006 and began to amortize plant and equipment.

On December 19, 2005, Kettles Hill announced the closing of a construction loan facility with a major Canadian financial institution totaling \$42,500 to finance its Infill Phase. In addition, Kettles Hill announced the closing of a commitment by CPIF to invest up to \$31,000 in subordinated notes to complete the financing requirements to fund the completion of the project and to fund any working capital deficiencies. During the first quarter of 2006, \$5,000 was advanced by CPIF, increasing the total notes payable to \$5,900 at March 31, 2006, from \$900 on December 31, 2005, which is payable to Creststreet Windpower Development LP. Credit facilities totaling \$73,500 will be used to finance a portion of construction costs of Kettles Hill.

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

As at March 31, 2006, financing costs of \$1,304 related to the credit facilities were recorded as deferred charges. We amortized the financing costs over the term of the debt, commencing on the date we entered into the agreement. Cumulative amortization of the deferred financing costs totaled \$81, of which \$24 was expensed in the quarter ended March 31, 2006. As at March 31, 2006, Kettles Hill had capitalized \$1,848 of pre-operating costs, which are being amortized over a five-year period starting upon completion of the CRCE Phase. We recorded amortization of pre-operating costs of \$37 for the quarter ended March 31, 2006.

### Contractual Obligations

Kettles Hill has entered into a turbine supply agreement with Vestas-Canadian Wind Technology ("Vestas") to purchase up to 35 wind turbines. The turbine supply agreement payments are denominated in Canadian dollars and euros. Option agreements have been entered into to reduce the foreign currency exposure.

Kettles Hill has also entered into a Warranty, Maintenance and Service ("WMS") agreement with Vestas which provides for certain warranties in connection with the wind turbines installed at the wind energy project, and ongoing service and maintenance obligations in connection with the turbines. The WMS agreement includes a facility-wide warranty, which covers power curve performance (the conversion of wind speed to power) and turbine availability of the facility. In the event that the facility fails to perform as warranted, the WMS agreement entitles Kettles Hill to liquidated damages to offset any lost revenue. The contract is for a five-year period from the date the turbines come into service. As at March 31, 2006, the total remaining commitment to Vestas to complete the CRCE Phase and WMS agreement was \$1,133.

### Derivative Instruments

Kettles Hill entered into two additional option agreements in the first quarter of 2006 to purchase euros to reduce its foreign exchange rate exposure on future purchases of wind turbines. The option agreements were not entered into for trading or speculative purposes and require no future payments.

Date entered	Principal amount	Exercise price	Cost	Expiry date
July 11, 2005	€ 5,000	C\$ 1.51/€	C\$ 168	April 7, 2006
July 11, 2005	€ 10,000	C\$ 1.51/€	C\$ 349	April 28, 2006
July 11, 2005	€ 5,000	C\$ 1.51/€	C\$ 206	June 15, 2006
Feb 15, 2006	€ 5,000	C\$ 1.51/€	C\$ 28	June 30, 2006
Feb 21, 2006	€ 7,000	C\$1.417/€	C\$ 143	July 31, 2006

### Related Party Transactions

Creststreet Kettles Hill Windpower General Partner Limited (the "General Partner") is reimbursed for reasonable costs it incurs by acting as registrar and transfer agent and in attending to the administration of the Partnership.

Creststreet Kettles Hill Management Limited (the "Manager") is entitled to management fees as well as a reimbursement of its operating expenses incurred in providing the services under the Management Agreement.

Kettles Hill has entered a Financial Administration Agreement with Creststreet Capital Corporation ("CCC") to maintain the minute books and records of the company and to provide it with other general accounting and cash management services.



Kettles Hill has entered into a Consulting Agreement with a shareholder, Benign Energy Canada Inc. ("BECI"). The Consulting Agreement's term ends on the date of substantial completion of the Infill Phase. BECI will assist with supervision of the construction and administration of the EPCS and Turbine Supply Agreement.

Kettles Hill has also entered into a Management Services Agreement with BECI to assist in the day-to-day operations of the facility, which has an initial term of five years that renews automatically unless BECI provides one year's prior written notice or its intention not to renew.

For the first quarter of 2006, fees charged by CCC, the Manager and General Partner in accordance with the Management Services Agreement and Financial Service Agreement, amounted to \$133 (2005 – nil).

For the first quarter of 2006, Creststreet Holdings Ltd. ("CHL"), a related party with common management, was paid \$65 for reimbursement for costs it paid directly on behalf of the Partnership (2005 – nil).

For the first quarter of 2006, fees charged by BECI in accordance with the Consulting Service Agreement and Management Services Agreement amounted to \$410 (2005 – nil) and \$7 (2005 – nil), respectively.

The following amounts were paid to related parties:

Three months ended	<b>March 31, 2006</b>	March 31, 2005
BECI	<b>\$ 417</b>	\$ 3
Manager	<b>128</b>	–
CHL	<b>65</b>	–
CCC	<b>5</b>	–
	<b>\$ 615</b>	\$ 3

### Change in Partners' Capital and Deficit

Partners' capital decreased by \$7,947 during the first quarter of 2006, to \$28,677 at March 31, 2006, from \$36,624 at December 31, 2005, as a result of renunciations of resource expenditure deductions for income tax purposes.

For the first quarter of 2006, the deficit increased by \$209 to \$883 at March 31, 2006, from \$674 at December 31, 2005, due to a loss from operations.

### Critical Accounting Estimates

Plant and equipment is amortized based on a useful life of 20 years, in accordance with the design life of the turbines.

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

### Outlook

The Manager continues to closely monitor construction of Kettles Hill, and as at the date of this management's discussion and analysis (May 12, 2006), the project was 2% over budget. High activity levels in the Alberta construction market continued to increase construction costs in the first quarter of 2006, resulting in incurred and expected cost overruns; however, the depreciation of the euro relative to the Canadian dollar has provided potential savings on the cost of turbines, thereby offsetting a portion of incurred and expected cost overruns. The Manager cautions that currency savings cannot be realized until the commencement of the Infill Phase which is expected to begin in July 2006. The Manager monitors the ability to lock in currency savings through additional hedging.

Kettles Hill completed construction of its CRCE Phase in March 2006, erecting all five CRCE turbines for an aggregate capacity of 9 MW. All electricity produced by these turbines is being sold into the Alberta power market. The project has entered the 120-day test period required to qualify the expenses for CRCE tax treatment. Upon satisfactory completion of the test period, construction of the Infill Phase will begin with the installation and commissioning of the remaining 30 wind turbines. Completion of the project has been delayed as a result of tower delivery delays of approximately 9 weeks in the CRCE Phase. These delays were caused by the turbine manufacturer (Vestas). Vestas has notified the Manager that there will be additional delivery delays of turbines for the Infill Phase. Discussions are still ongoing between Vestas and the Manager but, based on such discussions, the Manager's current expectation is that the project will be completed on or about year-end 2006, approximately four months behind schedule. Liquidated damages are payable to Kettles Hill as a result. After completion, we expect to enter into a sales process to provide liquidity for unitholders.

The Manager continues to view the independent energy forecast provided in the Partnership's initial public offering prospectus as reasonable despite strengthening in the power market. The forecast is for \$55 per megawatt hour ("MWh") in 2006 increasing to just under \$70 per MWh in 2020. Current prices are averaging between \$40 to \$50 per MWh after averaging \$60 to \$80 per MWh in January and February 2006. The forward curve out to 2010 is currently averaging approximately \$60 per MWh.

On December 19, 2005, Kettles Hill announced the closing of a construction loan facility with a major Canadian financial institution totaling \$42,500 to finance its Infill Phase. In addition, Kettles Hill announced the closing of a commitment by CPIF to invest up to \$31,000 in subordinated notes to complete the funding requirements for completion of the project and to potentially acquire the project after its completion. In the first quarter of 2006, CPIF advanced \$5,000 to Kettles Hill. Subsequent to the first quarter, a further \$1,000 was advanced by CPIF.



## Risks and Uncertainties

The Partnership's revenue has exposure to movements in the market price of electricity as sales to the Alberta power market are likely to be made at prevailing market prices. The market price of electricity is sensitive to cyclical changes in demand and capacity supply, and in the economy, as well as to regulatory trends and developments impacting electricity market rules and pricing, transmission development and investment within Alberta and to power markets in other jurisdictions via interconnects and other external factors outside of the controls of the Partnership and the Manager. Accordingly, the revenue, income and cash of the Partnership may be volatile and adversely affect the value of and distribution from units.

Construction of the wind energy projects is dependent on turbines being installed and tested. Until the Infill Phase is complete, there is a risk that the completion date for the turbines could be delayed or that material cost overruns could be incurred.

Vestas is the only supplier of wind turbines to Kettles Hill and, accordingly, the Partnership is dependent upon Vestas fulfilling its contractual obligations to them.

The wind speed at the Kettles Hill site will vary, weather patterns could change or the historical data could prove not to accurately reflect the strength and consistency of the wind in the future and have an adverse impact on cash distributions.

The profitability of Kettles Hill will be in part dependent upon the continuation of a favourable regulatory climate with respect to the continuing operations and the future growth and development of the independent power industry. Government regulations and incentives currently have a favourable impact on the building of wind power facilities, but should they be modified, cash distributions could be adversely affected.

The operations of the Partnership and Kettles Hill are highly dependent upon parties to certain agreements fulfilling their contractual obligations, especially the turbine supplier, Alberta Electric System Operator, and BECI. An inability or failure by any such party to meet its contractual commitments may adversely affect cash distributions.

The occurrence of a significant event, that disrupts the ability of Kettles Hill to produce or sell power for an extended period, including events which preclude existing customers from purchasing power, could have a material adverse effect on the Partnership and cash distributions.

While the General Partner believes that the insurance coverage for the facility will address material insurable risks, provide coverage that is similar to what would be maintained by a prudent owner/operator of similar facilities, and be subject to deductibles, limits, and exclusions which are customary or reasonable given the cost of procuring insurance, current operating conditions and insurance market conditions, there can be no assurance that insurance coverage for Kettles Hill will be sufficient, will address all material insurable risks and will continue to be offered on an economically feasible basis.

There can be no assurance that the income tax laws in the various jurisdictions of Canada, or the interpretation thereof, will not be changed in a manner which will fundamentally alter the tax consequences to limited partners of holding or disposing of units.

In any fiscal year of the Partnership, the possibility exists that Limited Partners will receive allocations of income and capital gains without receiving cash distributions from the Partnership in such year sufficient to satisfy its tax liability with respect to such allocations.

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

Limited Partners remain liable to return to the Partnership such part of any amount distributed to them as may be necessary to restore the capital of the Partnership to the amount existing before such distribution if, as a result of any such distribution, the capital of the Partnership is reduced and the Partnership is unable to pay its debts as they become due.

There is no market through which the units may be sold. Following completion of the Infill Phase, an independent committee will solicit, as and when appropriate, opportunities to provide Limited Partners with liquidity for their units. In accordance with its mandate, the independent committee intends to solicit, within six months after substantial completion of the Infill Phase, offers to purchase the business of the Partnership, including offers from CPIF.

**Consolidated Balance Sheets**

As at March 31, 2006 and December 31, 2005

(Unaudited) (In thousands)	<b>March 31, 2006</b>	December 31, 2005
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 449	\$ 507
Cash held in escrow (Note 4)	1,004	2,904
Accounts receivable	1,443	1,079
Prepaid expense	91	59
	<b>2,987</b>	4,549
Derivatives (Note 3)	216	29
Deferred charges and pre-operating costs (Note 7)	3,034	2,966
Construction in progress (Note 5)	13,700	38,702
Plant and equipment (Note 6)	30,616	–
Goodwill	2,014	2,014
	<b>\$ 52,567</b>	\$ 48,260
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	4,783	5,696
Due to related parties (Note 9)	624	147
	<b>5,407</b>	5,843
Subordinated note payable (Note 10)	5,841	900
Asset retirement obligation (Note 11)	28	–
Future income tax liability	9,100	1,151
Non-controlling interest	4,397	4,416
	<b>24,773</b>	12,310
Partners' capital	28,677	36,624
Deficit	(883)	(674)
	<b>\$ 52,567</b>	\$ 48,260

Commitments (Note 8)

See accompanying notes to consolidated financial statements

Approved by Creststreet Kettles Hill Windpower General Partner Limited on behalf of Creststreet Kettles Hill Windpower LP

**Eric McFadden**  
Director

**John Budreski**  
Director

## Consolidated Income Statements

For the three months ended March 31, 2006 and 2005

(Unaudited) (In thousands, except per unit data)	March 31, 2006	March 31, 2005
<b>Revenue</b>		
Electricity sales	\$ 50	\$ —
Total revenue	50	—
<b>Expenses</b>		
Operating costs	29	—
Management fees (Note 9)	135	—
Administrative fees	100	—
Total expenses	264	—
Loss before the undernoted	(214)	—
Amortization of plant and equipment (Note 6)	128	—
Amortization of deferred charges and pre-operating costs (Note 7)	61	—
Unrealized gain on derivatives (Note 3)	(139)	—
Interest expense (investment income), net	21	—
Loss before taxes and non-controlling interest	(285)	—
Future income tax recovery	57	—
Non-controlling interest	19	—
Net loss	(209)	—
Deficit, beginning of period	(674)	—
Deficit, end of period	\$ (883)	\$ —
Net loss per unit	\$ (0.05)	\$ —
Weighted average number of units	4,000	—

See accompanying notes to consolidated financial statements



## Consolidated Statements of Partners' Capital

For the three months ended March 31, 2006 and 2005

(Unaudited) (In thousands)	March 31, 2006	March 31, 2005
<b>Partners' capital – beginning of period</b>	<b>\$ 36,624</b>	\$ –
Equity component of subordinated note payable	59	–
Future income tax resulting from renunciation	<b>(8,006)</b>	–
<b>Partners' capital – end of period</b>	<b>\$ 28,677</b>	\$ –

See accompanying notes to consolidated financial statements

## Consolidated Statements of Cash Flows

For the three months ended March 31, 2006 and 2005

(Unaudited) (In thousands)	March 31, 2006	March 31, 2005
<b>Cash flows from operating activities</b>		
Net loss	\$ (209)	\$ —
Add (deduct) items not affecting cash:		
Future income tax recovery	(57)	—
Amortization of plant and equipment	128	—
Amortization of deferred charges and pre-operating costs	61	—
Unrealized foreign exchange gain on derivatives	(139)	—
Non-controlling interest	(19)	—
	<b>(235)</b>	—
<b>Non-cash operating working capital</b>		
Increase in accounts receivable	(364)	—
Increase in prepaid expense	(32)	—
Decrease in accounts payable and accrued liabilities	(28)	—
Increase in amounts due to related parties	477	—
	<b>(182)</b>	—
<b>Cash flows from financing activities</b>		
Issue of subordinated notes by subsidiary to CPIF	5,000	—
Increase in financing fees	(61)	—
	<b>4,939</b>	—
<b>Cash flows from investing activities</b>		
Decrease in cash held in escrow	1,900	—
Additions to plant and equipment	(6,413)	—
Increase in deferred charges and pre-operating costs	(302)	—
	<b>(4,815)</b>	—
Net decrease in cash	(58)	—
Cash and cash equivalents, beginning of period	507	—
<b>Cash and cash equivalents, end of period</b>	<b>\$ 449</b>	<b>\$ —</b>
<b>Supplemental cash information</b>		
Interest paid	\$ —	\$ —

See accompanying notes to consolidated financial statements



## Notes to Consolidated Financial Statements

As of March 31, 2006 and 2005

(All amounts stated in thousands of dollars, except per unit amounts and where otherwise stated)

### 1. Creststreet Kettles Hill Windpower LP

Creststreet Windpower (II) LP was established as a limited partnership under the laws of the Province of Ontario on January 30, 2004. Effective on April 28, 2005, Creststreet Windpower (II) LP changed its name to Creststreet Kettles Hill Windpower LP (the "Partnership"). The Partnership was established to invest in flow-through shares and subordinated notes of Kettles Hill Wind Energy Inc. ("Kettles Hill"), a Canadian company that will construct and then operate a wind energy project to generate electricity for sale to the Alberta power market. At December 31, 2004, the Partnership had issued 10 units for \$10 in cash consideration. The Partnership completed its initial public offering on July 11, 2005 and commenced developmental activities.

In March 2006, commercial production of the initial phase of the project (the "CRCE Phase") at Kettles Hill has commenced. Prior to this, the Partnership was considered to be in the development stage.

### 2. Summary of Significant Accounting Policies

The interim consolidated financial statements have been prepared by the Partnership in accordance with Canadian generally accepted accounting principles ("GAAP"). 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. The accompanying interim unaudited consolidated financial statements have been prepared in accordance with Canadian GAAP for interim financial statements and, accordingly, certain information and footnote disclosure normally included in financial statements prepared in accordance with Canadian GAAP have been condensed or omitted. These financial statements have been prepared using the same accounting principles used in the annual audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Partnership for the year ended December 31, 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. Certain amounts have been reclassified on the comparative statements of operations and cash flow to conform to the current period's presentation. The Partnership's earnings are subject to seasonal fluctuations with the highest level of revenue during the winter months (generally, the first and fourth quarters).

Effective January 1, 2006, Kettles Hill adopted accounting requirements of the Canadian Institute of Chartered Accountants, as issued in Section 3110 "Accounting for Asset Retirement Obligations," which required Kettles Hill to record an asset and related liability for the costs associated with the retirement of long-lived tangible assets when a legal liability to retire such assets exists. The provisions of Section 3110 require the asset retirement obligations to be recorded at fair value at the time the liability is incurred. Accretion expense is recognized as an operating expense using the credit-adjusted risk-free interest rate in effect when the liability was recognized. The associated asset retirement obligations are capitalized as part of the carrying amount of the long-lived asset and depreciated over the estimated useful life of the asset. Kettles Hill has recorded asset retirement obligations primarily associated with certain closure, reclamation and restoration costs for their wind energy turbines of \$28 as at March 31, 2006.

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

### 3. Derivatives

As at March 31, 2006, Kettles Hill holds the following option agreements to purchase: (i) EUR 5,000 at an exercise price of C\$1.5100 per EUR for consideration of \$168, expiring April 7, 2006; (ii) EUR 10,000 at an exercise price of C\$1.5100 per EUR for consideration of \$349, expiring April 28, 2006; (iii) EUR 5,000 at an exercise price of C\$1.5100 per EUR for consideration of \$206, expiring on June 15, 2006. During the first quarter of 2006, Kettles Hill entered into two additional option agreements to purchase (i) EUR 5,000 at an exercise price of C\$1.5100 per EUR for consideration of \$28, expiring on June 30, 2006, (ii) EUR 7,000 at an exercise price of C\$1.4170 per EUR for consideration of \$143, expiring on July 31, 2006. As at March 31, 2006, the unrealized gain on these option agreements was \$139.

These option agreements are used to reduce foreign exchange rate exposure on future purchases of wind turbines and were not entered into for trading or speculative purposes. They do not qualify for hedge accounting and, as such, are recorded at their fair values on the consolidated balance sheet. The total costs of \$894 paid on entering the agreements were capitalized to pre-operating cost. Prior to March 1, 2006, as Kettles Hill has exited the pre-operation stage, unrealized gains or losses on derivatives were capitalized to pre-operating cost. Subsequent to March 1, 2006 unrealized gains or losses on these agreements are recorded in the consolidated income statement.

### 4. Cash Held in Escrow

Kettles Hill entered into an escrow agreement dated June 30, 2005 in connection with its obligation of \$4,801 to Vestas-Canadian Wind Technology Inc. ("Vestas") for Phase I turbines. The amount of \$3,201 was released when Phase I turbines were delivered and the remaining \$1,600 will be released once the turbines have been commissioned and the required performance tests have been completed. As at March 31, 2006, \$3,797 was released from escrow to pay Kettles Hill's obligation to Vestas for Phase I turbines.

### 5. Construction in Progress

	March 31, 2006	December 31, 2005
Phase I		
Construction in progress, beginning of period	\$ 25,002	\$ -
Additions	5,714	25,002
	<b>30,716</b>	25,002
Amount transferred to plant and equipment (i)	<b>(30,716)</b>	-
	-	25,002
Phase II		
Construction in progress, beginning of period	13,700	-
Additions	-	13,700
	<b>13,700</b>	13,700
Construction in progress, end of period	<b>\$ 13,700</b>	\$ 38,702

(i) In March 2006, Kettles Hill commenced commercial operations as part of Phase I of the wind energy project. Therefore, the costs associated with Phase I construction in progress were reclassified from construction in progress to plant and equipment.



## 6. Plant & Equipment

	<b>March 31, 2006</b>	December 31, 2005
Kettles Hill (i)	<b>\$ 30,716</b>	\$ –
Less: accumulated depreciation	<b>(128)</b>	–
Asset retirement obligation (ii)	<b>28</b>	–
<b>Total</b>	<b>\$ 30,616</b>	\$ –

(i) In March 2006, Kettles Hill commenced commercial operations as part of Phase I of the wind energy project. Therefore, the costs associated with Phase I construction in progress were reclassified from construction in progress to plant and equipment.

(ii) As at March 31, 2006, the asset retirement obligation amounted to \$28, which is primarily associated with certain closure, reclamation and restoration costs for the wind energy turbines.

## 7. Deferred Charges and Pre-operating Costs

During the fourth quarter of 2005, Kettles Hill entered into a credit facility with a major Canadian financial institution. As at March 31, 2006, the fees and expenses charged to enter into this facility totaled \$1,304. Cumulative amortization of the deferred financing costs amounted to \$81, of which \$24 was expensed in the period ended March 31, 2006.

As at March 31, 2006, Kettles Hill has capitalized \$1,848 of pre-operating costs, which is being amortized over a five-year period starting at the completion of Phase I. Amortization of the pre-operating costs amounted to \$37 for the period ended March 31, 2006.

## 8. Commitments

Kettles Hill has entered into a turbine supply agreement with Vestas-Canadian Wind Technology (“Vestas”) to purchase up to 35 wind turbines. The turbine supply agreement payments are denominated in Canadian dollars and euros. Option agreements have been entered into to reduce the foreign currency exposure.

Kettles Hill has also entered into a Warranty, Maintenance and Service (“WMS”) agreement with Vestas which provides for certain warranties in connection with the wind turbines installed at the wind energy project and ongoing service and maintenance obligations in connection with the turbines. The WMS agreement includes a facility-wide warranty, which commences only upon substantial completion of the Infill Phase, and is related to power curve performance and availability of the facility. In the event that the facility fails to perform as warranted, the WMS agreement entitles Kettles Hill to liquidated damages to offset any lost revenue. The contract is for a five-year period from the date the turbines come into service. As at March 31, 2006, the total remaining commitment to Vestas to complete the CRCE Phase and WMS agreement was \$1,133.

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

### 9. Related Party Transactions

In 2005, Kettles Hill has entered into a subordinated note with Creststreet Windpower Development LP (“CWDLP”) for \$900 to finance pre-development costs. Interest is charged at a rate of 10% per annum. For the three months ended March 31, 2006, the Partnership incurred \$87 of interest expense of which \$79 was capitalized during the construction period.

On December 19, 2005, Creststreet Power & Income Fund LP (“CPIF”), a related party with common management, committed to invest in a subordinated note with Kettles Hill to complete the funding requirements of the project. CPIF committed to invest up to \$31,000 in subordinated notes. As at March 31, 2006, \$5,000 had been advanced with interest charged at a rate of 8.25% per annum. For the three months ended March 31, 2006, the Partnership incurred \$56 of interest expense of which \$24 was capitalized during the construction period.

For the three-month period ended March 31, 2006, fees charged by Creststreet Capital Corporation (“CCC”), Creststreet Kettles Hill Windpower Management Limited (the “Manager”) and Creststreet Kettles Hill Windpower General Partner Limited (the “General Partner”) in accordance with the management services agreement and financial services agreement amounted to \$133 (2005 – nil).

For the three-month period ended March 31, 2006, Creststreet Holdings Ltd. (“CHL”), a related party with common management, was paid \$65 as reimbursement for costs it paid directly on behalf of the Partnership (2005 – nil).

For the three-month period ended March 31, 2006, fees charged by Benign Energy Canada Inc. (“BECI”) in accordance with the Consulting Agreement and Management Services Agreement amounted to \$410 (2005 – nil) and \$7 (2005 – nil), respectively.

The amounts due to related parties are as follows:

As at	March 31, 2006	December 31, 2005
Due to BECI	\$ 351	\$ –
Due to CHL	4	–
Due to CCC	86	43
Due to CWDLP	127	104
Due to CPIF	56	–
	<b>\$ 624</b>	<b>\$ 147</b>

The amounts paid to related parties are as follows:

As at	March 31, 2006	December 31, 2005
BECI	\$ 417	\$ 3
Manager	128	–
CHL	65	–
CCC	5	–
	<b>\$ 615</b>	<b>\$ 3</b>



## 10. Credit Facility

On December 19, 2005, Kettles Hill announced the closing of a \$42,500 credit facility to finance a portion of the construction of the Infill Phase with a major Canadian financial institution. In addition, Kettles Hill closed a commitment by CPIF to invest up to \$31,000 in subordinated notes to complete the funding requirements of the project. As at March 31, 2006, CPIF had advanced \$5,000 to Kettles Hill. Subsequent to the first quarter, a further \$1,000 was advanced. Half of the subordinated notes are convertible into shares in Kettles Hill at a price of \$1.70 per share. The Partnership determined that the fair value of the conversion option was \$0.04 per share, based on the Black Scholes model, and included \$59 in the Consolidated Statements of Partners' Capital. The liability portion of the subordinated notes will be accreted such that the liability at maturity will equal the gross proceeds less conversions.

Facility	Available credit	Amount advanced	Interest	Maturity
Subordinated notes – CPIF	\$ 31,000	\$ 5,000	8.25%	October 31, 2009
Credit facility				
Tranche A	22,500	–	To be determined one day prior to advances	December 31, 2008
Tranche B	20,000	–	To be determined one day prior to advances	December 31, 2016
<b>Total</b>	<b>\$ 73,500</b>	<b>\$ 5,000</b>		

The credit facilities contain customary representations, warranties and covenants (including financial covenants and restriction on incurring additional indebtedness). Collateral for the credit facilities is provided by a first priority security interest in the assets of Kettles Hill.

Advances under the subordinated notes will be provided in up to four installments. The first three advances in aggregate of up to \$6,000 have been advanced, with \$5,000 advanced prior to March 31, 2006, and a further \$1,000 advanced subsequently.

The entire amount of Tranche B of the credit facility will be advanced as a construction loan after completion of the 120-day test period of the CRCE Phase (the "First Advance Date"). Tranche A will be advanced as a construction loan after the First Advance Date and before the completion of construction of the Infill Phase. Amounts not drawn by the earlier of the completion of construction of the Infill Phase and December 31, 2006, will be cancelled. All outstanding amounts in the construction loan will be converted to a term loan upon completion of the construction of the Infill Phase.

Repayment of the credit facility is interest only until maturity. Interest for both Tranche A and B will be based on the long bond yield on the date of the first advance for each respective tranche plus a credit spread, compounded and payable monthly in arrears. The long bond yield for Tranche A is the mid-market semi-annual interpolated yield of the Government of Canada 6% Bond due June 1, 2008 and the Government of Canada 5.5% Bond due June 1, 2009, based on a term to maturity ending approximately on December 31, 2008. The long bond yield for Tranche B is the mid-market semi-annual interpolated yield of the Government of Canada 4.5% bond due June 1, 2015, and the Government of Canada 9.25% bond due June 1, 2022, based on a term to maturity ending approximately on December 31, 2016.

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

The credit spread is:

	To December 31, 2008	After December 31, 2008
Credit spread		
Tranche A	200 bps	N/A
Tranche B	200 bps	175 bps

As at March 31, 2006, the average interest rate for Tranche A and B including the credit spread would have been approximately 6.25%.

The payment of the principal of, and interest on, the subordinated notes is fully subordinated to the credit facility. The payment of interest on the subordinated notes will rank in priority to the payment of interest only on other subordinated indebtedness, and the payment of principal on the subordinated notes will rank *pari passu* with the payment of principal on other subordinated indebtedness of Kettles Hill.

### 11. Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of wind farm properties.

	March 31, 2006	December 31, 2005
Asset retirement obligation, beginning of period	\$ –	\$ –
Liabilities incurred	28	–
Accretion expense	–	–
Asset retirement obligation, end of period	\$ 28	\$ –

The total amount of estimated cash flows required to settle the obligations is \$28 (2005 – nil), which has been discounted using a credit-adjusted, risk-free rate of 10% and an inflation rate of 2%.

Asset retirement obligations are primarily associated with certain closure, reclamation and restoration costs related to retirement of the wind farm properties. Most of these obligations are not expected to be paid for 20 years and will be funded from general company resources at that time.

### 12. Economic Dependence

For the three months ended March 31, 2006, the Partnership was dependent on Alberta Electric System Operator for 100% of its revenue.



### 13. Financial Instruments

At March 31, 2006, the carrying amount of cash, cash held in escrow, accounts receivable, accounts payable and accrued liabilities and due to related parties approximates fair value due to their short-term nature.

At March 31, 2006, the carrying amount of the subordinated notes payable approximates fair value due to the short period of time that has elapsed between finalizing the terms of the agreements at the period end date.

The Partnership is exposed to foreign currency fluctuations to the extent that purchases are denominated in foreign currencies.

The Partnership's credit facilities bear interest based on long bond yield plus a credit spread, and therefore are subject to risks related to interest rate fluctuations until amounts are advanced under the credit facilities.

## Creststreet Kettles Hill Windpower LP

### Directors of the General Partner

**Terry L. Allen**

President  
Pivotal Capital Advisory Group

**John P.A. Budreski**

President and Chief Executive Officer  
Orion Securities Inc. and  
Orion Financial Inc.

**Eric McFadden**

Managing Director  
Creststreet Capital Corporation

**David P. Smith**

Managing Partner, Enterprise Management  
Capital Inc.

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

Managing Director  
Creststreet Capital Corporation

### Officers of the General Partner

**Eric McFadden**

President and Chief Executive Officer

**Donna Shea, C.A.**

Vice-President, Finance and  
Chief Financial Officer

**Erich Ossowski**

Vice-President, Windpower Development

**Arlene Mclean**

Secretary

### Legal Counsel

McCarthy Tétrault LLP  
Calgary, Alberta

### Auditors

Ernst & Young LLP  
Toronto, Ontario

### Toronto Office

Creststreet Kettles Hill Windpower LP  
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

Creststreet Kettles Hill Windpower LP  
444-5th Avenue S.W., Suite 1040  
Calgary, Alberta  
T2P 2T8  
Tel: (403) 215-2265  
Fax: (403) 265-4438  
  
www.creststreet.com

### Investor Inquiries

info@creststreet.com