Creststreet Power & Income Fund LP

CRESTSTREET

Quarterly Report > Q1 2006

Message to Unitholders

Creststreet Power & Income Fund LP (the "Partnership") (CRS.UN, CRS.DB) reported revenue of $4.0 million for the first quarter of 2006 up from $2.0 million in 2005, as both wind energy projects were fully operational during the quarter. The Nova Scotia Pubnico Point facility began full operations in February 2005 and the Quebec Mount Copper facility in June 2005.

"The first quarter of 2006 was challenging as we worked through operational issues, in particular at our Mount Copper facility. While our Pubnico Point facility is demonstrating improved turbine availability, the performance of Mount Copper has been disappointing. Continued low turbine availability combined with a low wind speed at Mount Copper this past quarter has resulted in lower than targeted cash reserves prior to heading into the low summer season for wind speed," said Eric McFadden, Chief Executive Officer of the Creststreet Power & Income Fund LP. "Given these circumstances and our desire to remain prudent in managing liquidity and distributions, effective June 2006 we will be reducing monthly distributions by 13.6% to $0.0542 per unit to ensure sustainability for unitholders going forward."

Pubnico Point and Mount Copper delivered an aggregate 63.4 gigawatt hours of electricity during the first quarter of 2006 to Hydro-Québec and Nova Scotia Power pursuant to their long-term power purchase agreements. The Partnership generated cash flow from operations of $1.5 million in the first quarter of 2006 compared with $1.1 million in 2005, reflecting the start of full operations at Pubnico Point in February 2005 and Mount Copper in June 2005. We declared total cash distributions of $2.2 million and paid monthly cash distributions of $0.0627 per unit during the first quarter. At March 31, 2006, the Partnership had cash and cash equivalents of $5.3 million. After setting aside funds held for capital expenditures and investment in the Kettles Hill windpower project, the Board of Directors is of the view that sufficient cash reserves are in place to support the revised distribution policy.

Distributions

As a result of revising its distribution policy to reduce monthly distributions, the Board of Directors of the General Partner has authorized monthly cash distributions of $0.0542 per unit to be paid according to the following schedule:

Distribution period	Record date	Payment date	$ per unit
June 2006	June 30, 2006	July 14, 2006	$ 0.0542
July 2006	July 31, 2006	August 15, 2006	$ 0.0542
August 2006	August 31, 2006	September 15, 2006	$ 0.0542

At March 31, 2005, the Partnership had 11.5 million units issued and outstanding.

Operations

Mount Copper's 30 interconnected wind turbines were in full operation by late June 2005 with a nameplate capacity of 54 megawatts. During the first quarter of 2006, Mount Copper's production was approximately 30% below the independent engineer's long-term projection. This deviation in energy production was due to wind volumes that were below the projected long-term average for the period, which accounted for almost two-thirds of the shortfall, and lower turbine availability which accounted for the balance of the shortfall.

Pubnico Point's 17 interconnected wind turbines were in full operation by late February 2005 with a nameplate capacity of 30.6 megawatts. During the first quarter, Pubnico Point's production was approximately 5% below the independent engineer's long-term projection. This shortfall was due to lower turbine availability, as wind volumes were approximately equal to the projected long-term average.

The turbines at both Mount Copper and Pubnico Point are under manufacturer's warranty with Vestas-Canadian Wind Technologies Inc. to operate at a minimum of 90% availability in their first year, and 95% in the subsequent four years. Although Vestas has exceeded its warranty commitment, in the Manager's view, the performance of Mount Copper has been disappointing. Mount Copper and the Manager are working closely with Vestas to correct key problems to ensure availability meets the 95% warranty threshold as Mount Copper enters its second year of full operations.

Management's Discussion and Analysis

(All dollar amounts in thousands of dollars except where otherwise stated)

The following is a discussion of the consolidated financial condition and results of operation of Creststreet Power & Income Fund LP (the "Partnership"). It should be read in conjunction with the unaudited consolidated financial statements. Additional information relating to the Partnership can be found in the Annual Information Form, which is filed electronically at www.sedar.com. The Partnership's financial statements have been prepared 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 Power & Income Fund 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.

Overview

The Partnership completed its initial public offering of limited partnership units in December 2003, raising $42,500 for investment in the construction of two wind energy projects that generate electricity for sale to provincial electricity utilities pursuant to long-term power purchase agreements. Full commercial operations commenced for both wind energy projects in the third quarter of 2005 and, concurrently, the Partnership initiated monthly distributions to unitholders.

Our first wind energy project is situated in the middle of the Gaspé Peninsula, approximately 100 kilometres west of Gaspé, Quebec. Its assets are held in Mount Copper Wind Energy Inc. ("Mount Copper"), our joint venture company. Mount Copper erected five test wind turbines in early 2004 ("CRCE Phase") that commenced commercial operations in May 2004 and in September 2004, Mount Copper began to erect the remaining 25 wind turbines (the "Infill Phase"). The project was completed and the turbines were fully commissioned in June 2005 and began full commercial operations.

Our second project is situated on Pubnico Point in southwest Nova Scotia, approximately 36 kilometres southeast of Yarmouth, Nova Scotia. Its assets are held in Pubnico Point Wind Farm Inc. ("Pubnico Point"), our joint venture company. Pubnico Point erected two test wind turbines in early 2004 that commenced commercial operations in May 2004 and in September 2004 began to erect its remaining 15 wind turbines. The project was completed and the turbines were fully commissioned in February 2005 and began full commercial operations.

The Infill Phases for both projects were funded by construction debt facilities totalling $107,295 which closed in the third quarter of 2004. On January 20, 2005, we completed an offering of $27,000 of unsecured convertible debentures using the net proceeds to make further investments in the projects to fund capital expenditures, to cancel $22,295 of their construction debt facilities and for general business purposes.

Management's Discussion and Analysis (cont'd)

On August 3, 2005, we issued 6,563,526 limited partnership units through a public offering, at $8.75 per unit, raising gross proceeds of $53,711. Net proceeds of the offering were approximately $53,131, of which $51,655 was used to further invest in both wind energy projects by way of subordinated notes and senior notes. Concurrent with this offering, we listed the units on the TSX.

On August 3, 2005, the Partnership acquired the remaining 13.1% and 22.2% interests of the Class A shares of Mount Copper and Pubnico Point, respectively, from Creststreet Mutual Funds Limited and Creststreet Power Holdings Limited for consideration of $1,000 and 687,211 limited partnership units with an ascribed value of $6,013. The Partnership paid its first monthly cash distributions on September 15, 2005, and we declared monthly distributions of $0.0627 per unit for the periods from August 2005 to December 2005 for a total of $3,605. Total cash distributions declared for the first quarter were $2,163 with a monthly distribution of $0.0627 per Partnership unit. As of March 31, 2006, the Partnership had 11,500,737 units outstanding.

In addition, the first project the Partnership is investing in subsequent to Mount Copper and Pubnico Point is Kettles Hill Wind Energy Inc. ("Kettles Hill"), a 63 megawatt windpower project in southern Alberta, which commenced construction in July 2005. The Partnership has provided a commitment to purchase up to $31 million 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 by the end of 2006. During 2006, the Partnership advanced $6 million to Kettles Hill, funded by a line of credit arranged with its senior lender.

Results of Operations

> **Revenue**

For the three-month period ended March 31, 2006, the Partnership earned $4,019 in revenue from the delivery of a total of 63.4 (2005 – 31.3) gigawatt hours ("GWh") of electricity. The increase of $2,019 over 2005 was primarily due to the completion and commissioning of 40 Infill Phase turbines at Mount Copper and Pubnico Point. The Infill Phase turbines began commercial operations in the first quarter of 2005 at Pubnico Point, and in the second quarter of 2005 at Mount Copper. First quarter revenue was lower than projected due to wind speeds which were below long-term expectations as well as lower turbine availability experienced during the quarter, principally at Mount Copper.

> **Mount Copper**

Mount Copper's 30 interconnected wind turbines were in full operation by late May 2005 with a nameplate capacity of 54 megawatts. During the first ten full months of operation, production from Mount Copper was approximately 16% below the independent engineer's long-term projection for that period and, in the first quarter of 2006, was 30% below the independent engineer's long-term projection. This deviation in energy production from the long-term average expectation for these periods was principally a result of wind speeds that were below the long-term average expectations for the periods.

The Manager evaluates wind performance at Mount Copper on a continual basis. The first quarter deviation from the independent engineer's long-term average projection for the period, while disappointing, still falls within variability expectations. Wind performance will continue to be evaluated to determine whether the actual operating performance would suggest any revision be required to the independent engineer's projection.

Turbine availability at Mount Copper during the first 10 full months of operation exceeded the first-year warranted availability of 90%; however, during the first quarter of 2006, turbine availability dropped below 90%, accounting for over one-third of the first quarter's production shortfall. On-site operations of the Mount Copper project is the contractual responsibility of 3Ci Inc. of St. Bruno, Québec. Maintenance and service of the turbines is the responsibility of Vestas-Canadian Wind Technology Inc. ("Vestas") pursuant to the Warranty, Maintenance and Service Agreement ("WMS"). The WMS agreement provides for 90% availability in the first year of operation and increases in June 2006 to 95% for years two to five.

In the Manager's view, the operating performance at Mount Copper has been disappointing. The Manager is working closely with 3Ci Inc. and Vestas to address the operational problems being experienced at the Mount Copper project to correct key problems to ensure availability meets the 95% warranty threshold as Mount Copper enters its second year of full operations.

> Pubnico Point

Pubnico Point's 17 interconnected wind turbines were in full operation by late February 2005 with a nameplate capacity of 30.6 megawatts. During the first thirteen full months of operation, production from Pubnico Point was approximately 8% below the independent engineer's long-term projection for the period and, in the first quarter of 2006, was 5% below the independent engineer's long-term projection. This deviation in energy production from the long-term average expectation for these periods was principally a result of availability and wind speeds that were below the long-term average expectations for the periods.

The Manager evaluates wind performance at Pubnico Point on a continual basis. First quarter wind performance was equal to the independent engineer's long-term projection. Wind performance will continue to be evaluated to determine whether the actual operating performance would suggest any revision be required to the independent engineer's projection.

On-site operations of the Pubnico Point project is the contractual responsibility of the Atlantic Wind Power Corporation Ltd. of Pubnico Point, Nova Scotia. The availability of turbines is supported by a Vestas warranty as part of its Warranty, Maintenance and Service Agreement ("WMS") which, for the first year, provides for 90% availability and increases to 95% for years two to five. Turbine availability at Pubnico Point during both the first full year of operation and the first quarter of 2006 exceeded the first-year warranted availability of 90%. The warranty entered into its second year in March 2006. While turbine performance at Pubnico Point has been subject to some of the same issues that have affected Mount Copper, overall availability has been affected to a lesser extent.

The warranty entered into its second year in March 2006. Turbine performance at Pubnico Point has been subject to the same issues that have affected Mount Copper's availability, although to a lesser extent. Pubnico Point and the Manager are working closely with Vestas to correct key problems to ensure availability meets the 95% warranty threshold going forward. Recent software upgrades have enhanced availability.

> Operating Costs

For the three-month period ended March 31, 2006, we incurred operating costs of $862 (2005 – $254) resulting in an operating margin of 79% of revenue (2005 – 87%). The expenses related to the operation of the projects are primarily fixed costs such as warranty and maintenance, insurance, leases, and property taxes. Other operating costs for the three-month period ended March 31, 2006, included management fees of $242 (2005 – $227). The management fees are fairly consistent with 2005, with a small increase for Consumer Price Index adjustments. Increased administrative costs of $510 (2005 – $266) relate to the longer time period over which costs were expensed versus capitalized to pre-operating costs in 2006 compared with 2005. There was also an increase in Mount Copper capital taxes associated with the completion of construction and the transfer of assets from construction in progress to plant and equipment.

Management's Discussion and Analysis (cont'd)

> **Amortization**

We reclassified the costs of construction in progress to plant and equipment and started depreciation when each project began commercial operation of its Infill Phase, in the first quarter of 2005 for Pubnico Point and the second quarter of 2005 for Mount Copper, respectively. Therefore, the amortization on the property and equipment increased to $1,742 (2005 – $676) for the three-month period ended March 31, 2006.

Quarterly Financial Information

The Partnership restated the results for the three months ended September 30, 2005, to change the method in which deferred financing costs related to the construction loan facility arranged by the Partnership in 2004 were amortized. This restatement was primarily a result of the Partnership deferring amortization of the deferred financing costs until completion of construction of the projects rather than capitalizing a portion of the deferred financing costs as plant and equipment from the date of completion of the financing until the date of completion of construction. The net result of this restatement was a decrease in the net loss of $313 from $2,091 to a net loss of $1,778 for the three months ended September 30, 2005. This restatement was a change in the accounting treatment of a non-cash item and had no impact on cash flow or cash distributions of the Partnership.

The Partnership revenue and earnings are subject to seasonal fluctuations with the highest level of revenue during the winter months (generally, the first and fourth quarters).

(In millions, except per unit amounts)	Q1	Q2	Q3	Q4	FY 2004
Revenue	$ –	$ 0.24	$ 0.53	$ 0.34	$ 1.11
Net loss	(0.21)	(0.50)	(0.97)	(1.08)	(2.76)
Net loss per unit	(0.05)	(0.12)	(0.23)	(0.25)	(0.65)

	Q1	Q2	Q3	Q4	FY 2005
Revenue	$ 2.00	$ 3.17	$ 3.37	$ 4.90	13.44
Net income (loss)	(0.73)	(1.82)	(1.78)	0.40	(3.93)
Net income (loss) per unit	(0.17)	(0.43)	(0.19)	0.03	(0.54)

	Q1 2006
Revenue	**$ 4.02**
Net loss	**(0.11)**
Net loss per unit	**(0.01)**

Commercial production of the CRCE Phase turbines at Mount Copper and Pubnico Point commenced in the middle of the second quarter of 2004, and the facilities began generating revenue and operating expenses. The third quarter of 2004 reflected a full quarter of revenue and operating expenses from the initial seven test turbines. Expenses in the third quarter of 2004 were higher due to losses on derivative instruments of $673. The fourth quarter of 2004 was impacted by a six-week shut down at Pubnico Point to install the permanent transformer as well as availability issues at Mount Copper that resulted in lower revenue than the third quarter. There was not a significant impact on operating expenses. Other expenses in the fourth quarter of 2004 were higher than other quarters in 2004 due to losses on derivative instruments of $1,690. All losses on derivative instruments were associated with interest rate hedges required to be entered into pursuant to the construction debt facilities.

The first quarter of 2005 reflected revenue from the CRCE Phase turbines and a portion of the Infill Phase turbines. The expenses for the first quarter of 2005 included a write-off of deferred charges of $856 related to the cancellation of the junior debt facilities. The second quarter of 2005 included revenue from the CRCE Phase turbines, the Infill Phase turbines at Pubnico Point, and a portion of the Infill Phase turbines at Mount Copper. The expenses in the second quarter of 2005 included a loss on derivative instruments of $2,961. The third quarter of 2005 included revenue from the CRCE Phase turbines and all Infill Phase turbines at Mount Copper and Pubnico Point. The expenses for the third quarter of 2005 included a write-off of deferred charges of $1,869 related to the cancellation of the term debt facilities. In the fourth quarter of 2005, the Manager finalized the purchase price allocation resulting from the purchase of the Class A shares not held by the Partnership. We allocated all of the excess costs to intangible assets and began amortizing the intangible asset over the life of the applicable power purchase agreement. During the first quarter of 2006 the Partnership borrowed $7,000 from a major Canadian financial institution and advanced $5,000 of this to Kettles Hill by way of a subordinated debenture, earning interest at 8.25%. Subsequent to March 31, 2006, a further $1,000 was advanced to Kettles Hill.

Financial Condition

Liquidity

Cash and cash equivalents increased by $1,439 from $3,895 on December 31, 2005, to $5,334 at March 31, 2006, primarily because we drew an additional $7,000 in notes payable, which was offset by $5,000 of subordinated notes that were advanced to Kettles Hill and distributions to unitholders. Restricted cash decreased by $3,572 from $6,368 at December 31, 2005, to $2,796 at March 31, 2006, due to the payment of construction costs.

We declared total cash distributions for the first quarter of $2,163 with a monthly distribution of $0.0627 per Partnership unit.

Assets and Liabilities

At March 31, 2006, the Partnership had total assets of $152,907 compared with $152,977 at December 31, 2005. Net plant and equipment and pre-operating costs related to Mount Copper and Pubnico Point were $129,900. Pubnico Point completed construction in February 2005 and commenced depreciation of plant and equipment. Mount Copper completed construction in June 2005 and commenced depreciation of plant and equipment.

During the first quarter of 2006 the Partnership borrowed $7,000, increasing the total notes payable to $37,000 from $30,000 on December 31, 2005. The majority of these additional funds will be used to finance the investment in Kettles Hill. To date $6,000 has been lent to Kettles Hill by way of subordinated notes. The Partnership anticipates financing the remaining portion of the commitment in the public markets.

Financing costs incurred related to the credit facilities for the Infill Construction Phase and the convertible debentures were recorded as deferred charges and are being amortized over the term of the debt. During the first quarter of 2005, $856 of these costs was written off in connection with the cancellation of the junior debt facilities and $1,860 of these costs were written off in the third quarter of 2005 related to the cancellation of the term debt facilities. At March 31, 2006, $2,460 of deferred financing costs remained unamortized.

Management's Discussion and Analysis (cont'd)

Contractual Obligations

Other obligations have increased due to the inclusion of additional long-term lease obligations, and have been partially offset by a reduction of the Warranty, Maintenance and Service Agreement with Vestas.

Information concerning contractual obligations is shown below:

(In millions)	Total	Due less than 1 year	Due 2 to 3 years	Due 4 to 5 years	Due after 5 years
Long-term debt obligations	$ 64.0	$ –	$ 7.0	$ 27.0	$ 30.0
Other obligations	8.9	1.1	3.0	1.9	2.9
Total obligations	$ 72.9	$ 1.1	$ 10.0	$ 28.9	$ 32.9

Related Party Transactions

The amounts paid to related parties were as follows:

	March 31, 2006	March 31, 2005
3Ci	**$ 190**	$ 136
PML	**133**	119
CHL	**108**	43
CCC	**6**	–
Kettles Hill	**5,000**	–
General Partner	**69**	35
Manager	**137**	106
	$ 5,643	$ 439

Transactions with related parties have been measured at their exchange rate.

Creststreet Power & Income General Partner Limited (the "General Partner") is reimbursed for reasonable costs it incurs in acting as registrar and transfer agent and in attending to the administration of the Partnership. For the three-month period ended March 31, 2006, the General Partner was reimbursed $69 (2005 – $35).

The Manager is also entitled to reimbursement of its operating expenses incurred in providing the services under the Management Agreement. For the three-month period ended March 31, 2006, the Manager earned $118 (2005 – $80) under the Management Agreement, including reimbursement of $28 (2005 – nil) of out-of-pocket expense.

For the three-month period ended March 31, 2006, Creststreet Holdings Ltd. ("CHL") was paid $108 to reimburse CHL for costs it had paid directly on behalf of the Partnership.

For the three-month period ended March 31, 2006, Mount Copper incurred $205 (2005 – $151) under the management services and financial administration agreements.

For the three-month period ended March 31, 2006, Pubnico Point incurred $99 (2005 – $123) under the management services, lease, and financial administration agreements. In addition, Pubnico Point paid dividends of $45 (2005 – nil) under the terms of the Class B shares.

The Partnership issued subordinated promissory notes receivable to Kettles Hill in the amount of $5,000 related to the construction of the wind farm. The promissory note is unsecured and will not hold any liens over any assets of Kettles Hill. The note bears interest at 8.25% per annum until October 31, 2009 and thereafter at a rate of 9.5% per annum. The interest will not be received until the earlier of December 31, 2006, or 60 days after completion of the Infill Phase; however, it will be accrued on a monthly basis. The note receivable is due on October 31, 2009.

Change in Partners' Capital and Deficit

For the three-month period ended March 31, 2006, Partners' capital decreased by $2,163 from $81,980 at December 31, 2005 to $79,817 at March 31, 2006. The decrease was due to monthly distributions of $0.0627 per unit which totalled $2,163. The Partnership declared a further $0.0627 per unit which totalled $721 payable in April 2006.

For the three-month period ended March 31, 2006, the deficit increased by $108 from $6,783 at December 31, 2005, to $6,891 at March 31, 2006, due to the loss from operations.

As at April 27, 2006, the Partnership had 11,500,737 units outstanding.

Critical Accounting Estimates

Depreciation of plant and equipment is based on a useful life of 20 years which is in accordance with the estimates from the turbine manufacturer.

Outlook

The Manager continues to closely monitor the production, operations and performance of both windpower projects given their variable wind performance and the first-year operational problems which have resulted in lower availability. Given these issues, the upcoming low seasonal production months and the Partnership's objective to maintain a prudent and conservative liquidity and cash reserve policy, the Manager and the Board of Directors have concluded that a reduction in the monthly cash distribution is appropriate. The new distribution level of $0.0542 per month will begin effective June 2006 and has been set to allow the Partnership to maintain this distribution rate and also maintain a prudent and conservative cash reserve given the issues identified.

The Manager continues to identify, acquire and develop early-stage windpower projects with the objective to develop them to the stage where construction can be undertaken culminating in the completion and full operation of each windpower project. The Manager intends to provide the Partnership the opportunity to invest in or acquire each project during construction or upon completion. Kettles Hill is producing at all of its five test turbines and the Partnership expects to arrange funding for the remainder of its $31 million commitment in the next few months.

In addition, the General Partner will seek investments that provide long-term income, enhance the diversification of the Partnership's cash flow and are accretive to per unit cash flow.

Management's Discussion and Analysis (cont'd)

Risks and Uncertainties

The force with which the wind will blow at Mount Copper and Pubnico Point sites 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 Mount Copper and Pubnico Point 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, Mount Copper and Pubnico Point are highly dependent upon parties to certain agreements fulfilling their contractual obligations, especially the turbine supplier (Vestas), NSPI, Hydro-Québec, PML, and 3Ci. An inability or failure by any such party to meet its contractual commitments may adversely affect cash distributions.

The occurrence of a significant event which disrupts the ability of Mount Copper or Pubnico Point 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 facilities 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, no such insurance will be purchased until construction commences and there can be no assurance that insurance coverages for Mount Copper and Pubnico Point 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 their tax liability with respect to such allocations.

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.

CRESTSTREET

Consolidated Balance Sheets

As at March 31, 2006 and December 31, 2005

(Unaudited) (In thousands)	**March 31, 2006**	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	**$ 5,334**	$ 3,895
Restricted cash (Note 2)	**2,796**	6,368
Accounts receivable	**1,757**	2,998
Prepaid expense	**743**	503
	10,630	13,764
Notes receivable (Note 7)	**5,000**	–
Deferred charges (Note 4)	**2,460**	2,602
Plant and equipment and pre-operating costs (Note 3)	**129,900**	131,621
Intangible assets (Note 5)	**4,917**	4,990
	$ 152,907	$ 152,977
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 3,826**	$ 8,281
Distribution payable (Note 9)	**721**	721
Due to related parties (Note 7)	**108**	112
	4,655	9,114
Notes payable (Note 8)	**37,000**	30,000
Unsecured convertible debentures	**26,593**	26,566
Asset retirement obligation (Note 10)	**240**	234
Future income tax liability	**11,493**	11,866
	79,981	77,780
Partners' capital	**79,817**	81,980
Deficit	**(6,891)**	(6,783)
	$ 152,907	$ 152,977

Commitments (Note 6)

See accompanying notes to consolidated financial statements

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

Eric McFadden
Director

Robert S. McLeese
Director

Consolidated Statements of Operations

For the three months ended March 31, 2006 and 2005

(Unaudited) (In thousands, except per unit data)	**March 31, 2006**	March 31, 2005
Revenue		
Electricity sales	**$ 3,876**	$ 2,000
Windpower production incentive	**143**	–
Total revenue	**4,019**	2,000
Expenses		
Operating costs	**862**	254
Management fees (Note 7)	**242**	227
Administrative costs (Note 7)	**510**	266
	1,614	747
Income before the undernoted	**2,405**	1,253
Loss on derivative instruments	**–**	344
Amortization of deferred charges (Note 4)	**144**	109
Amortization of intangible assets (Note 5)	**73**	–
Amortization of plant and equipment and pre-operating costs	**1,742**	676
Interest expense, net	**865**	209
Loss before taxes and non-controlling interest	**(419)**	(941)
Income taxes		
Current tax	**17**	–
Future income tax recovery	**(373)**	(172)
	(356)	(172)
Non-controlling interest	**45**	(44)
Net loss	**(108)**	(725)
Deficit, beginning of year	**(6,783)**	(4,019)
Deficit, end of year	**$ (6,891)**	$ (4,744)
Net loss per unit – basic and fully diluted	**$ (0.01)**	$ (0.17)
Weighted average number of units	**11,501**	4,250

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
Partners' capital – beginning of period	**$ 81,980**	$ 25,331
Distributions declared to the unitholders (Note 9)	**(2,163)**	–
Unsecured convertible debentures option value	**–**	530
Partners' capital – end of period	**$ 79,817**	$ 25,861

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
Cash flows from operating activities		
Net loss	**$ (108)**	$ (725)
Add (deduct) items not affecting cash:		
Loss on derivative instruments	**–**	344
Amortization of deferred charges	**144**	109
Amortization of intangible assets	**73**	–
Amortization of plant and equipment and pre-operating costs	**1,742**	676
Accretion of interest expense	**33**	18
Future income tax recovery	**(373)**	(172)
Non-controlling interest	**–**	(44)
	1,511	1,062
Non-cash operating working capital		
Decrease in accounts receivable	**1,241**	472
Increase in prepaid expense	**(240)**	(237)
(Decrease) increase in accounts payable and accrued liabilities	**(594)**	901
Decrease in amounts due to related parties	**(4)**	(6)
	1,914	2,192
Cash flows from financing activities		
Finance issue costs	**–**	(2,094)
Increase in notes payable	**7,000**	–
Issue of unsecured convertible debentures	**–**	27,000
Distributions to unitholders	**(2,163)**	–
	4,837	24,906
Cash flows from investing activities		
Decrease in restricted cash (Note 2)	**3,572**	–
Increase in loan receivable	**(5,000)**	–
Additions to plant and equipment	**(3,884)**	(6,402)
	(5,312)	(6,402)
Net increase (decrease) in cash	**1,439**	20,696
Cash and cash equivalents, beginning of period	**3,895**	3,914
Cash and cash equivalents, end of period	**$ 5,334**	$ 24,610
Supplemental cash information		
Interest paid	**$ 1,395**	$ 883
Large corporate tax paid	**$ 17**	$ –

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

(All dollar amounts stated in thousands, except per unit information) March 31, 2006

1. Significant Accounting Policies

The interim period consolidated financial statements have been prepared by Creststreet Power & Income Fund LP (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 as at December 31, 2005. The accompanying 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 as 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. 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).

2. Restricted Cash

Restricted cash includes amounts funded to Mount Copper Wind Energy Inc. ("Mount Copper") and Pubnico Point Wind Farm Inc. ("Pubnico Point") through their credit facilities. These funds may only be accessed for construction-related expenses upon acceptance by the lenders. Mount Copper and Pubnico Point released a total of $3,572 in the first quarter of 2006 and anticipate releasing a further $2,796 before the end of 2006.

3. Plant and Equipment and Pre-operating Costs

	March 31, 2006	December 31, 2005
Mount Copper	**$ 89,822**	$ 89,790
Pubnico Point	**48,280**	48,291
	138,102	138,081
Less: accumulated amortization	**8,202**	6,460
Total	**$129,900**	$131,621

For the three-month period ended March 31, 2006, interest expense capitalized was nil (2005 – $892).

4. Deferred Charges

On January 20, 2005, the Partnership issued 27,000 unsecured convertible debentures. Costs incurred related to this issuance were $2,041 and will be amortized over the term of the debentures. For the three-month period ended March 31, 2006, amortization of deferred charges totalled $109 (2005 – $83).

During the first quarter of 2006, Mount Copper's amortization of deferred charges related to their notes payable totalled $14 (2005 – nil).

During the first quarter of 2006, Pubnico Point's amortization of deferred charges related to their notes payable totalled $21 (2005 – $26).

Notes to Consolidated Financial Statements (cont'd)

5. Intangible Asset

	March 31, 2006	December 31, 2005
Cost	**$ 5,111**	$ 5,111
Less: accumulated amortization	**194**	121
Total	**$ 4,917**	$ 4,990

Amortization of intangible asset for the three-month period ended March 31, 2006 amounted to $73 (2005 – nil).

6. Commitments

The Partnership has committed to certain payments as follows:

	Total	Due less than 1 year	Due 2 to 3 years	Due 4 to 5 years	Due after 5 years
Long-term debt obligations	$ 64,000	$ –	$ 7,000	$ 27,000	$ 30,000
Other obligations	8,915	1,110	2,981	1,878	2,946
Total obligations	$ 72,915	$ 1,110	$ 9,981	$ 28,878	$ 32,946

7. Related Party Transactions

The amounts due to related parties are as follows:

	March 31, 2006	December 31, 2005
Due to Creststreet Power & Income Management Limited	**$ 62**	$ 58
Due to Creststreet Capital Corporation	**13**	6
Due to PPWF Management Limited	**37**	44
Due to (from) 3Ci Inc.	**(4)**	4
	$ 108	$ 112

Payments to General Partner

Creststreet Power & Income General Partner Limited (the "General Partner") is reimbursed for reasonable costs incurred by it in acting as registrar and transfer agent and in attending to the administration of the Partnership. For the three-month period ended March 31, 2006, the General Partner was reimbursed $69 (2005 – $35).

Payments to Creststreet Power & Income Management Limited

Creststreet Power & Income Management Limited (the "Manager") is entitled to reimbursement of its operating expenses incurred in providing the services under the management agreement. For the three-month period ended March 31, 2006, the Manager earned $118 (2005 – $86) under the management agreement, including reimbursements of $28 (2005 – $6) for out-of-pocket expense.

For the three-month period ended March 31, 2006, Creststreet Holdings Ltd ("CHL") was paid $108 (2005 – $43) to reimburse for costs it had paid directly on behalf of the Partnership.

Mount Copper

For the three-month period ended March 31, 2006, Mount Copper incurred $205 (2005 – $151) under the management services and financial administration agreements.

Pubnico Point

For the three-month period ended March 31, 2006, Pubnico Point incurred $99 (2005 – $123) under the management services, lease, and financial administration agreements. In addition, Pubnico Point paid $45 (2005 – nil) to Class B shareholders under the terms of the shares to PPWF Management Limited and Creststreet Capital Corporation.

Kettles Hill

During the first quarter of 2006, the Partnership issued subordinated promissory notes receivable to Kettles Hill Wind Energy Inc. ("Kettles Hill") in the amount of $5,000 related to the construction of a wind farm. The promissory note is unsecured and will not hold any liens over any assets of Kettles Hill. The note bears interest at 8.25% per annum until October 31, 2009 and thereafter at a rate of 9.5% per annum. The interest will not be received until the earlier of December 31, 2006 or sixty days after completion of the Infill Phase; however, it will be accrued on a monthly basis. The loan receivable is due on October 31, 2009. Up to 50% of the principal amount is convertible into Class A shares of Kettles Hill at the option of the Partnership at a rate of $1.70 per Class A share between June 30, 2007, and October 31, 2009, or earlier upon a change of control of Kettles Hill.

8. Notes Payable

The Mount Copper note facility of $18,953 remains outstanding and is due March 31, 2011. On September 12, 2005, the fixed interest rate on the note facility decreased from 6.55% to 6.10% per annum.

The Pubnico Point note facility of $11,047 remains outstanding and is due March 31, 2011. On August 3, 2005, the fixed interest rate on the note facility decreased from 6.491% to 6.041% per annum.

On December 19, 2005, the Partnership announced a commitment to purchase up to $31 million of subordinated notes of Kettles Hill which is constructing a 63 MW wind energy project in southern Alberta near Pincher Creek. As of March 31, 2006, $5,000 had been advanced to Kettles Hill and a further $1,000 was advanced subsequent to March 31, 2006.

To finance a portion of this commitment, the Partnership has arranged a $7,000 line of credit with a major Canadian financial institution, due on December 15, 2007 with a floating interest rate equal to the three-month bankers' acceptance rate plus 200 basis points. As at March 31, 2006 the effective interest rate was 5.91%. The line of credit is collateralized by the advances to Kettles Hill.

These financing agreements contain customary representations, warranties and covenants (including financial covenants and restriction on incurring additional indebtedness). Collateral for the facilities is provided by a first priority security interest in the assets of Mount Copper and Pubnico Point and various security interests granted by some of Mount Copper's and Pubnico Point's shareholders.

Notes to Consolidated Financial Statements (cont'd)

9. Distributions to Unitholders

Distributions to unitholders are paid on or about the 15th of each month, in arrears. The following distributions have been declared to unitholders for the three months ended March 31, 2006.

Period of distribution	Date of payment	Amount declared ($)	Amount declared ($ per unit)
January 1 – January 31, 2006	February 15, 2006	$ 721	$ 0.0627
February 1 – February 28, 2006	March 15, 2006	721	0.0627
March 1 – March 31, 2006	April 13, 2006	721	0.0627
Three months ended March 31, 2006		$ 2,163	$ 0.1881

Distributions to unitholders for the months of April and May 2006 will be $0.0627 per unit. The new distribution level of $0.0542 per unit per month will begin effective June 2006.

10. 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
Mount Copper:		
Asset retirement obligation, beginning of year	**$ 143**	$ 16
Liabilities incurred	**–**	120
Accretion expense	**2**	7
Asset retirement obligation, end of year	**$ 145**	$ 143

	March 31, 2006	December 31, 2005
Pubnico Point:		
Asset retirement obligation, beginning of year	**$ 91**	$ 7
Liabilities incurred	**–**	78
Accretion expense	**4**	6
Asset retirement obligation, end of year	**$ 95**	$ 91
Total	**$ 240**	$ 234

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.

11. Economic Dependence

For the three months ended March 31, 2006, the Partnership was dependent on Hydro-Québec, Canadian Federal Government and Nova Scotia Power Inc. for 49% (2005 – 28%), 3% (2005 – nil), 48% (2005 – 72%) of consolidated revenues, respectively.

12. Fair Value of Instruments

At March 31, 2006, the carrying amount of cash, restricted cash, 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 notes payable of $30,000 approximates fair value due to the short period of the time that has elapsed between finalizing the terms of the agreements and the period end date. The remaining $7,000 note payable approximated fair value because of its floating rate nature.

As at March 31, 2006, the fair value of the unsecured convertible debenture was $27,540.

Creststreet Power & Income General Partner Limited

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Principal
Saddleback Resources Ltd.

Stuart P. Hensman**
Corporate Director

Eric McFadden
Managing Director
Creststreet Capital Corporation

Robert S. McLeese*
President
Access Capital Corp.

Robert J. Toole, C.A.
President, Chief Executive Officer
and Director
Creststreet Asset Management Limited

Officers

Eric McFadden
President and Chief Executive Officer

Donna Shea, C.A.
Vice-President, Finance

Mark Stewart, C.A.
Treasurer

Arlene McLean
Secretary

* Audit committee member
** Audit committee chair

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