



# Creststreet Windpower Development LP

## 2005 > Annual Report

### Management's Discussion and Analysis

For the years ended December 31, 2005 and 2004

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

The following is a discussion of the consolidated financial condition and results of operation of Creststreet Windpower Development LP (the "Partnership"). It should be read in conjunction with the audited financial statements and notes for the years ended December 31, 2005, and 2004. 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 Windpower Development LP.

Certain statements contained in this MD&A and elsewhere in this annual report 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 these 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 other 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

In late 2004, Creststreet Windpower Development LP raised \$12,000 to invest in Canadian companies engaged in the development of commercial-scale windpower projects with a focus on maximizing financing expenditures that qualify as Canadian Renewable and Conservation Expenses ("CRCE"), which are 100% tax deductible in the year incurred and can be renounced to investors via flow-through shares. The Partnership entered into flow-through financing commitments of \$6,550 during 2004 and \$1,665 during 2005, investing in an additional \$900 note receivable and \$550 in equity investments in 2004 and 2005. The Partnership has also set aside an additional \$538 to be invested in equity investments in 2006. In aggregate, the Partnership has invested, committed or intends to invest \$10,203 in wind energy companies with the balance of funds being set aside for expenses.

Creststreet Windpower Development LP 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 Canada 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 provide predictable energy production from wind, 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 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 \$40,000. 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. As of July 11, 2005, the Partnership no longer controls Kettles Hill and, as a result, has ceased consolidation accounting and commenced equity accounting for its investments.

The Kettles Hill Wind Energy Inc. ("Kettles Hill") project is situated near Pincher Creek, Alberta, approximately 200 kilometers south of Calgary and approximately 20 kilometers 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 \$42,500 and a commitment from Creststreet Power & Income Fund LP to purchase up to \$31,000 of subordinated notes. As a result, Kettles Hill has obtained sufficient financing commitments to complete the construction of the windpower project. Kettles Hill has erected and commissioned five test wind turbines as of March 2006 ("CRCE Phase" or "Phase I") and is producing and selling power to the provincial grid. Following a 120-day test period, and subject to satisfactory test results during such period, Kettles Hill intends to erect a further 30 wind turbines (the "Infill Phase" or "Phase II"). Completion of the windpower project is expected in the fall of 2006.

The Dokie Wind Energy Inc. ("Dokie") project is situated in the Peace River Region of British Columbia and is expected to have the potential for an installed capacity of up to 600 MW of renewable energy. Dokie has been developed to the extent that it is ready to bid for a power purchase agreement ("PPA") from BC Hydro. Several bids will be placed in April 2006 and a response is expected by September 2006.

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, an 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 PPA from Newfoundland and Labrador Hydro. This bid will be placed in August 2006, with a response expected late in 2006.

The Benchlands Wind Power Corp. ("Benchlands") 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. A response is expected in the spring of 2006.

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. This bid will be placed in the spring of 2006 and a response is anticipated by the fall of 2006.



4333233 Canada 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.

### Selected Annual Information

	2005	2004
Revenue	\$ 140	\$ 23
Net income (loss) for the year	1,611	(330)
Net income (loss) per unit – basic and fully diluted	1.34	(0.11)
Total assets	13,336	12,855
Long-term liabilities	1,120	–

### Results of Operations

- > For the year ended December 31, 2005, we earned \$140 in interest income on short-term investments, paid management fees of \$193 and incurred administrative costs of \$311 related to the operations of the Partnership. All of the Wind Energy Companies are in the development stage and have not started operations.
- >

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 in the third quarter.

### 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

### Financial Condition

#### Liquidity

Cash and cash equivalents and cash held in escrow decreased by \$2,542 from \$6,031 at December 31, 2004 to \$3,489 at December 31, 2005 primarily due to the funding of deferred development costs and the long-term investment in Kettles Hill, and was partially offset by the decrease in amounts due from related parties.

#### Assets and Liabilities

At December 31, 2005, we had total assets of \$13,336 compared to \$12,855 at December 31, 2004. The total assets include \$2,461 of cash held in escrow, deferred development costs of \$4,135, pre-operating costs of \$137, long-term investment of \$4,397 and net working capital of \$1,886. The deferred development costs were related to pre-construction development of the Wind Energy Companies' projects and were funded primarily from cash held in escrow.

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

### Contractual Obligations

Creststreet Capital Corporation ("CCC") has entered into a letter of intent with the developer of each wind energy project, which contemplates the provisions of joint participation in the development, financing, construction and operation of the projects. The matters covered in the letters of intent include the fees to be paid to CCC for financial and administration services and to the developers for construction management services and operating and maintenance services. The details of these provisions are subject to the economic viability of each specific project and entering into definitive agreements.

As at December 31, 2005, the Partnership had 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 remaining to be advanced	Amount in escrow
Kettles Hill	\$ 3,600	\$ 3,600	\$ –	\$ –
Dokie	3,100	1,835	1,265	1,230
Bonavista	550	234	316	304
Windrise	740	469	271	257
Benchlands	215	100	115	110
Grand Valley	300	–	300	300
Buffalo Atlee	260	–	260	260
	\$ 8,765	\$ 6,238	\$ 2,527	\$ 2,461

### Related Party Transactions

Pursuant to joint venture agreements, CCC will earn monthly fees of \$11 for financial and administrative services and the Joint Venture Partners (Earth First Energy Inc., Wind Project Inc., Windbreaker Energy Inc., Windworks Energy Corp., Land's End Corp. and Windcor Power Systems) will earn monthly fees of \$89 for services related to the development of the projects. In addition, CCC and the Joint Venture Partners are entitled to certain out-of-pocket reimbursement. For the year ended December 31, 2005, the projects incurred fees of \$818 (2004 – \$63) under these agreements.

We will reimburse all reasonable costs incurred by Creststreet Windpower Development General Partner Limited (the "General Partner") in acting as registrar and transfer agent and in attending to the administration of the Partnership.

In 2004, the Partnership paid a fee of \$25 to Creststreet 2004 Limited Partnership, an affiliate of the Partnership, as compensation for waiving its right of first refusal in respect of certain windpower investments made by the Partnership.

CCC is entitled to a monthly fee of \$15 in accordance with the Management Agreement for administrative services provided to the Partnership. For the year ended December 31, 2005, fees paid to CCC were \$180 (2004 – \$45).

The Partnership has invested in a subordinated note with Kettles Hill for \$900 to finance Kettles Hill pre-development costs. Interest is charged at a rate of 10% per annum. For the year ended December 31, 2005, the Partnership earned \$38 of interest income from the note.



The amounts paid to related parties are as follows:

December 31	2005	2004
Earth First Energy Inc.	\$ 707	\$ 142
Creststreet Capital Corporation	300	49
Windbreaker Energy Inc.	240	44
Windworks Energy Corp.	71	–
Wind Project Inc.	62	–
Land's End Corp.	40	–
Windcor Power Systems	15	–
Creststreet Holdings Limited	2	–
Kettles Hill Wind Energy Inc.	–	51
Creststreet 2004 Limited Partnership	–	25
	\$ 1,437	\$ 311

### Change in Partners' Capital, Retained Earnings and deficit

For the year ended December 31, 2005, partners' capital and retained earnings and deficit decreased by \$661 from \$10,869 at December 31, 2004 to \$10,208 at December 31, 2005. The decrease was primarily due to a net loss from operations of \$364, a dilution gain of \$1,975 and an increase in future income taxes of \$2,271. Future income taxes were recorded based on the amount of renunciation of Canadian Renewable and Conservation Expenses ("CRCE") to December 31, 2005 and are offset against partners' capital to reflect the value of tax deductions flowed through to limited partners.

In December 2004, the Partnership completed its offering of limited partnership units, raising gross proceeds of \$12,000. The Partnership paid agents' fees of \$586, being 5% of the gross proceeds raised through registered dealers, and incurred \$215 in issue costs to complete this offering. Partner's capital was also reduced by the net loss from operations of \$330 in 2004.

### Outlook

The Manager is pleased with the Partnership's portfolio of investments and, with its Joint Venture Partners, continues development of windpower projects within the Wind Energy Companies. The Partnership's first investment, totaling 37.5% of its gross raised capital, was Kettles Hill Wind Energy Inc. which entered into construction 10 months after the Partnership's investment. It completed its first phase of construction in March 2006 and is now generating electricity from five turbines. Its second phase is expected to begin in July 2006 and completion is scheduled for the fall of 2006. The Manager expects a liquidity process to follow, from which the Partnership is expected to benefit.

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

The biggest challenge facing the windpower industry 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 PPA's from provincial utilities, being awarded a PPA and commencing construction also present challenges as other costs vary. Having completed two wind farms and managing the construction of a third wind farm gives us a significant competitive advantage over many competing developers.

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

We expect to obtain a return on our Kettles Hill investment within 12 months and bring several projects to the construction stage in the next 12 to 18 months. We continue to be excited about the windpower opportunities in our portfolio and the progress we are making on bringing them to fruition.

### Risks and Uncertainties

Limited Partners must rely on the discretion and skill of the Partnership in selecting and entering into subscription agreements (including flow-through agreements) with Wind Energy Companies and in determining (in accordance with the Partnership's investment strategy and investment guidelines) the composition of the portfolio of securities (including flow-through shares) of Wind Energy Companies to be owned by the Partnership.

There is, and it is expected that there will continue to be, only a limited number of Wind Energy Companies with viable windpower projects.

The General Partner will not necessarily require independent wind engineering, interconnection or other technical reports to be provided by a Wind Energy Company as a condition of subscribing for securities to be issued by that Wind Energy Company.

There can be no assurance that a liquidity process will be available, proposed or receive all necessary regulatory and other approvals.

The value of units will vary (for reasons beyond the control of the Partnership) in accordance with the value of the securities acquired by the Partnership and in some cases the value of securities owned by the Partnership may be affected by such factors as investor demand, resale restrictions, general market trends or regulatory restrictions. Fluctuations in the values of such securities may occur for a number of reasons beyond the control of the Partnership and there is no assurance that an adequate, or any, market will exist for securities acquired by the Partnership.

The business activities of Wind Energy Companies are speculative and may be adversely affected by factors outside the control of those companies. The profitability of Wind Energy Companies (and correspondingly the value of investments held by the Partnership in such Wind Energy Companies) is likely to be subject to numerous operating risks, including construction risks, possible failure of the test phase of a windpower project, possible failure of a windpower project to be commercially viable, risk that expenditures do not qualify as CRCE, risk that PPAs, interconnection agreements or permits may be unachievable or terminated once obtained, risk of prices payable for energy under PPAs or otherwise by purchasers, risk that the construction debt facilities and further equity financing may be unavailable, risks related to turbine design and local climatic conditions, reliance on key customers and suppliers, risks related to the assessment, availability and variability of wind resources and associated wind energy production, liability for environmental damage, contract performance risks, insurance limits, force majeure, competition and government regulation.

The Partnership will invest primarily in securities of Wind Energy Companies, a focus which may result in the net asset value of the units being more volatile than portfolios with a more diversified investment focus.

The value of the Partnership's portfolio may fluctuate with underlying market prices for energy and interest rates.

A significant percentage of the Partnership may be invested in one or a small number of Wind Energy Companies, which may result in the net asset value of the units being more volatile than portfolios with a more diversified investment complement.



While the General Partner has agreed to indemnify the Limited Partners in certain circumstances, the General Partner has nominal assets and it is unlikely that it will have sufficient assets to satisfy any claims pursuant to such indemnity.

The Partnership is significantly dependent on the services of Robert J. Toole and Eric C. McFadden, each a director and officer of the General Partner of the Partnership. The loss of Mr. Toole or Mr. McFadden from the General Partner could have a material adverse effect on the management and business of the Partnership.

The General Partner, its affiliates and associates and their respective directors and officers may engage in the promotion, management or investment management of any other fund, partnership or other investment vehicle including those which invest primarily in securities (including flow-through shares) of Wind Energy Companies, and certain conflicts may arise from time to time in the promotion, management or investment management of such funds, partnerships or vehicles and in determining appropriate investment opportunities. Although none of the directors or officers of the General Partner will devote his full time to the business and affairs of the General Partner or the Partnership, each will devote as much time as is necessary for the management of the business and affairs of the General Partner and the Partnership.

The General Partner, its affiliates and associates and their respective directors and officers may have interests in, and may also be entitled to receive fees, benefits and other economic incentives from, the Wind Energy Companies in which the Partnership invests and will have no liability to account to the Partnership or Partners for same.

Limited Partners may lose their limited liability in certain circumstances, including by taking part in the control of the business of the Partnership, and limited liability may be unavailable under the laws of certain jurisdictions. The principles of law in the various jurisdictions of Canada recognizing the limited liability of the limited partners of limited partnerships subsisting under the laws of one province but carrying on business in another province or territory have not been authoritatively established. If limited liability is lost, there is a risk that Limited Partners may be liable beyond their contribution and share of undistributed net income of the Partnership in the event of judgment on a claim in an amount exceeding the sum of the net assets of the General Partner and the net assets of the Partnership.

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.

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

There is a risk that the expenditures incurred by Wind Energy Companies and purportedly renounced to the Partnership may not qualify as CRCE, which would adversely affect the return on a Limited Partner's investment in the units.

If the Partnership sells flow-through shares, it will realize a capital gain substantially equal to the sale proceeds because the flow-through shares have a nil cost for tax purposes. There is therefore a possibility that Limited Partners will receive allocations of income (including taxable capital gains) from the Partnership without receiving a corresponding cash distribution to satisfy any resulting tax liability.

There may be disagreements with the Canada Revenue Agency with respect to certain tax consequences of an investment in units of the Partnership. The alternative minimum tax could limit tax benefits available to Limited Partners.



## Management's Responsibility for Financial Reporting

These consolidated financial statements form the basis for all of the financial information that appears in this annual report. The financial statements and all of the information in this annual report are the responsibility of the management of Creststreet Windpower Development LP and have been reviewed and approved by its board of directors. The board of directors is responsible for ensuring that management fulfills its financial reporting responsibilities.

Management has prepared the financial statements according to Canadian generally accepted accounting principles ("GAAP"). Under these principles, management has made certain estimates and assumptions that are reflected in the financial statements and notes. Management believes that these financial statements fairly present the entity's financial position and results of operations and changes in cash flows. Management has a system of internal controls designed to provide reasonable assurance that the financial statements are accurate and complete in all material respects. Management believes that the internal controls provide reasonable assurance that our financial records are reliable and form a proper basis for preparing the financial statements, and that our assets are properly accounted for and safeguarded.

Ernst & Young LLP, the Partnerships' external auditors, have audited the consolidated financial statements in accordance with Canadian GAAP and their report is included below. Ernst & Young LLP has free and full access to the board's audit committee.

**Robert J. Toole**  
President and Chief Executive Officer  
Creststreet Windpower Development General Partner Limited  
March 17, 2006

**Donna Shea**  
Vice-President, Finance and Chief Financial Officer  
Creststreet Windpower Development General Partner Limited

## Auditors' Report to the Partners of Creststreet Windpower Development LP

We have audited the consolidated balance sheet of Creststreet Windpower Development LP (the "Partnership") as at December 31, 2005, and the consolidated income statement, statements of partners' capital and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2004 were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 28, 2005.

**Chartered Accountants**  
Toronto, Canada  
March 17, 2006

## Consolidated Balance Sheets

As at December 31 (All amounts in thousands)	2005	2004
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,028	\$ 1,968
Cash held in escrow (Note 3)	2,461	4,063
Accounts receivable	174	68
Due from related parties (Note 7)	104	2,368
	<b>3,767</b>	8,467
Deferred development costs (Note 4)	4,135	4,251
Pre-operating costs (Note 5)	137	137
Note receivable from Kettles Hill (Note 8)	900	-
Long-term investment (Note 8)	4,397	-
	<b>\$ 13,336</b>	<b>\$ 12,855</b>
<b>Liabilities, Partner's capital, Retained earnings (deficit)</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 1,677	\$ 526
Due to related parties (Note 7)	204	108
	<b>1,881</b>	634
Future income tax liability (Note 13)	1,120	-
Non-controlling interest	127	1,352
	<b>3,128</b>	1,986
Partners' capital	8,927	11,199
Retained earnings (deficit)	1,281	(330)
	<b>\$ 13,336</b>	<b>\$ 12,855</b>

Commitments (Note 6)

See accompanying notes to 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 year ended December 31, 2005	From inception on August 12, 2004 to December 31, 2004
<small>(All amounts in thousands, except per unit data)</small>		
<b>Investment income</b>		
Interest income	\$ 140	\$ 23
<b>Expenses</b>		
Management fees (Note 7)	193	48
Administrative costs	311	305
	<b>504</b>	353
Loss before undernoted	<b>(364)</b>	(330)
Dilution gain (Note 8)	<b>1,975</b>	–
Net income (loss)	<b>1,611</b>	(330)
Deficit, beginning of year	<b>(330)</b>	–
Retained earnings (deficit), end of year	<b>\$ 1,281</b>	\$ (330)
Net income (loss) per unit – basic and fully diluted	<b>\$ 1.34</b>	\$ (0.71)
Weighted average number of units	<b>1,200</b>	464

## Consolidated Statements of Partners' Capital

<small>As at December 31 (In thousands)</small>	2005	2004
<b>Partners' capital – beginning of period</b>	<b>\$ 11,199</b>	\$ –
Proceeds from issue of units	–	12,000
Payment of costs of issue	<b>(1)</b>	(215)
Payment of agents' fees	–	(586)
Future income tax resulting from renunciation	<b>(2,271)</b>	–
<b>Partners' capital – end of period</b>	<b>\$ 8,927</b>	\$ 11,199

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

(All amounts in thousands)	For the year ended December 31, 2005	From inception on August 12, 2004 to December 31, 2004
Net income (loss)	\$ 1,611	\$ (330)
Add items not affecting cash		
Dilution gain	(1,975)	-
	(364)	(330)
<b>Change in working capital</b>		
Increase in accounts receivable	(106)	(68)
Increase (decrease) in accounts payable and accrued liabilities	(289)	435
(Increase) decrease in amounts due from related parties	2,264	(2,368)
Increase in amounts due to related parties	96	108
	1,601	(2,223)
<b>Cash flows from financing activities</b>		
Proceed from issue of units	-	12,000
Issue costs	-	(801)
Increase in note receivable from Kettles Hill	(900)	-
	(900)	11,199
<b>Cash flows from investing activities</b>		
Decrease (increase) in cash held in escrow	1,602	(4,063)
Increase in deferred development costs and pre-operating costs	(3,243)	(2,945)
	(1,641)	(7,008)
Net decrease in cash	(940)	1,968
Cash and cash equivalents, beginning of period	1,968	-
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,028</b>	<b>\$ 1,968</b>
<b>Supplemental cash information</b>		
Interest and cash taxes paid	\$ -	\$ -

See accompanying notes to consolidated financial statements.



## Notes to Consolidated Financial Statements

As of December 31, 2005 and 2004

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

### 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 December 31, 2005, the Partnership had 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 then operate wind energy projects to generate electricity for sale to the provincial electricity utilities.

The General Partner of the Partnership is Creststreet Windpower Development General Partner Limited ("General Partner"). The General Partner has a 0.01% beneficial interest in the Partnership. The Partnership had entered into an agreement with the General Partner, pursuant to which the General Partner will perform certain management, administration and other services for the Partnership.

The General Partner is a wholly owned subsidiary of Creststreet Capital Corporation ("CCC").

### 2. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and the following is a summary of significant accounting policies followed by the Partnership:

#### a. Basis of Consolidation

As at December 31, 2005, the Partnership owned 80.31% of the voting shares of Dokie, 53.90% of the voting shares of Bonavista, 100% of the voting shares of each of Windrise and Benchlands, and none of the voting shares of Buffalo Atlee and Grand Valley (collectively these companies are referred to as the "Wind Energy Companies"). All of the Wind Energy Companies are variable interest entities as a result of the terms of their shares, and the Partnership has a variable interest in each of them and will receive the majority of the Wind Energy Companies' expected residual returns and will absorb the majority of the expected losses. As a result of applying the provisions of AcG-15 Variable Interest Entities, the Partnership is the primary beneficiary and has consolidated the results of the Wind Energy Companies in its financial statements.

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 in Kettles Hill. As at December 31, 2005, the Partnership owned 16.85% of the voting shares of Kettles. Entities which are not controlled but over which the Partnership has the ability to exercise significant influence are accounted for using the equity method.

#### b. Cash and Cash Equivalents

Cash equivalents are comprised of highly liquid investments having original terms to maturity of 90 days or less when acquired. Cash equivalents are valued at cost plus accrued interest, which approximates market value.

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

### **c. Limited Partnership Unit Issue Costs**

Costs incurred in connection with the issuance of units are deducted from the proceeds of the offering of units included in limited partners' equity.

### **d. Plant and Equipment and Deferred Development Costs**

The assets of the Wind Energy Companies are accounted for at cost. Cost includes development costs and the cost of acquiring and constructing support facilities and wind turbines. Interest on debt incurred to construct capital assets is capitalized during the construction period. The deferred development costs will be transferred to plant and equipment once commercial production commences. At the time of transfer, amortization on a straight-line basis over 20 years will commence. No amortization has taken place.

The Partnership regularly reviews the recoverability of deferred development costs through an evaluation of the expected future cash flows from the operation of the wind energy project to determine if there has been an impairment in the recoverable amount.

### **e. Pre-operating Costs**

Expenditures occurring during the pre-operating period that relate directly to placing a new business into service but do not qualify as capital assets will be capitalized to pre-operating assets. These will be amortized over a five-year period. The pre-operating period begins with the development of the site and will end when commercial operations begin. No amortization has taken place.

### **f. Revenue Recognition**

Interest and investment income is recognized as earned.

### **g. Income Taxes**

The Partnership is not a taxable entity. Income taxes on its income are the responsibility of the individual partners and, accordingly, have not been recorded in these consolidated financial statements.

The Wind Energy Companies are taxable Canadian corporations subject to federal and provincial income taxes and capital taxes. The corporations account for income taxes under the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between financial statement carrying value and the tax basis of assets and liabilities. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected, recovered or settled. A valuation allowance is provided to record the future tax asset at the amount that is more likely than not to be recovered.

### **h. Non-Controlling Interest**

Non-controlling interest on the balance sheet represents the preferred shares issued by the Wind Energy Companies to their Joint Venture Partners and CS Capital Partners Ltd.

### **i. Use of Estimates**

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

**j. Prior Year Balances**

Certain prior year balances have been re-classified to conform to the presentation adopted in the current year.

**3. Cash Held in Escrow**

The Partnership entered into share subscription agreements to purchase \$3,600 of shares of Kettles Hill, \$3,100 of shares of Dokie, \$550 of shares of Bonavista, \$740 of shares of Windrise, \$215 of shares of Benchlands, \$300 of shares of Grand Valley, and \$260 of shares of Buffalo Atlee upon receipt of satisfactory evidence of expenditures qualifying for Canadian Renewable Conservation Expenses ("CRCE"). Accordingly, cash received under the subscription agreements was held in escrow. At December 31, 2005, the amount held in escrow was \$2,461 (\$4,063 at December 31, 2004).

**4. Deferred Development Costs**

December 31	2005	2004
<b>Kettles Hill</b>		
Deferred development costs, beginning of period	\$ 4,064	\$ -
Development costs deferred	-	4,064
Deconsolidation of Kettles Hill (Note 8)	(4,064)	-
Deferred development costs, end of period	-	4,064
<b>Dokie</b>		
Deferred development costs, beginning of period	142	-
Development costs deferred	2,595	142
Deferred development costs, end of period	2,737	142
<b>Bonavista</b>		
Deferred development costs, beginning of period	-	-
Development costs deferred	498	-
Deferred development costs, end of period	498	-
<b>Windrise</b>		
Deferred development costs, beginning of period	45	-
Development costs deferred	566	45
Deferred development costs, end of period	611	45
<b>Benchlands</b>		
Deferred development costs, beginning of period	-	-
Development costs deferred	122	-
Deferred development costs, end of period	122	-
<b>Grand Valley</b>		
Deferred development costs, beginning of period	-	-
Development costs deferred	152	-
Deferred development costs, end of period	152	-
<b>Buffalo Atlee</b>		
Deferred development costs, beginning of period	-	-
Development costs deferred	15	-
Deferred development costs, end of period	15	-
Total deferred development costs, end of period	\$ 4,135	\$ 4,251

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

## 5. Pre-operating Costs

December 31	2005		2004	
<b>Kettles Hill</b>				
Pre-operating costs, beginning of period	\$	136	\$	–
Pre-operating costs deferred		–		136
Deconsolidation of Kettles Hill (Note 8)		(136)		–
Pre-operating costs, end of period		–		136
<b>Dokie</b>				
Pre-operating costs, beginning of period		1		–
Pre-operating costs deferred		84		1
Pre-operating costs, end of period		85		1
<b>Bonavista</b>				
Pre-operating costs, beginning of period		–		–
Pre-operating costs deferred		13		–
Pre-operating costs, end of period		13		–
<b>Windrise</b>				
Pre-operating costs, beginning of period		–		–
Pre-operating costs deferred		29		–
Pre-operating costs, end of period		29		–
<b>Benchlands</b>				
Pre-operating costs, beginning of period		–		–
Pre-operating costs deferred		9		–
Pre-operating costs, end of period		9		–
<b>Grand Valley</b>				
Pre-operating costs, beginning of period		–		–
Pre-operating costs deferred		1		–
Pre-operating costs, end of period		1		–
<b>Buffalo Atlee</b>				
Pre-operating costs, beginning of period		–		–
Pre-operating costs deferred		–		–
Pre-operating costs, end of period		–		–
Total pre-operating costs, end of period	\$	137	\$	137



## 6. Commitments

As at December 31, 2005 the following commitments to purchase shares were made by the Partnership:

	Investment pursuant to subscription agreements	Amount advanced	Amount remaining to be advanced	Amount in escrow
Kettles Hill	\$ 3,600	\$ 3,600	\$ –	\$ –
Dokie	3,100	1,835	1,265	1,230
Bonavista	550	234	316	304
Windrise	740	469	271	257
Benchlands	215	100	115	110
Grand Valley	300	–	300	300
Buffalo Atlee	260	–	260	260
	\$ 8,765	\$ 6,238	\$ 2,527	\$ 2,461

CCC has entered into a letter of intent with the developer of each wind energy project, which contemplates the provisions of joint participation in the development, financing, construction and operation of the projects. The matters covered in the letters of intent include the fees to be paid to CCC and the developers related to construction management services and operating and maintenance services. The details of these provisions are subject to the economic viability of each specific project and entering into definitive agreements.

The Wind Energy Companies have entered into a number of lease agreements with respect to the sites for the wind energy projects. The term and the rent payable under each of these lease agreements vary, based on the size of the location, capacity, and duration.

The Joint Venture Partners and Creststreet Power Holdings Limited own Class B and Class C shares of the Wind Energy Companies. Holders of these shares are entitled to dividends based on performance of the Wind Energy Companies.

## 7. Related Party Transactions

### Payments to General Partner

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.

### Payments to Related Parties

Pursuant to joint venture agreements, CCC will earn monthly fees of \$11 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") will earn monthly fees of \$89 for services related to the development of the projects. In addition, CCC and the Joint Venture Partners are entitled to certain out-of-pocket reimbursement. For the year ended December 31, 2005, the projects incurred fees of \$818 (2004 – \$63) under these agreements.

In 2005, the Partnership paid a fee of \$25 to Creststreet 2004 Limited Partnership, an affiliate of the Partnership, as compensation for waiving its right of first refusal in respect of certain windpower investments made by the Partnership.

CCC is entitled to a monthly fee of \$15 in accordance with the Management Agreement for administrative services provided to the Partnership. For the year ended December 31, 2005, fees paid to CCC were \$180 (2004 – \$45).

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

In 2005, the Partnership invested in a \$900 subordinated note with Kettles Hill to finance Kettles Hill pre-development costs. Interest is charged at a rate of 10% per annum. For the year ended December 31, 2005, the Partnership earned \$38 of interest income from the note.

The amounts due from (to) related parties as at December 31, 2005 and December 31, 2004 are as follows:

December 31	2005	2004
Kettles Hill Wind Energy Inc.	\$ 104	\$ –
Creststreet	(73)	(19)
Land's End Corp.	(43)	–
Earth First Energy Inc.	(30)	(64)
Windbreaker Energy Inc.	(21)	–
Windworks Energy Corp.	(19)	–
Windcor Power Systems	(16)	–
Wind Project Inc.	(2)	–
General Partner	–	2,368
Creststreet 2004 Limited Partnership	–	(25)
	\$ (100)	\$ 2,260

### 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 \$40,000 to finance the CRCE phase as well as a portion of the Infill Phase of the planned 63 MW Kettles Hill windpower 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 in Kettles Hill is \$4,397. The cost of the investment was \$3,600, which was decreased by the impact of tax renunciation of \$1,151. Prior to July 11, 2005, Kettles Hill had received \$27 in interest income on account of the subordinated notes that were issued by CWDLP to Kettles Hill. The acquisition of Kettles Hill by CKHLP resulted in a dilution gain of \$1,975.

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.

In addition to the equity investment of \$600 (2004 – \$3,000) in Kettles Hill, CWDLP also invested \$900 in subordinated notes during 2005 (2004 – Nil). The Partnership charges interest at 10% per annum, maturing on July 31, 2025.

### 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. Pursuant to the terms of flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, partners’ capital was reduced and a future tax liability was recorded equal to the estimated amount of future income taxes payable by Dokie, Bonavista, Windrise and Benchlands as a result of the renunciations, when the renunciations were made. Renunciations made during 2005 resulted in a future tax liability of \$1,120.

Partner’s capital has also been reduced by renunciations made of \$1,151 in Kettles Hill prior to July 11, 2005.



## 10. Sale of Units

In December 2004, the Partnership issued 1,200,001 limited partnership units for total consideration of \$12,000 before the deduction of issuance costs.

## 11. Financial Instruments

At December 31, 2005 the carrying amount of cash, cash held in escrow, accounts receivable, accounts payable and due to and due from related parties approximates fair value due to their short-term nature.

As at December 31, 2005 the carrying amount of notes receivable approximates fair value due to the short period of time that had elapsed between finalizing the terms of the agreements and the period end date.

## 12. Indemnification

Generally, it is not the Partnership's policy to issue guarantees to non-controlled affiliates or third parties, with limited exceptions.

Many of the Partnership's agreements, specifically those related to financing, include indemnification provisions where the Partnership may be required to make payments to a vendor or purchaser for breach of fundamental representation and warranty terms in the agreements with respect to matters such as corporate status, title of assets, environmental issues, consents to transfer, employment matters, litigation, taxes payable and other potential material liabilities. The maximum potential amount of future payments that the Partnership could be required to make under these indemnification provisions is not reasonably quantifiable as certain indemnifications are not subject to a monetary limitation. At December 31, 2005, management does not believe that these indemnification provisions would require any material cash payment by the Partnership.

## 13. Income Taxes

The tax effects of temporary differences that gave rise to the future tax liabilities at December 31, 2005 were a result of the tax renunciations related to deferred development costs and pre-operating costs related to the entities presented below:

December 31	2005		2004
Dokie	\$	<b>725</b>	\$ —
Bonavista		<b>191</b>	—
Windrise		<b>168</b>	—
Benchlands		<b>36</b>	—
	\$	<b>1,120</b>	\$ —

## Creststreet Windpower Development General Partner Limited

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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

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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

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