



### Management's Discussion and Analysis

For the three and nine month periods ended September 30, 2007 and 2006  
November 26, 2007

#### Forward Looking Statements

Except for the historical and present factual information, certain statements contained in this Management Discussion and Analysis ("MD&A") constitute "forward-looking statements" within the meaning of the *Securities Act (Ontario)*. These forward-looking statements, by their nature, are not guarantees of future performance and involve risks and uncertainties, which could cause actual results to differ materially from those anticipated in these forward-looking statements. 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 are outlined in the MD&A for the year ended December 31, 2006.

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

The following is a discussion of the consolidated financial condition and results of operations of Creststreet Kettles Hill Windpower LP for the three and nine months ended September 30, 2007. It should be read in conjunction with the Partnership's unaudited interim consolidated financial statements for the same period along with the MD&A and consolidated financial statements for the year ended December 31, 2006, and the MD&A and unaudited interim consolidated financial statements for the period ended March 31, 2007 and June 30, 2007. The Partnership prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") applied on a consistent basis with those used to prepare the prior year consolidated financial statements, except as noted in the consolidated financial statements. All dollar amounts in this MD&A are in Canadian dollars unless otherwise stated. Where we say "we," "us," or the "Partnership," we mean Creststreet Kettles Hill Windpower LP.

The Partnership uses operating margin as a performance measure. This term is not a defined financial measure according to GAAP and does not have standardized meanings prescribed by GAAP. Therefore this measure may not be comparable to similar measures presented by other enterprises.

On July 6, 2007, the CSA issued revised National Policy 41-201, Income Trusts and Other Indirect Offerings. We have adopted their recommendations in this third quarter MD&A.

During the third quarter, the Canadian Performance Reporting Board of the CICA also published an Interpretive Release titled Standardized Cash in Income Trusts and Other Flow-Through Entities: guidance on Preparation and Disclosure. The Fund is currently reviewing the document to determine the potential impact that the guidance may have on its disclosures.

## Overview

In July 2005, the Partnership completed its initial public offering ("IPO") of limited partnership units, raising gross proceeds of \$40.00 million for investment in flow-through shares and subordinated notes of Kettles Hill Wind Energy Inc. ("Kettles Hill"). The Partnership announced on July 30, 2007 that it had achieved substantial completion of its 63 megawatt ("MW") windpower facility. All 35 turbines are now fully erected and are producing electricity. The windpower facility is composed of 35 interconnected Vestas V80 1.8 MW turbines which generate electricity for sale to the Alberta power market. The Kettles Hill wind energy project is located near Pincher Creek, Alberta, approximately 200 kilometres south of Calgary and approximately 20 kilometres east of the Rocky Mountains. The site is adjacent to a 138kV transmission line.

We estimate that the capital cost to construct all 35 turbines and related infrastructure was approximately \$127.0 million, which is an increase of \$2.9 million from the previous forecast of the costs. The completion of the manufacturer's investigation into a turbine component failure lead to some incremental charges from the manufacturer. Total project costs were also impacted by delays arising from a series of crane malfunctions and the Manager being required to find a different erection crane to complete the wind power facility. Constructing in the over-heated Alberta market place, and during the windy winter season due to delivery delays of turbines by the manufacturer also increased project costs. The wind energy project is being financed through a combination of the proceeds from the Partnership's IPO, investments by various Creststreet entities and debt facilities provided by a major Canadian financial institution. Please see the liquidity section of this MD&A for details on the financing of the project.

In March 2006, Kettles Hill completed the construction and commissioning of the five Canadian Renewable and Conservation Expense (the "CRCE Phase") test turbines at the Kettles Hill facility. The 120-day test period required to qualify expenses for test turbines for CRCE tax treatment was completed on July 28, 2006. The ground and foundation work for the Infill Construction Phase was completed in the first quarter of 2007. The erection of the towers and turbines started in the fourth quarter of 2006 and was completed by the end of July 2007.

Construction of the project was completed approximately eleven months behind the original schedule. Delays were due to late receipt of the turbines; for which Vestas paid liquidated damages, changing the foundation design to a more traditional design in response to complex soil conditions at the site, malfunctions with the erection crane, which occurred in 2007 and completion of the manufacturer's investigation into a turbine component failure.

During the three and nine month periods ended September 30, 2007, \$13.0 million (2006 - \$29.31 million) and \$32.9 million (2006 - \$39.19 million), respectively, was spent on the project.

## Results of Operations

### > Revenue

For the three months ended September 30, 2007, the Partnership generated electrical revenue of \$2.42 million (2006 - \$0.32 million) from the delivery of 33.2 gigawatt hours (“GWh”) (2006 - 4.5 GWh). The increase from prior year is due to the completion and commissioning of the Infill Construction Phase on July 30, 2007 and the windpower facility now being in full commercial operations with all thirty-five turbines operating. In 2006 only the five CRCE turbines were operating. Production during the first nine months of the year has been impacted by the need to lock off the operating turbines so the newly constructed turbines could be connected to the wind power facilities collection system. This electricity has been sold into the Alberta spot market at the prevailing Alberta Power Pool prices at the time of delivery. During the third quarter of 2007 the Partnership realized average electrical pricing of \$73.01 per megawatt hour (“MWh”) (2006 - \$71.65 per MWh) which is well in excess of the \$55-\$60/MWh price forecast included in the Partnerships initial public offering prospectus. Turbine availability was within the Manager’s expectations and the warranted levels. For the first two full months of production the windpower facility operated at 95% of the independent engineers long-term forecast.

For the nine months ended September 30, 2007, the Partnership earned \$3.5 million (2006 - \$0.66 million) in revenue from the delivery of a total of 53.5 GWh (2006 - 12.2 GWh) of electricity, which included \$48,318 of renewable energy certificates (see contractual obligations below). During the nine months ended September 30, 2007 the Partnership’s realized electrical pricing averaged \$63.84 per megawatt hour (“MWh”) (2006 - \$54.22 per MWh).

On July 11, 2007, The Minister of Natural Resources of Canada’s Federal Government announced the Government of Canada will make contributions under its ecoEnergy Renewable Power incentive program (“ERPI”) to Kettles Hill. As per the determination of Natural Resources Canada, Kettles Hill receives an incentive of \$0.01 per kilowatt hour (“kWh”) of eligible production for the first 10 years of operation to a maximum of \$1.66 million per year and \$16.57 million over the term of the agreement. Production from the five CRCE Phase turbines is not eligible under the program. Revenue from ERPI is recognized at the time of the electrical energy delivery. During the third quarter 2007, \$0.26 million was recorded for ERPI.

The Partnership’s revenue, earnings and cash flow are subject to seasonal fluctuations. The highest level of revenue is expected in winter months (generally the first and fourth quarters), and the lowest level of revenue in the third quarter (summer months).

### > Operating Costs

For the three months ended September 30, 2007, the Partnership incurred operating costs of \$0.56 million (2006 - \$0.09 million) and recorded an operating margin of 77% of revenue (2006 - 72%). The expenses related to the operation of the project are primarily fixed costs such as warranty and maintenance fees, leases, property taxes and insurance. Other operating costs for the three months ended September 30, 2007 included management fees of \$0.18 million and administrative costs of \$0.47 million (2006 - \$0.16 million and \$0.15 million respectively).

For the nine months ended September 30, 2007, the Partnership incurred operating costs of \$0.99 million (2006 - \$0.19 million) and recorded an operating margin of 72% of revenue (2006 - 71%). Other operating costs for the nine months ended September 30, 2007, included management fees of \$0.51 million (2006 - \$0.45 million) and administrative costs of \$1.18 million (2006 - \$0.37 million) related to the operation of the Partnership. Included within the administrative costs are professional fees in relation to the sale process of \$0.10 million.

Costs incurred for 2007 relate to nine months of operations compared to only four months of operations in 2006 as the CRCE turbines began commercial operations in March 2006. Within 2007 full commercial operations began in July 2007, for all thirty-five turbines where as in the prior year there were only five CRCE turbines operating.

#### **> Amortization**

The costs of construction in progress related to the CRCE Phase were reclassified to plant and equipment in the first quarter of 2006 when this phase of the project entered commercial operations. Amortization of this CRCE Phase began at that time in the first quarter of 2006. The costs of construction in progress related to the Infill Construction Phase were reclassified to plant and equipment in July 2007, when full commercial operations began. Amortization for the Infill Phase began July 31, 2007. The total amortization for the three and nine months ended September 30, 2007 was \$1.16 million (2006 - \$0.39 million) and \$1.94 million (2006 - \$0.90 million), respectively.

The Company also began amortizing pre-operating costs upon substantial completion of the CRCE Phase and recorded amortization of pre-operating costs of \$0.09 million (2006 - \$0.09 million) and \$0.27 million (2006 - \$0.21 million) for the three and nine month periods ended September 30, 2007, respectively.

#### **> Interest and Gains and Losses on Derivatives**

Total Interest expense recorded in the three and nine month periods ended September 30, 2007 was \$1.33 million (2006 - \$0.20 million) and \$1.88 million (2006 - \$0.40 million), respectively. Interest expense for the three and nine month periods is composed of interest on the funds loaned from Creststreet Windpower Development LP ("CWDLP") and CPIF to partially fund the CRCE construction, interest on all facilities subsequent to completion of the Infill Construction Phase and accretion expense related to the costs of issuing the debt.

Interest costs for the funding for the Infill Construction Phase was capitalized to Construction in Progress prior to full commercial operations beginning July 30, 2007 and amounted to \$0.46 million (2006 - \$0.29 million) and \$2.87 million (2006 - \$0.32 million) for the three and nine month periods ended September 30, 2007, respectively. Subsequent to full commercial operations interest on all debt is now expensed. Included in the interest expense is the non cash item of the non-cash accretion expense was \$0.13 million (2006 - \$0.006) and \$0.34 million (2006 - \$0.01), for the three and nine month periods ended September 30, 2007, respectively.

During 2007 Kettles Hill no longer held any option agreements. Kettles Hill in 2005 and 2006 entered into option agreements to purchase Euros (EUR), which were used to reduce foreign

exchange rate exposure on future purchases of wind turbines and were not entered into for trading or speculative purposes. These options did not qualify for hedge accounting and, as such, were recorded at their fair value on the consolidated balance sheet. The total cost of purchasing these options of \$0.89 million was capitalized to pre-operating cost. On July 31, 2006 Kettles exercised its last option agreement to purchase EUR 7.00 million at an exercise price of C\$1.4170 per EUR for which it paid consideration of \$0.14 million; settlement proceeds of \$0.16 million were received. Subsequently this amount was recorded as foreign exchange gain in the consolidated statement of loss and deficit.

Four option agreements expired unexercised during the third quarter of 2006 as follows: (i) EUR 5.0 million at an exercise price of C\$1.5100, expired April 7, 2006; (ii) EUR 10.0 million at an exercise price of C\$1.5100, expired April 28, 2006; (iii) EUR 5.0 million at an exercise price of C\$1.5100 per EUR, expired June 15, 2006, (iv) EUR 5.0 million at an exercise price of C\$1.5100 per EUR, expired June 30, 2006. For the three and nine month periods ended September 30, 2007, a gain of nil (2006 - \$14,000) and nil (2006 - \$85,000), respectively, was realized on the foreign exchange options.

### **> Taxes**

For the three and nine month periods ended September 30, 2007, the Partnership reported a total future income tax recovery of \$0.26 million (2006 - \$0.27 million) and \$1.24 million (2006 - \$1.65 million), respectively.

The Partnership's results in the second quarter of 2007 were positively impacted by a reduction in the enacted Federal corporate income tax rate. This resulted in a non-cash reduction in future taxes of \$0.17 million.

### **Canadian Income Tax Rule Changes**

On June 12, 2007 the federal government's bill regarding the taxation of distributions from trusts and partnerships beginning January 1, 2011 passed the third reading making it substantively enacted in accordance with Canadian GAAP. In particular, income earned by these entities will be taxed in a manner similar to income earned and distributed by a corporation. This new legislation will not subject the Partnership to the trust level taxation as the Partnership is not listed on a stock exchange. If the Partnership was listed on a stock exchange, these new rules would apply. The future income tax liability on the consolidated balance sheet represents the future income tax liability of the Partnership's subsidiary Kettles Hill.

The Partnership has estimated its future income taxes on its best estimates of future results of operations and tax pool claims in the future assuming no material change to the Partnership's current organization structure. As currently interpreted, Canadian GAAP does not permit the Partnership's estimate of future income taxes to incorporate any assumptions related to acquisitions or dispositions of assets and liabilities until these are given legal effect. The Partnership's estimates and assumptions of future income taxes will vary based on actual results of the factors described above and such variations may be material.

## Quarterly Financial Information

(In thousands, except per unit data)

|                                | Q1 2007  | Q2 2007  | Q3 2007 | Q4 2007 | Total     |
|--------------------------------|----------|----------|---------|---------|-----------|
| Revenue                        | \$860    | \$361    | 2,717   | -       | \$3,938   |
| Net earnings / (loss)          | \$(389)  | \$(282)  | (764)   | -       | \$(1,435) |
| Net earnings / (loss) per unit | \$(0.10) | \$(0.07) | (0.19)  | -       | \$(0.36)  |

|                                | Q1 2006  | Q2 2006 | Q3 2006  | Q4 2006  | Total    |
|--------------------------------|----------|---------|----------|----------|----------|
| Revenue                        | \$69     | \$305   | \$363    | \$940    | \$1,677  |
| Net earnings / (loss)          | \$(209)  | \$427   | \$(459)  | \$(507)  | \$(748)  |
| Net earnings / (loss) per unit | \$(0.05) | \$0.11  | \$(0.12) | \$(0.13) | \$(0.19) |

|                   | Q1 2005 | Q2 2005 | Q3 2005  | Q4 2005  | Total    |
|-------------------|---------|---------|----------|----------|----------|
| Revenue           | \$ -    | \$ -    | \$34     | \$62     | \$96     |
| Net loss          | \$ -    | \$ -    | \$(484)  | \$(190)  | \$(674)  |
| Net loss per unit | \$ -    | \$ -    | \$(0.12) | \$(0.05) | \$(0.36) |

The CRCE Phase turbines at Kettles Hill began commercial production of electricity and began generating revenue and incurring operating expenses in March 2006. The second, third and fourth quarters of 2006 reflect full quarters of revenue and expenses from the initial five turbines. Windpower electrical generation experiences seasonality with peak seasons occurring in the first and fourth quarters and the low season in the third quarter. Fourth quarter 2006 electricity based revenues were \$0.82 million compared to \$0.32 million in the third quarter of 2006, primarily due to the seasonal increase in wind speeds and higher realized spot prices. Management fees increased in the fourth quarter compared to the other quarters in 2006 because the Manager in accordance with the management contract, began to charge its related overhead costs to Kettles Hill. The difference in net income in the third quarter compared to other quarters in 2006 is because of the enactment of lower federal income tax rates in the third quarter which resulted in a large future income tax recovery as discussed in the Taxes section above. The first quarter of 2006 reflected one month of revenue and operating expenses from the initial five turbines.

In the first quarter of 2007, electricity based revenues were \$0.7 million at realized electrical pricing on average of \$53.40 per MWh compared to the first quarter in 2006 were the Partnership realized prices of \$38.90 per MWh.

For the second quarter 2007, the Partnership generated electrical revenue of \$0.29 million, similar to the prior year period in 2006 from the delivery of 7.2 GWh (2006 - 6.4 GWh) of electricity generated by the five CRCE turbines that began commercial operations in March 2006. Production during the second quarter of 2007 and for the first six months of the year was impacted by the need to lock off the operating turbines so the newly constructed turbines could be connected to the wind power facilities collection system. This electricity was sold into the Alberta spot market at the prevailing Alberta Power Pool prices at the time of delivery. During the second quarter of 2007 the Partnership realized electrical pricing on average of \$40.54 per

MWh compared to the prior year second quarter in 2006 – of \$45.04 per MWh. For the second quarter of 2007, the Partnership incurred operating costs of \$0.28 million compared to prior year second quarter in 2006 of \$0.08 million. Operating margins for the second quarter 2007 were negatively impacted by the start of additional warranty, property taxes, maintenance expenses and insurance costs for the twenty one additional turbines completed but did not produce revenue for the full quarter.

As Kettles Hill did not begin commercial production of electricity until the first quarter of 2006, all revenue earned in 2005 was interest income. During the third quarter of 2005, Kettles Hill earned \$34,000 in interest income on short-term investments and paid management fees of \$471,000 including a one-time fee of \$342,000 upon completion of the IPO.

During the fourth quarter of 2005, Kettles Hill earned \$62,000 in interest income on short term investments and paid management fees of \$128,000.

## Financial Condition

### > Liquidity

The estimated capital cost of the Kettles Hill project is \$127.0 million. We anticipate that the Kettles Hill project will be financed as follows:

|   |                        |
|---|------------------------|
| Investment by Creststreet Windpower Development LP I and II                                   | \$4.5 million          |
| Proceeds of Kettles Hill Windpower LP IPO (net of fees associated with offering and reserves) | 34.5 million           |
| Subordinated notes funded by Creststreet Power & Income Fund LP                               | 35.9 million           |
| Senior debt facility (provided by a major Canadian financial institution)                     | 42.5 million           |
| Subordinated debt facility (provided by a major Canadian financial institution)               | 5.0 million            |
| Net cash flow from operations during construction   | 4.6 million            |
| <b>Total Financing</b>  | <b>\$127.0 million</b> |

On December 19, 2005, Kettles Hill announced a commitment by CPIF to invest up to \$31.00 million in subordinated notes to complete the financing requirements to fund the completion of the project and to fund any working capital requirements. Additional investments by CPIF of up to \$4.90 million in notes to Kettles Hill were approved at a special meeting of CPIF Unitholders on September 6, 2006. On May 31, 2007 CPIF agreed to invest up to an additional \$1.9 million in subordinated promissory notes; bringing its total investment to a maximum of \$35.9 million. During the third quarter of 2007, CPIF advanced the \$1.9 million. The terms of these subordinated notes are described in further detail in the Related Party Section of the MD&A.

On December 19, 2005, Kettles Hill also announced the closing of a construction loan facility with a major Canadian financial institution totaling \$42.50 million to finance its Infill Construction Phase. The terms of this loan are described in Note 9 to the consolidated interim financial statements for September 30, 2007. On August 4, 2006, \$8.75 million of Tranche A became subject to Kettles Hill receiving confirmation that it will receive contributions from the Canadian federal government's Wind Power Production Incentive ("WPPI") program or an equivalent program. On July 11, 2007, The Minister of Natural Resources of Canada's Federal Government announced that Kettles Hill would receive contributions under its ecoEnergy

Renewable Power incentive program (“ERPI”). The Manager is working with the lender so that the \$8.75 million advance will qualify to use the interest rate mechanism described below for Tranche A. This portion of the loan will not require principal payments consistent with the rest of the loan. During the second quarter of 2007, this \$8.75 million was advanced as a construction loan.

In the fourth quarter of 2006, Kettles Hill negotiated a \$5.0 million subordinated debt facility with a major Canadian financial institution as an additional tranche (Tranche C) to provide additional liquidity to finance a portion of the cost increases and to also provide additional liquidity in the event that there may be potential cost increases, during the construction of the Infill Phase. This facility, which matures on December 31, 2008, bears interest at 12% per annum and requires excess cash flow as defined by the agreement to be used to partially repay outstanding balances in excess of \$2 million prior to December 31, 2008. The other terms and conditions are standard for this type of facility. During the third quarter of 2007, this \$5.0 million subordinated debt was advanced.

Cash held in escrow decreased to \$0.72 million at September 30, 2007, from \$13.06 million at December 31, 2006, as the third advance of \$13.75 million on the credit facility that was placed into escrow in December 2006 along with \$3.80 million of the CPIF debt placed into escrow in the first and third quarter of 2007, and the \$5.0 million from the credit facility which was placed in escrow in the third quarter of 2007, was subsequently released and used to fund construction activities. Funds advanced to Kettles Hill through its credit facility are placed in escrow and may only be accessed for construction related expenses upon acceptance of the lender.

#### > Contractual Obligations

| (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 | \$84.30           | \$ -                 | \$63.40          | \$ -             | \$20.90           |
| WMS agreement              | 5.06 <sup>♦</sup> | 1.14                 | 2.27             | 1.65             | -                 |
| Total obligations          | \$89.36           | \$1.14               | \$65.67          | \$1.65           | \$20.90           |

<sup>♦</sup> Amounts will increase annually by the percentage change in CPI.

Kettles Hill has entered into four lease agreements with terms of each lease being 20 years with provisions for renewal of each lease for two additional 20 year terms. The annual rent payable under each lease agreement is 2.5% of electricity revenue.

Kettles Hill entered into a Warranty, Maintenance and Service Agreements (“WMS Agreement”) with Vestas – Canadian Wind Technology (“Vestas”), which provides for certain warranties in connection with the wind turbines installed at the wind energy project, and ongoing service and maintenance obligations in connection with the turbines. The WMS Agreement includes a facility-wide warranty, which commences upon substantial completion of the Infill Phase and is related to power curve performance and availability of the facility. In the event that the facility

fails to perform as warranted, the WMS Agreement entitles Kettles Hill to liquidated damages to offset any lost revenue. The WMS Agreement is for a 5-year period commencing at the date that the turbines come into service at a cost of \$32,500 per turbine per year. As at September 30, 2007, the total remaining commitment to Vestas under the WMS Agreement was \$5.06 million.

In April 2006, Kettles Hill signed a contract for the sale of 30 GWh of renewable energy certificates to Baseline Emissions Management Inc. ("Baseline"). The revenue generated from this contract will be recognized on an annual basis within forty-five days after the end of each calendar year, upon an executed transfer of title of the renewable energy certificates by Kettles Hill to Baseline. A total of \$48,318 was recorded as revenue in the first quarter of 2007 for the sale of these 2006 credits. Additionally in June 2006, Kettles Hill entered into an agreement with the federal government for the sale of 46,000 tonnes of emissions reductions from 2007 production at a price of \$7.97 per tonne of CO<sup>2</sup> equivalent.

On March 5, 2007, the Partnership engaged an independent financial advisor to provide financial advice on future possible transactions with respect to providing liquidity to the Limited Partners. The Partnership is committed to paying the advisor up to \$100,000 plus a success fee based on the transaction value.

#### **> Related Party Transactions**

In 2005, Kettles Hill entered into a subordinated note with Creststreet Windpower Development LP ("CWDLP") for \$900,000 to finance pre-development costs. Interest is charged at a rate of 10% per annum. For the three and nine month periods ended September 30, 2007, the Partnership incurred \$22,685 (2006 - \$22,685) and \$67,315 (2006 - \$67,315), respectively of interest, of which \$nil (2006 - \$14,548) was capitalized during the construction of the CRCE Phase.

During 2006, Creststreet Power & Income Fund LP ("CPIF"), a related party with common management issued subordinated promissory notes receivable to Kettles Hill in the amount of \$32.00 million. During the first quarter of 2007, a further \$2.00 million was invested and during the third quarter a further \$1.9 million was invested bringing the total subordinated promissory notes to \$35.9 million. The subordinated note bears interest at 9.25% per annum until October 31, 2009 and thereafter at a rate of 10.5% per annum. The \$1.9 million note received in the third quarter of 2007 bears interest at 12% with a financing fee of \$100,000 all other terms and conditions are similar to the original investment. The subordinated promissory note is unsecured and will not hold any liens over any assets of Kettles Hill. As CPIF has indicated they will not be bidding for Kettles Hill in the auction process, then CPIF is expected to exercise its right to put all or a portion of the subordinated note to the Partnership, and the Partnership shall be required to purchase the subordinated note at 110% of par plus 50% of the amount, if any, that the fair market value of each Class A Share of Kettles Hill, realized upon a change of control, exceeds \$1.87 per Class A share multiplied by the principal amount of the Kettles Hill subordinated notes held by CPIF divided by \$1.70. The subordinated promissory notes were collateralized by the plant and equipment and construction-in-progress at Kettles Hill.

Financing fees incurred for the three and nine month periods ended September 30, 2007, related to the issuance of the \$2.00 million subordinated note in the first quarter of 2007 and

\$1.9 million subordinated note in the third quarter of 2007 of \$100,000 (2006 \$nil) and \$200,000 (2006 - \$nil), respectively. These fees were netted against the subordinated debt. For the three and nine month period ended September 30, 2007 interest incurred relating to the subordinated notes was \$834,564 (2006 - \$411,419) and \$2,369,051 (2006 - \$590,885), respectively, of which \$212,199 (2006 - \$238,118) and \$1,448,531 (2006 - \$261,851), respectively was capitalized to Construction-in-progress and the balance was expensed to the income statement. The subordinated notes with CPIF are valued at their exchange value.

For the three and nine month periods ended September 30, 2007, the fees charged by Creststreet Capital Corporation (“CCC”), Creststreet Kettles Hill Windpower Management Limited (the “Manager”) and Creststreet Kettles Hill Windpower General Partner Limited (the “General Partner”) in accordance with the management agreement and financial services agreement, plus reimbursement of expenses amounted to \$352,755 (2006 - \$165,663) and \$1,044,441 (2006 - \$633,624), respectively. In accordance with the financial administration agreement with CCC, the month after substantial completion of the Infill Phase which was August 2007, the monthly fee increased to \$7,500 per month from \$1,500 per month.

For the three and nine month periods ended September 30, 2007, fees charged by Benign Energy Canada Inc. (“BECI”) in accordance with the Consulting Service Agreement (“CSA”) and Management Services Agreement, including reimbursement for out-of-pocket expenses amounted to \$45,077 (2006 - \$35,227) and \$489,527 (2006 - \$579,602) respectively. Following substantial completion of the Infill Phase, the monthly management fee increased in August 2007 to \$16,667 from \$6,666. The CSA terminated on the date of substantial completion of the Infill Phase on July 30, 2007. A final consulting fee of \$320,000 was paid to BECI under the terms of the CSA on substantial completion of the Infill Phase.

The current amounts due (to) from related parties are as follows:

|                            | <b>September 30, 2007</b> | December 31, 2006 |
|----------------------------|---------------------------|-------------------|
| CCC                        | <b>\$(962)</b>            | \$(320)           |
| CWDLP                      | <b>(241)</b>              | (187)             |
| BECI                       | <b>(18)</b>               | (51)              |
| CPIF                       | <b>(3,822)</b>            | (1,322)           |
| Dokie Wind Energy Inc.     | <b>5</b>                  | 5                 |
| Benchland Wind Power Corp. | <b>11</b>                 | 11                |
|                            | <b>\$(5027)</b>           | \$(1,864)         |

The current amounts incurred from (to) related parties are as follow:

|       | <b>Three months ended</b> |                    | <b>Nine months ended</b>  |                    |
|-------|---------------------------|--------------------|---------------------------|--------------------|
|       | <b>September 30, 2007</b> | September 30, 2006 | <b>September 30, 2007</b> | September 30, 2006 |
| BECI  | <b>\$(45)</b>             | \$(35)             | <b>\$(490)</b>            | \$(580)            |
| CCC   | <b>(353)</b>              | (166)              | <b>(1,044)</b>            | (634)              |
| CWDLP | <b>(18)</b>               | (23)               | <b>(54)</b>               | (67)               |
| CPIF  | <b>(937)</b>              | (411)              | <b>(2,601)</b>            | (591)              |
|       | <b>\$(1,353)</b>          | \$(635)            | <b>\$(4,189)</b>          | \$(1,872)          |

## **CHANGES IN ACCOUNTING POLICIES**

On January 1, 2007, the Partnership adopted the Canadian Institute of Chartered Accountants (“CICA” Handbook Section 1530 “Comprehensive Income”, Section 3251 “Equity”, Section 3855 “Financial Instruments – Recognition and Measurement”, and Section 3865 “Hedges”. As required by the new standards, prior periods have not been restated.

The adoption of these standards has had no material impact on the Partnership's cash flows. The other effects of the implementation of the new standards are discussed below.

### **Comprehensive Income**

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income (“OCI”). Upon adoption of Section 1530, the Partnership revised its “Consolidated Statements of Operations” to include the newly required Statement of Comprehensive Income by creating a combined statement. On the Consolidated Balance Sheet in the Partnership Capital section the line “Deficit” is now “Deficit and Accumulated Other Comprehensive Income”.

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions and no amounts have been reclassified to Accumulated Other Comprehensive Income and currently the Partnership has no OCI.

### **Financial Instruments**

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities” as defined by the standard.

Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in OCI. Financial assets “held-to maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization.

Cash and cash equivalents are designated as “held-for-trading” and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments.

Accounts receivable is designated as “loans and receivables”. Accounts payable and accrued liabilities, cash distributions payable and long term debt are designated as “other liabilities”.

The Partnership currently does not utilize hedges or other derivative financial instruments in its operations, and as a result the adoption of Section 3865 currently has no material impact on the consolidated financial statements of the Partnership.

The adoption of the financial instruments standard has been made in accordance with its transitional provisions. Accordingly, at January 1, 2007, deferred charges were reclassified to debt to reflect the adopted policy of capitalizing long-term debt transaction costs, premiums and discounts within long-term debt. The costs capitalized within long-term debt will be amortized using the effective interest method. Previously, the Partnership deferred these costs within deferred charges and amortized them straight-line over the life of the related long-term debt. The adoption of the effective interest method of amortization reduced the opening deficit by \$0.002 million. See Note 2 to the consolidated interim financial statements for further details.

### **Accounting Changes**

Effective January 1, 2007, the Partnership adopted the revised recommendations of CICA section 1506, "Accounting Changes."

The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change.

Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The guidance was effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

### **FUTURE CHANGES IN ACCOUNTING POLICIES**

#### **Capital Disclosures**

The CICA issued a new accounting standard, Section 1535 Capital Disclosures, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and processes for managing capital. This new section is effective for the Partnership beginning January 1, 2008.

#### **Financial Instruments – Disclosure and Financial Instruments Presentation**

Two new accounting standards were issued by the CICA, Section 3862 Financial Instruments – Disclosures, and Section 3863 Financial Instruments – Presentation. These sections will replace Section 3861 Financial Instruments – Disclosure and Presentation once adopted. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These new sections are effective for Partnership beginning January 1, 2008.

The Partnership is currently assessing the impact on the financial statements of the above changes.

## **Outlook**

On March 5, 2007, the independent directors (the "Independent Committee") of the General Partner of Creststreet Kettles Hill Windpower LP announced that they have appointed an independent advisor to assist the Independent Committee on its mandate to provide liquidity to the Unitholders of the Partnership within nine months of the completion of the windpower facility, as outlined in the Partnership's initial public offering prospectus. Following the announcement of completion of the project the independent advisors commenced the auction process.

On November 15, 2007 the Partnership announced that it has reached an agreement with the other Shareholders of KHWE to facilitate the sale process. This will allow interested parties to acquire the Kettles Hill Windpower facility through a simple transaction.

In late November the Partnership and KHWE received letters from the Piikani First Nation whose reserve lands are immediately adjacent to Kettles Hill. In these letters the Piikani are requesting consultations with respect to the sale process. Management is actively working to understand the concerns of the Piikani.

## Consolidated Balance Sheets

| (Unaudited, In Thousands)                          | Sept. 30, 2007    | Year ended<br>Dec. 31, 2006 |
|--|-------------------|-----------------------------|
| <b>Assets</b>                                      |                   |                             |
| <b>Current Assets</b>                              |                   |                             |
| Cash   | \$ 88             | \$ 268                      |
| Cash held in escrow (Note 4)                       | 724               | 4,224                       |
| Accounts receivable                                | 2,149             | 1,602                       |
| Prepaid expense                                    | 224               | 80                          |
| Due from related parties (Note 8)                  | 16                | 16                          |
|  | <b>3,201</b>      | <b>6,190</b>                |
| Deposits and pre-operating costs (Note 7)          | 1,331             | 3,251                       |
| Cash held in escrow (Note 4)                       | -                 | 8,833                       |
| Construction in progress (Note 5)                  | -                 | 62,146                      |
| Plant and equipment (Notes 6 and 9)                | 120,487           | 30,160                      |
| Intangible Asset                                   | 2,479             | 2,579                       |
|  | <b>\$ 127,498</b> | <b>\$ 113,159</b>           |
| <b>Liabilities</b>                                 |                   |                             |
| <b>Current Liabilities</b>                         |                   |                             |
| Accounts payable and accrued liabilities           | \$ 2,014          | \$ 4,492                    |
| Deferred revenue                                   | -                 | 23                          |
| Due to related parties (Note 8)                    | 5,043             | 1,880                       |
| Senior debt  | 2,000             | -                           |
|  | <b>9,057</b>      | <b>6,395</b>                |
| Subordinated note payable (Notes 8 & 9)            | 36,590            | 32,841                      |
| Senior debt (Note 9)                               | 43,820            | 33,750                      |
| Asset retirement obligation (Note 10)              | 900               | 231                         |
| Future income tax liability                        | 7,181             | 8,322                       |
| Non-controlling interest                           | 4,112             | 4,348                       |
|  | <b>\$ 101,660</b> | <b>\$ 85,887</b>            |
| Partners' capital                                  | 28,694            | 28,694                      |
| Deficit and Accumulated Other Comprehensive Income | (2,856)           | (1,422)                     |
|  | <b>\$ 127,498</b> | <b>\$ 113,159</b>           |

Commitments (Note 11)

See accompanying notes to unaudited interim consolidated financial statements.

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



**Robert J. Toole**  
Director



**John P.A. Budreski**  
Director

## Consolidated Statements of Operations, Other Comprehensive Income and Deficit

| (Unaudited, In Thousands, except per unit data)                   | Three Months ended |                 | Nine Months ended |                 |
|---|--------------------|-----------------|-------------------|-----------------|
|   | Sept. 30, 2007     | Sept. 30, 2006  | Sept. 30, 2007    | Sept. 30, 2006  |
| <b>Revenue</b>  |                    |                 |                   |                 |
| Electricity sales   | \$ 2,424           | \$ 324          | \$ 3,462          | \$ 663          |
| eRPI  | 264                | -               | 264               | -               |
| Investment income   | 29                 | 39              | 212               | 72              |
| <b>Total revenue</b>  | <b>2,717</b>       | <b>363</b>      | <b>3,938</b>      | <b>735</b>      |
| <b>Expenses</b>   |                    |                 |                   |                 |
| Operating costs   | 560                | 90              | 985               | 195             |
| Management fees (Note 8)  | 181                | 163             | 509               | 446             |
| Administrative costs  | 465                | 154             | 1,179             | 368             |
|   | <b>1,206</b>       | <b>407</b>      | <b>2,673</b>      | <b>1,009</b>    |
| Earnings (loss) before the undernoted                             | 1,511              | (44)            | 1,265             | (274)           |
| Amortization of plant and equipment (Note 6)                      | 1,162              | 390             | 1,936             | 904             |
| Amortization of intangible asset                                  | 34                 | -               | 100               | -               |
| Amortization of pre-operating costs and deferred charges (Note 7) | 91                 | 210             | 273               | 451             |
| Foreign exchange gain / losses & others                           | (4)                | (25)            | (26)              | (96)            |
| Interest expense  | 1,340              | 204             | 1,895             | 396             |
| Loss before taxes and non-controlling interest                    | (1,112)            | (823)           | (2,913)           | (1,929)         |
| Future income tax recovery  | 260                | 266             | 1,242             | 1,647           |
| Non-controlling interest  | 88                 | 98              | 236               | 41              |
| <b>Net loss and comprehensive loss</b>                            | <b>(764)</b>       | <b>(459)</b>    | <b>(1,435)</b>    | <b>(241)</b>    |
| Net loss per unit - basic and diluted                             | \$ (0.19)          | \$ (0.11)       | \$ (0.36)         | \$ (0.06)       |
| Weighted average number of units                                  | 4,000              | 4,000           | 4,000             | 4,000           |
| <b>Deficit, beginning of period, as previously reported</b>       | <b>(2,091)</b>     | <b>(456)</b>    | <b>(1,422)</b>    | <b>(674)</b>    |
| Financial instruments - recognition and measurement (Note 2)      | -                  | -               | 2                 | -               |
| <b>Restated deficit, beginning of period</b>                      | <b>(2,091)</b>     | <b>(456)</b>    | <b>(1,420)</b>    | <b>(674)</b>    |
| Net Loss  | (764)              | (459)           | (1,435)           | (241)           |
| <b>Deficit, end of period</b>                                     | <b>\$ (2,855)</b>  | <b>\$ (915)</b> | <b>\$ (2,856)</b> | <b>\$ (915)</b> |

See accompanying notes to unaudited interim consolidated financial statements.

## Consolidated Statements of Partners' Capital

| (Unaudited, In Thousands)                     | Three Months ended |                  | Nine Months ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | Sept. 30, 2007     | Sept. 30, 2006   | Sept. 30, 2007    | Sept. 30, 2006   |
| Partners' capital - beginning of period       | \$ 28,694          | \$ 28,694        | \$ 28,694         | \$ 36,624        |
| Equity component of subordinated note payable | -                  | (76)             | -                 | 76               |
| Contributed surplus                           | -                  | 76               | -                 | -                |
| Future income tax resulting from renunciation | -                  | -                | -                 | (8,006)          |
| <b>Partners' capital - end of period</b>      | <b>\$ 28,694</b>   | <b>\$ 28,694</b> | <b>\$ 28,694</b>  | <b>\$ 28,694</b> |

See accompanying notes to unaudited interim consolidated financial statements.

## Consolidated Statements of Cash Flows

| (Unaudited, In Thousands)   | Three Months ended |                | Nine Months ended |                |
|---|--------------------|----------------|-------------------|----------------|
|   | Sept. 30, 2007     | Sept. 30, 2006 | Sept. 30, 2007    | Sept. 30, 2006 |
| <b>Cash flows from operating activities</b>                                   |                    |                |                   |                |
| Net loss  | \$ (764)           | \$ (459)       | \$ (1,435)        | \$ (241)       |
| Add (deduct) items not affecting cash:  |                    |                |                   |                |
| Future income tax recovery  | (260)              | (266)          | (1,242)           | (1,647)        |
| Deferred Revenue Recognition  | -                  | -              | (23)              | -              |
| Amortization of plant and equipment (Note 6)                                  | 1,162              | 390            | 1,936             | 904            |
| Amortization of intangible asset  | 34                 | -              | 100               | -              |
| Amortization of pre-operating cost and deferred charges                       | 91                 | 210            | 273               | 451            |
| Accretion of asset retirement obligation (Note 10)                            | 23                 | -              | 47                | -              |
| Accretion of interest expense (Note 2 and 9)                                  | 126                | 6              | 338               | 14             |
| Unrealized foreign exchange gain & others                                     | (4)                | (14)           | (13)              | (85)           |
| Non-controlling interest  | (88)               | (98)           | (236)             | (41)           |
|   | \$ 320             | \$ (231)       | \$ (255)          | \$ (645)       |
| <b>Non-cash operating working capital</b>                                     |                    |                |                   |                |
| Increase in accounts receivable   | (871)              | (1,867)        | (547)             | (993)          |
| Increase (decrease) in prepaid expense  | (157)              | 35             | (144)             | 5              |
| Increase in accounts payable and accrued liabilities                          | 586                | 148            | 734               | 32             |
| Increase in deferred revenue  | -                  | -              | -                 | 23             |
| Increase in amounts due to (from) related parties (Note 8)                    | 983                | 109            | 3,163             | 924            |
|   | \$ 861             | \$ (1,806)     | \$ 2,951          | \$ (654)       |
| <b>Cash flows from financing activities</b>                                   |                    |                |                   |                |
| Issue of subordinated notes from a related party net (Note 8)                 | 1,800              | 24,500         | 3,700             | 31,000         |
| Increase in senior debt   | 5,000              | 20,000         | 13,750            | 20,000         |
| Decrease in deferred financing fees   | -                  | (316)          | -                 | (572)          |
|   | \$ 6,800           | \$ 44,184      | \$ 17,450         | \$ 50,428      |
| <b>Cash flow from investing activities</b>                                    |                    |                |                   |                |
| Decrease (Increase) in cash held in escrow (Note 4)                           | 2,087              | (13,437)       | 12,333            | (10,650)       |
| Additions to plant and equipment and construction-in-progress (Notes 5 and 6) | (12,996)           | (29,309)       | (32,914)          | (39,188)       |
| Proceed from option exercise  | -                  | 161            | -                 | 161            |
| Increase in pre-operating costs (Note 7)                                      | -                  | 1              | -                 | (275)          |
|   | \$ (10,909)        | \$ (42,584)    | \$ (20,581)       | \$ (49,952)    |
| Net decrease in cash  | (3,248)            | (206)          | (180)             | (178)          |
| Cash and cash equivalents, beginning of period                                | 3,336              | 535            | 268               | 507            |
| <b>Cash and cash equivalents, end of period</b>                               | <b>88</b>          | <b>329</b>     | <b>88</b>         | <b>329</b>     |
| <b>Supplemental cash information</b>  |                    |                |                   |                |
| Interest paid   | \$ 789             | \$ -           | \$ 1,696          | \$ -           |

See accompanying notes to unaudited interim consolidated financial statements.

## Notes to Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2007 and 2006

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

### 1. Creststreet Kettles Hill Windpower LP

Creststreet Windpower (II) LP was established as a limited partnership under the laws of the Province of Ontario on January 30, 2004. Effective on April 28, 2005, Creststreet Windpower (II) LP changed its name to Creststreet Kettles Hill Windpower LP (the "Partnership"). The Partnership was established to invest in flow-through shares and subordinated notes of Kettles Hill Wind Energy Inc ("Kettles Hill"), a Canadian company that is constructing and operating a wind energy project to generate electricity for sale to the Alberta power market. The Partnership completed its initial public offering on July 11, 2005 and commenced developmental activities.

In March 2006, commercial production of the initial phase of the project (the "CRCE Phase") at Kettles Hill commenced with the project entering its 120-day test period required to qualify expenses for test turbines under the Canadian Renewable and Conservation Expense tax rules. This test period was completed in July 2006. Prior to March 2006, the Partnership was considered to be in the development stage.

With the CRCE test period having been completed, work to install and commission the remaining 30 wind turbines for the third phase of the project (the "Infill Construction Phase") began. The Partnership announced substantial completion of the project on July 30, 2007. The facility is fully commissioned and is now producing and selling electricity from all thirty-five of its turbines.

The accompanying unaudited consolidated financial statements include the accounts of the partnership and its subsidiary, Kettles Hill. All significant intercompany transactions and balances have been eliminated.

Pursuant to a flow-through share agreement in 2005 between the Partnership and Kettles Hill, as at September 30, 2007 the Partnership owns 83.15% of the voting shares of Kettles Hill, and Creststreet Windpower Development LP ("CWDLP"), a related party owns 16.85% of the voting shares of Kettles Hill.

Non controlling interest on the balance sheet represents the 16.85% interest held by CWDLP in the Class A voting shares of Kettles Hill at September 30, 2007 and the nominal interest of the Class B non-voting shares of Kettles Hill.

On July 11, 2007, The Minister of Natural Resources of Canada's Federal Government announced the Government of Canada will make contributions under its ecoEnergy Renewable Power incentive program ("ERPI") to Kettles Hill. This is a program of the Canadian Federal Government that provides incentive payments to producers of wind energy. As per the determination of Natural Resources Canada, Kettles Hill receives an incentive of \$0.01 per kilowatt hour ("kWh") of eligible production for the first 10 years of operation to a maximum of \$1.66 million per year and \$16.57 million over the term of the agreement. Production from the five CRCE Phase turbines is not eligible under the program. Revenue from ERPI is recognized at the time of the electrical energy delivery.

## 2. Summary of Significant Accounting Policies

The interim consolidated financial statements have been prepared by the Partnership in accordance with Canadian generally accepted accounting principles (“GAAP”). The preparation of the financial data is based on accounting policies and practices consistent with those used in the preparation of the audited annual consolidated financial statements. 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 annual financial statements have been condensed or omitted. As such, the interim consolidated financial statement should be read in conjunction with the December 31, 2006 financial statements. These consolidated financial statements include the accounts of the Partnership and its subsidiary, Kettles Hill. All significant transactions and balances between the Partnership and Kettles Hill have been eliminated on consolidation. In management’s opinion, the accompanying unaudited consolidated interim financial statements include all adjustments (consisting solely of normal recurring adjustments) necessary to present fairly the financial position of the Partnership as at September 30, 2007 and December 31, 2006 and the consolidated results of operation and cash flows for the three and nine month periods ended September 30, 2007. The results of operations and cash flows 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 the fourth quarters).

### **CHANGES IN ACCOUNTING POLICIES**

As disclosed in the December 31, 2006 annual audited consolidated financial statements, on January 1, 2007, the Partnership adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1530 “Comprehensive Income”, Section 3251 “Equity”, Section 3855 “Financial Instruments – Recognition and Measurement”, and Section 3865 “Hedges”. As required by the new standards, prior periods have not been restated.

The adoption of these standards had no material impact on the Partnership’s cash flows. The other effects of the implementation of the new standards are discussed below.

#### **Comprehensive Income**

The new standards introduce comprehensive income, which consists of net earnings and other comprehensive income (“OCI”). Upon adoption of Section 1530, the Partnership revised its “Consolidated Statements of Operations” to include the newly required Statement of Comprehensive Income by creating a combined statement. On the Consolidated Balance Sheet in the Partnership Capital section the line “Deficit” is now “Deficit and Accumulated Other Comprehensive Income”.

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions and no amounts have been reclassified to Accumulated Other Comprehensive Income and currently the Partnership has no OCI.

## Financial Instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to maturity", "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization.

Cash is designated as "held-for-trading" and are measured at carrying value, which approximates fair value due to the short-term nature of these instruments.

Accounts receivable and due from related parties are designated as "loans and receivables". Accounts payable and accrued liabilities due to related parties, subordinated note payable and senior debt are designated as "other liabilities".

The Partnership currently does not utilize hedges or other derivative financial instruments in its operations, and as a result the adoption of Section 3865 currently has no material impact on the consolidated financial statements of the Partnership.

The adoption of the financial instruments standard has been made in accordance with its transitional provisions. Accordingly, at January 1, 2007, deferred charges were reclassified to long term debt to reflect the adopted policy of capitalizing long-term debt transaction costs, premiums and discounts within long-term debt. The costs capitalized within long-term debt will be amortized using the effective interest method. Previously, the Partnership deferred these costs within deferred charges and amortized them straight-line over the life of the related long-term debt. The adoption of the effective interest method of amortization had \$0.002 million effect on opening deficit.

The following table summarizes the prospective adoption adjustments that were required as at January 1, 2007.

|  | December 31, 2006<br>(As Reported) | Adoption<br>Adjustment | January 1, 2007<br>(As Restated) |
|--|------------------------------------|------------------------|----------------------------------|
| <b>Assets</b>                            |                                    |                        |                                  |
| Deferred Charges:                        |                                    |                        |                                  |
| Cost of deferred charges                 | \$2,027                            | (\$2,027)              | -                                |
| Accumulated amortization                 | (380)                              | 380                    | -                                |
| Net book value                           | 1,647                              | (1,647)                | -                                |
| Construction in Progress                 | 62,146                             | (187)                  | <b>61,959</b>                    |
| Plant and Equipment                      | 30,160                             | (57)                   | <b>30,103</b>                    |
| Pre-operating costs                      | 1,517                              | (1)                    | <b>1,516</b>                     |
| <b>Liabilities and Partners' Capital</b> |                                    |                        |                                  |
| Senior Debt (a)                          | 33,750                             | 9                      | <b>33,759</b>                    |
| Subordinated note payable (b)            | 32,841                             | (2,002)                | <b>30,839</b>                    |
| Future Income Taxes                      | 8,322                              | 101                    | <b>8,423</b>                     |
| Deficit                                  | (1,422)                            | 2                      | <b>(\$1,420)</b>                 |

(a) Includes transaction costs of \$2.03 million transferred from deferred charges. Notes payable have been valued using the effective interest method.

(b) Includes transaction costs transferred from deferred charges of \$0.05 million.

### Accounting Changes

Effective January 1, 2007, the Partnership adopted the revised recommendations of CICA section 1506, "Accounting Changes."

The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change.

Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The guidance was effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

### Canadian Income Tax Rule Changes

On June 12, 2007 the federal government's bill regarding the taxation of distributions from trusts and partnerships beginning January 1, 2011 passed the third reading making it substantively enacted in accordance with Canadian GAAP. In particular, income earned by these entities will be taxed in a manner similar to income earned and distributed by a corporation. This new legislation will not subject the Partnership to the trust level taxation as the

Partnership is not listed on a stock exchange. If the Partnership was listed on a stock exchange, these new rules would apply.

## **FUTURE CHANGES IN ACCOUNTING POLICIES**

### **Capital Disclosures**

The CICA issued a new accounting standard, Section 1535 Capital Disclosures, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and processes for managing capital. This new section is effective for the Partnership beginning January 1, 2008.

### **Financial Instruments – Disclosure and Financial Instruments Presentation**

Two new accounting standards were issued by the CICA, Section 3862 Financial Instruments – Disclosures, and Section 3863 Financial Instruments – Presentation. These sections will replace Section 3861 Financial Instruments – Disclosure and Presentation once adopted. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. These new sections are effective for Partnership beginning January 1, 2008.

The Partnership is currently assessing the impact on the financial statements on the above changes.

## **3. Derivatives Instruments**

During 2007, Kettles Hill no longer held any option agreements. In 2005, Kettles Hill entered into option agreements to purchase (i) €20.00 million at exercise price of C\$1.5100 per EUR for consideration of \$510,000, expired unexercised on July 5, 2005; (ii) €5.0 million at an exercise price of C\$1.5100 per EUR for consideration of \$168,000, expired unexercised on April 7, 2006; (iii) €10.0 million at an exercise price of C\$1.5100 per EUR for consideration of \$349,000, expired unexercised on April 28, 2006; (iv) €5.00 million at an exercise price of C\$1.5100 per EUR for consideration of \$206,000, expired unexercised on June 15, 2006.

During 2006, Kettles Hill entered into two additional option agreements. An agreement to purchase €5.00 million at an exercise price of C\$ 1.5100 per EUR for consideration of \$28,000 was entered into on February 15, 2006 and expired unexercised on June 30, 2006 and an agreement to purchase €7.00 million at an exercise price of C\$1.4170 per EUR for consideration of \$143,000 was entered into on February 21, 2006. This option to purchase EUR \$7.00 million was exercised on July 31, 2006, prior to its expiry resulting in settlement proceeds of \$161,000 being received by Kettles Hill in August which was recorded in the income statement.

These option agreements were used to reduce foreign exchange rate exposure on purchases of wind turbines and were not entered into for trading or speculative purposes. They do not

qualify for hedge accounting and, as such, are recorded at their fair value on the consolidated balance sheet. The total cost of \$1.40 million paid to enter these agreements was capitalized to pre-operating costs, prior to commencement of commercial operations.

#### 4. Cash held in Escrow

Cash held in escrow includes amounts advanced to Kettles Hill through its credit facility with a major Canadian financial institution and \$3.80 million advanced from Creststreet Power & Income Fund LP ("CPIF"), a related party with common management, committed to invest in subordinated notes of Kettles Hill to help complete the funding requirements of the project. These funds may only be accessed for construction related expenses upon the acceptance of the lender. During the three and nine month periods ended September 30, 2007 \$2.09 million (2006 – \$6.56) million) and \$12.33 million (2006 – \$9.35 million), respectively was released from escrow.

#### 5. Construction In Progress

|  | September 30, 2007 | December 31, 2006 |
|--|--------------------|-------------------|
| <b>CRCE Phase</b>                              |                    |                   |
| Construction in progress, beginning of period  | -                  | \$25,142          |
| Additions                                      | -                  | 5,574             |
|  | -                  | 30,716            |
| Amount transferred to plant and equipment (i)  | -                  | (30,716)          |
| <b>Infill Phase</b>                            |                    |                   |
| Construction in progress, beginning of period  | <b>62,146</b>      | 13,700            |
| Additions                                      | <b>29,528</b>      | 48,446            |
|  | <b>\$91,674</b>    | \$62,146          |
| Amount transferred to plant and equipment (ii) | <b>(91,674)</b>    | -                 |
| Construction in progress, end of period        | -                  | \$62,146          |

- (i) In March 2006, Kettles Hill commenced commercial operations of the CRCE Phase of the wind energy project; therefore the costs associated with the CRCE Phase construction in progress were reclassified to plant and equipment (see note 6 below).
- (ii) In July 2007, Kettles Hill commenced full commercial operations of the Infill Phase, therefore all costs associated with the Infill Phase construction in progress were reclassified to plant and equipment (see note 6 below).

## 6. Plant & Equipment

|   | September 30, 2007 | December 31, 2006 |
|---|--------------------|-------------------|
| Kettles Hill Plant and Equipment          | \$31,460           | \$30,716          |
| Financial Instrument Adjustment           | (57)               | -                 |
| Additions                                 | 622                | 744               |
| Transferred from Construction in Progress | 91,674             | -                 |
|   | <b>123,699</b>     | 31,460            |
| Less: accumulated depreciation            | (3,236)            | (1,300)           |
| Total                                     | <b>\$120,463</b>   | \$30,160          |

As at September 30, 2007, the asset retirement obligation amounted to \$0.84 million (2006 - \$0.03 million), accumulated amortization was \$0.03 million, which is primarily associated with certain closure, reclamation and restoration costs for the wind energy turbines.

## 7. Pre-operating Costs

As at September 30, 2007, Kettles Hill has capitalized \$1.82 million (2006 - \$1.82 million) of pre-operating costs, which is being amortized over a five-year period beginning March 1, 2006. Amortization of the pre-operating costs amounted to \$90,980 (2006 - \$91,394) and \$272,940 (2006 - \$212,801) for the three and nine month periods ended September 30, 2007, respectively.

## 8. Related Party Transactions

In 2005, Kettles Hill entered into a subordinated note with Creststreet Windpower Development LP ("CWDLP") a related party with common management for \$900,000 to finance pre-development costs. Interest is charged at a rate of 10% per annum. For the three and nine month periods ended September 30, 2007, the Partnership incurred \$22,685 (2006 - \$22,685) and \$67,315 (2006 - \$67,315), respectively of interest, of which \$nil (2006 - \$14,548) was capitalized during the construction of the CRCE Phase.

During 2006, Creststreet Power & Income Fund LP ("CPIF"), a related party with common management issued subordinated promissory notes receivable to Kettles Hill in the amount of \$32.00 million. During the first quarter of 2007, a further \$2.00 million was invested and during the third quarter a further \$1.9 million was invested bringing the total subordinated promissory notes to \$35.9 million. The subordinated note bears interest at 9.25% per annum until October 31, 2009 and thereafter at a rate of 10.5% per annum. The \$1.9 million note received in the third quarter of 2007 bears interest at 12% with a financing fee of \$100,000 all other terms and conditions are similar to the original investment. The subordinated promissory note is unsecured and will not hold any liens over any assets of Kettles Hill. As CPIF has indicated they will not be bidding for Kettles Hill in the auction process, then CPIF is expected to exercise its right to put all or a portion of the subordinated note to the Partnership, and the Partnership shall be required to purchase the subordinated note at 110% of par plus 50% of the amount, if any, that the fair market value of each Class A Share of Kettles Hill, realized upon a change of control, exceeds \$1.87 per Class A share multiplied by the principal amount of the Kettles Hill subordinated notes held by CPIF divided by \$1.70. The subordinated promissory notes were collateralized by the plant and equipment and construction-in-progress at Kettles Hill.

Financing fees incurred for the three and nine month periods ended September 30, 2007, related to the issuance of the \$2.00 million subordinated note in the first quarter of 2007 and \$1.9 million subordinated note in the third quarter of 2007 of \$100,000 (2006 \$nil) and \$200,000 (2006 - \$nil), respectively. These fees were netted against the subordinated debt. For the three and nine month period ended September 30, 2007 interest incurred relating to the subordinated notes was \$834,564 (2006 - \$411,419) and \$2,369,051 (2006 - \$590,885), respectively, of which \$212,199 (2006 - \$238,118) and \$1,448,531 (2006 - \$261,851), respectively was capitalized to Construction-in-progress and the balance was expensed to the income statement. The subordinated notes with CPIF were valued at their exchange value.

For the three and nine month periods ended September 30, 2007, the fees charged by Creststreet Capital Corporation (“CCC”) a related party through common management, Creststreet Kettles Hill Windpower Management Limited (the “Manager”) and Creststreet Kettles Hill Windpower General Partner Limited (the “General Partner”) in accordance with the management agreement and financial services agreement, plus reimbursement of expenses amounted to \$352,755 (2006 - \$165,663) and \$1,044,441 (2006 - \$633,624), respectively. In accordance with the financial administration agreement with CCC, the month after substantial completion of the Infill Phase which was August 2007, the monthly fee increased to \$7,500 per month from \$1,500 per month.

For the three and nine month periods ended September 30, 2007, fees charged by Benign Energy Canada Inc. (“BECI”) (a shareholder and joint venture partner) in accordance with the Consulting Service Agreement (“CSA”) and Management Services Agreement, including reimbursement for out-of-pocket expenses amounted to \$45,077 (2006 - \$35,227) and \$489,527 (2006 - \$579,602) respectively. Following substantial completion of the Infill Phase, the monthly management fee increased in August 2007 to \$16,667 from \$6,666. The CSA terminated on the date of substantial completion of the Infill Phase on July 30, 2007. A final consulting fee of \$320,000 was paid to BECI under the terms of the CSA on substantial completion of the Infill Phase.

The current amounts due (to) from related parties are as follows:

|                            | <b>September 30, 2007</b> | December 31, 2006 |
|----------------------------|---------------------------|-------------------|
| CCC                        | <b>(962)</b>              | \$(320)           |
| CWDLP                      | <b>(241)</b>              | (187)             |
| BECI                       | <b>(18)</b>               | (51)              |
| CPIF                       | <b>(3,822)</b>            | (1,322)           |
| Dokie Wind Energy Inc.     | <b>5</b>                  | 5                 |
| Benchland Wind Power Corp. | <b>11</b>                 | 11                |
|                            | <b>\$(5,027)</b>          | \$(1,864)         |

## 9. Credit Facilities

| <b>Facility</b>    | <b>Available Credit</b> | <b>Amount Advanced</b> | <b>Interest</b> | <b>Maturity</b>   |
|--------------------|-------------------------|------------------------|-----------------|-------------------|
| Subordinated Notes |                         |                        |                 |                   |
| - CPIF             | \$35,900                | \$ 34,000              | 9.25%           | October 31, 2009  |
| - CPIF             |                         | \$1,900                | 12.00%          | October 31, 2009  |
| - CWDLP            | \$900                   | \$900                  | 10.00%          | July 31, 2025     |
| Credit Facilities  |                         |                        |                 |                   |
| Tranche A          | 13,750                  | 13,750                 | 5.92%           | December 31, 2008 |
| Tranche A2         | 8,750                   | 8,750                  | 11.74%          | December 31, 2008 |
| Tranche B          | 20,000                  | 20,000                 | 6.11%           | December 31, 2016 |
| Tranche C          | 5,000                   | 5,000                  | 12.00%          | December 31, 2008 |
| <b>Total</b>       | <b>\$84,300</b>         | <b>\$ 84,300</b>       |                 |                   |

See related party note 8 for detail on the subordinated notes - CPIF and CDWLP.

On December 19, 2005, Kettles Hill announced the closing of a \$42.5 million credit facility to finance a portion of the construction of the Infill Phase with a major Canadian financial institution. On September 14, 2006, Tranche B of the credit facility was advanced as a construction loan. On December 22, 2006, \$13.75 million of Tranche A was advanced as a construction loan. All outstanding amounts in the construction loan will be converted to a term loan upon completion of the construction of the Infill Phase and carrying out certain terms and conditions for conversion, this is expected to occur towards the end of 2007.

During the third quarter of 2006 this credit facility was amended, to reflect the construction delays that had occurred, by extending the timing of the first advance under the facility from June 30, 2006 to September 30, 2006.

On August 4, 2006, \$8.75 million of Tranche A became subject to Kettles Hill receiving confirmation that it will receive contributions from the Canadian federal government's Wind Power Production Incentive ("WPPI") program or an equivalent program. On July 11, 2007, The Minister of Natural Resources of Canada's Federal Government announced that Kettles Hill would receive contributions under its ecoEnergy Renewable Power incentive program ("ERPI"). The Manager is working with the lender so that the \$8.75 million advance will qualify to use the interest rate mechanism described below for Tranche A. This portion of the loan will not require principal payments consistent with the rest of the loan. During the second quarter of 2007, this \$8.75 million was advanced as a construction loan.

On July 11, 2007, The Minister of Natural Resources of Canada's Federal Government announced the Government of Canada intended to have Kettles Hill receive contributions under its ecoEnergy Renewable Power incentive program. Following completion of certain terms and conditions the interest rate on the \$8.75 million of Tranche A will be reduced as described above.

In the fourth quarter of 2006, Kettles Hill negotiated a \$5.0 million subordinated debt facility with a major Canadian financial institution as an additional tranche (Tranche C) to provide additional liquidity to finance a portion of the cost increases and to also provide additional liquidity in the event that there may be potential cost increases, during the construction of the Infill Phase. This facility, which matures on December 31, 2008, bears interest at 12% per annum and requires excess cash flow as defined by the agreement to be used to partially repay outstanding balances in excess of \$2 million prior to December 31, 2008. The other terms and conditions are standard for this type of facility. During the third quarter of 2007, this \$5.0 million subordinated debt was advanced.

Repayment of the credit facility is interest only until maturity except as described above. Interest for both Tranche A and B is based on the long bond yield on the date of the first advance for each respective tranche plus a credit spread, compounded and payable monthly in arrears. The long bond yield for Tranche A is the mid-market semi-annual interpolated yield of the Government of Canada 6% Bond due June 1, 2008 and the Government of Canada 5.5% Bond due June 1, 2009 based on a term to maturity ending approximately on December 31, 2008. Interest for Tranche A was determined one day prior to the advance at 5.92%. The long bond yield for Tranche B is the mid-market semi-annual interpolated yield of the Government of Canada 4.5% Bond due June 1, 2015 and the Government of Canada 9.25% Bond due June 1, 2022 based on a term to maturity ending approximately on December 31, 2016. Interest for Tranche B was determined one day prior to the advance at 6.11%.

The credit spread is:

| Credit Spread | To December 31, 2008 | After December 31, 2008 |
|---------------|----------------------|-------------------------|
| Tranche A     | 200 bps              | N/A                     |
| Tranche A2    | 750 bps              | N/A                     |
| Tranche B     | 200 bps              | 175 bps                 |

As at September 30, 2007, the average interest rate for the \$47.5 million construction loan facility fully drawn and with Kettles Hill receiving the ERPI contribution, would be 6.64%, without receiving ERPI contribution would be 7.65%.

For the three and nine month periods ended September 30, 2007 the Partnership incurred \$798,407 (2006 - \$56,915) and \$1,968,461 (2006 - \$56,915), respectively of interest on the credit facility advanced by major financial institution, of which \$251,774 (2006 - \$56,915) and \$1,421,827 (2006 - \$56,915), was capitalized to Construction-in-progress during the Infill Phase. Upon substantial completion of the Infill Phase, the interest on the credit facility was expensed to the statement of operations, for three and nine months ended September 30, 2007 was \$546,634 (2006 - \$nil) and \$546,634 (2006 - \$nil), respectively.

At September 30, 2007, the Senior debt was valued at \$13.22 million for Tranche A using an effective interest rate of 9.18% and \$18.85 million for Tranche B using an effective interest rate of 6.74%. The Tranche A2 was valued at \$8.75 million using an effective interest rate of 11.74%. The Tranche C was valued at \$5.0 million using an effective interest rate of 12%.

The credit facilities were collateralized by plant and equipment and construction-in-progress at Kettles Hill.

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

## 10. Asset Retirement Obligation

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

|  | September 30, 2007 | December 31, 2006 |
|--|--------------------|-------------------|
| Asset retirement obligation, beginning of period | \$ 231             | \$ -              |
| Liabilities incurred                             | 622                | 218               |
| Accretion expense                                | 47                 | 13                |
| Asset retirement obligation, end of period       | <b>\$ 900</b>      | <b>\$ 231</b>     |

The total undiscounted amount of estimated cash flows required to settle the obligation at September 30, 2007 was \$4.24 million (2006 - \$0.19 million). This amount was then adjusted for inflation at a rate of 2% and it was discounted using a credit adjusted risk free rate of 10.72%. Most of these obligations are not expected to be paid for approximately 20 years and will be funded from general company resources at that time.

Asset retirement obligations are primarily associated with certain closure, reclamation and restoration costs related to retirement of the wind farm properties. Actual obligations could differ from these estimates. Revisions to the Partnership's asset retirement obligation will be made prospectively if new information is available.

## 11. Commitments

| (In \$ millions)           | Total             | Due less than<br>1 year | Due 2 to 3<br>years | Due 4 to 5<br>years | Due after<br>5 years |
|----------------------------|-------------------|-------------------------|---------------------|---------------------|----------------------|
| Long-term debt obligations | \$84.30           | \$ -                    | \$63.40             | \$ -                | \$20.90              |
| WMS agreement              | 5.06 <sup>♦</sup> | 1.14                    | 2.27                | 1.65                | -                    |
| <b>Total obligations</b>   | <b>\$89.36</b>    | <b>\$1.14</b>           | <b>\$65.67</b>      | <b>\$1.65</b>       | <b>\$20.90</b>       |

<sup>♦</sup> Amounts will increase annually by the percentage change in CPI.

On March 5, 2007, the Partnership engaged an independent financial advisor to provide financial advice on future possible transactions with respect to providing liquidity to the Limited Partners. The Partnership is committed to paying the advisor up to \$100,000 plus a success fee based on the transaction value.

## 12. Economic Dependence

For the period ended September 30, 2007, the Partnership was dependent on Alberta Electric System Operator for 100% of its revenue from electricity sales.

## 13. Financial Instruments

At September 30, 2007, the carrying amount of cash, cash held in escrow, accounts receivable, accounts payable, accrued liabilities and due to/from related parties approximates fair value due to their short-term nature.

At September 30, 2007, the exchange amount of subordinated notes payable to CPIF of \$35.90 million and \$900,000 to CWDLP approximate the carrying value due to the nature of the related party subordinated notes.

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

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

Accounts receivable include amounts receivable from electricity sales that are made to a large credit-worthy purchaser Alberta Electric System Operator. Accordingly, the Partnership views credit risks on these amounts as low.

See note 9 for the fair value of the credit facility.

## 14. Reclassification

Certain prior year balances have been reclassified to conform to the presentation adopted in the current year.

## Creststreet Kettles Hill Windpower General Partner Limited

### Directors of the General Partner

**Terry L. Allen**

President  
Pivotal Capital Advisory Group Ltd.

**John P. A. Budreski**

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

**David P. Smith**

Managing Partner  
Enterprise Management Capital Inc.

**Robert J. Toole**

Managing Director  
Creststreet Capital Corporation

### Officers of the General Partner

**Robert J. Toole**

President and Chief Executive Officer

**Derren Newell**

Vice-President, Finance and  
Chief Financial Officer

**Erich Ossowski**

Vice-President, Windpower Development

**Arlene Mclean**

Secretary

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