

MACQUARIE POWER & INFRASTRUCTURE INCOME FUND
FINANCIAL REPORT

FOR THE QUARTER AND SIX MONTHS ENDED JUNE 30, 2006



MPT



Macquarie Power & Infrastructure Income Fund (the "Fund") is not a trust company and is not registered under applicable legislation governing trust companies, as it does not carry on or intend to carry on the business of a trust company. The units of the Fund are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that Act or any other legislation.

Macquarie Power Management Ltd. ("MPML") is the manager of the Fund and is an indirect wholly owned subsidiary of Macquarie Bank Limited, incorporated in Australia.

Investments in the Fund are not deposits with, or other liabilities of, Macquarie Bank Limited, or any entity in the Macquarie Bank Group and are subject to investment risk, including loss of income and equity invested or delays in redemption. Neither MPML nor any member of the Macquarie Bank Group guarantees the performance of the Fund, the distributions from the Fund or the redemption or repayment of capital from the Fund.

MPML, as the manager of the Fund, is entitled to fees for so acting. See "Related Party Transactions". Macquarie Bank Limited and its related corporations (collectively, the "Macquarie Bank Group"), together with their respective officers and directors may hold units in the Fund from time to time.

Macquarie Power & Infrastructure Income Fund
Management's Discussion and Analysis
For the Quarter and Six Months Ended
June 30, 2006

This report for the Macquarie Power & Infrastructure Income Fund (the "Fund") summarizes the financial results for the quarter and six months ended June 30, 2006. This discussion and analysis dated August 9, 2006 of the Fund's consolidated operating results, cash flows and financial position presented herein should be read in conjunction with the Fund's unaudited interim consolidated financial statements and related notes contained in this financial report, as well as the audited December 31, 2005 consolidated financial statements and related notes, the December 31, 2005 Management's Discussion and Analysis and the Annual Information Form, all of which are filed electronically on SEDAR at www.SEDAR.com.

Non-GAAP measures

The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This report also contains figures that are not performance measures according to GAAP. For instance, the Fund measures, distributable cash and payout ratio because this allows management to assess the financial performance of the Fund's operations. Please see Distributable Cash and Payout Ratio for additional information and a comparison of these non-GAAP figures with the most comparable financial information.

Forward-looking statements

Certain statements in the following discussion and analysis may constitute "forward-looking" statements, which involve known and unknown risks, uncertainties and other factors that may cause the actual results to be materially different from any future results expressed or implied by such forward-looking statements. When used in the following discussion and analysis, such statements use such words as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this discussion and analysis. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the risks and uncertainties described in this report under the heading "Risks and Uncertainties".

The risks and uncertainties described in this report should not be construed as exhaustive, and other events and risk factors in addition to those discussed herein including risk factors disclosed in the 2005 Annual Information Form of the Fund could cause actual results to differ materially from the results discussed in the forward-looking statements. The forward-looking statements contained in this discussion and analysis are based on information currently available and what the manager currently believes are reasonable assumptions, however neither the Fund nor the manager can assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this discussion and analysis, and the Fund and the manager assume no obligation to update or revise them to reflect new events or circumstances. The Fund and the manager caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made.

Consolidation and comparison of operating results

The discussion and analysis of the operating results reflect the consolidated operations of the Fund, Macquarie Power & Infrastructure Income Trust (the "Trust"), Cardinal Inc. ("Cardinal G.P."), Cardinal Power of Canada L.P. ("Cardinal"), MPT LTC Holding Ltd. ("LTC G.P.") and MPT LTC Holding L.P. ("LTC Holding L.P."). LTC Holding L.P. has an indirect 45% investment in Leisureworld Senior Care L.P. ("Leisureworld"), which is accounted for using the equity method.

The following discussion and analysis compares the actual results of the Fund for the quarter and six months ended June 30, 2006 to the results for the quarter and six months ended June 30, 2005. All amounts have been expressed in thousands of Canadian dollars unless otherwise stated.

Fund overview

The Fund is an unincorporated, open-ended, limited purpose trust established by a declaration of trust dated March 15, 2004 under the laws of the Province of Ontario, as amended and restated as of April 16, 2004, and as further amended on February 21, 2006. Through its subsidiaries, the Fund owns and operates Cardinal, and has a 45% interest in Leisureworld.

The Fund indirectly owns 100% of the equity of Cardinal, which in turn owns a nominal net 156 megawatt, base load, combined cycle cogeneration plant (the "Facility"), fuelled by natural gas, which is located in Cardinal, Ontario. The Facility is one of the largest independent natural gas cogeneration power producers in Ontario and was developed in the mid 1990s. The electricity generated by the Facility, less the amount consumed in operations, is sold exclusively to Ontario Electricity Financial Corporation ("OEFC") at contracted rates under the Power Purchase Agreement dated May 29, 1992 between Cardinal and OEFC (the "PPA"). The Facility has minimum volume purchase requirements under the Gas Purchase Agreement dated August 8, 1991 between Cardinal and Husky Oil Operation Ltd., assigned to Husky Energy Marketing Inc. (the "Gas Purchase Agreement"). Gas swaps (under agreements with the Toronto-Dominion Bank dated April 1, 2006, 2007 and 2008) have been entered into to further mitigate the effect of natural gas price fluctuations on the proceeds received for the sale of natural gas in excess of requirements. The Facility can curtail the production of electricity within certain parameters and sell the natural gas that would otherwise have been used to generate electricity on the spot market.

The Fund also indirectly owns 45% of Leisureworld which owns and operates 19 long-term care ("LTC") facilities (3,147 beds), two retirement homes (87 beds) and an independent living facility (53 beds) located in the Province of Ontario. In addition, through various entities, Leisureworld includes two related businesses, Preferred Health Care Services, (which provides professional nursing and personal support services for both community-based home care and LTC facilities) and Ontario Long-Term Care providers, which provides laundry and purchasing services to Leisureworld's LTC facilities.

Summary of operating results

The Fund and its underlying investments continued to produce strong cash flow during the quarter. Distributable cash for the quarter ended June 30, 2006 was \$6,308 (\$0.210 per unit) compared to \$4,271 (\$0.202 per unit) for the quarter ended June 30, 2005. The payout ratio for the quarter ended June 30, 2006 was 119% (Q2 2005 - 113%); this is after a 5% increase in distributions which was effective January 2006. All distributions were paid from current cash balances. The year to date payout ratio is 88% (year to date 2005 - 84%).

The increase in the Fund's distributable cash and distributable cash per unit for the quarter is due primarily to distributions of \$2,587 million from Leisureworld offset by the lower distributable cash from Cardinal as a result of the major maintenance outage during the quarter. The major maintenance program occurs every 6 years and required the Facility to be shut down for approximately 22 days during the quarter. Cardinal continues to benefit from the impact of electricity rate increases under its PPA with OEFC and decreased fuel transportation costs for the quarter.

Also impacting the change in distributable cash is the accrual of incentive fees and cost reimbursements on a quarterly basis. This was begun in 2006 to better align these costs with operations. Previously these costs were primarily recorded in the fourth quarter. This meant that the Fund's administration expenses were higher for the quarter as a result of cost reimbursements of \$294 (Q2 2005 - \$61).

Overall, the Fund's strong financial position is confirmed by a positive working capital of \$16,415 with fully funded reserves and an uncommitted cash balance of \$12,877 as at June 30, 2006.

In the second quarter of 2006, the Cardinal plant achieved an availability of 77.4% (Q2 2005 - 95.6%) and a capacity factor of 75.0% (Q2 2005 - 94.1%). The reduced production from the major maintenance outage discussed above, was somewhat offset by the increase in the Direct to Consumer Rate ("DCR") of approximately 6%. Overall this resulted in a net decrease of \$3,420 in revenue over the quarter ended June 30, 2005. Ongoing operating costs decreased quarter to quarter by \$618. Savings of \$2,970 from reduced fuel requirements and gas mitigation were offset by \$2,352 of costs primarily related to the major maintenance.

Major maintenance costs are funded through the major maintenance reserve and have no impact on distributable cash.

Leisureworld provided distributions of \$2,587 for the quarter ended June 30, 2006. Leisureworld's results continue to demonstrate steady growth. Revenue grew by 8.6% and the income from operations grew by 14.0% for the quarter ended June 30, 2006 compared to June 30, 2005. Leisureworld's improvement is as a result of occupancy levels and optimization of preferred bed mix.

17 LTC facilities are considered mature and have average total occupancy of 98% for the six months ended June 30, 2006 (2005 – 90.8%).

One facility, Vaughan, is still in ramp up and recorded average total occupancy of 66.0% for the six months ended June 30, 2006 (2005 - 29.6%). The remaining facility, Spencer House, is in the process of being shut down and replaced by a new facility in Orillia, scheduled to open in the fourth quarter of 2006. Spencer House, average total occupancy for the six months ended June 30, 2006 was 84.5% (2005 – 93.3%).

Preferred bed average total occupancy for the same mature facilities is 81.6% for the six months ended June 30, 2006 (2005 – 77.5%). Also improving overall results is increased government funding rates.

Outlook

The Fund remains positive about its outlook for 2006 and into 2007, based on the growth inherent in its Cardinal and Leisureworld assets.

With the completion of the major maintenance program during the quarter, Cardinal is expected to experience a continued step-up in cash flow as it continues to benefit from the growth in margin between DCR and natural gas costs, along with lower gas transportation costs.

Leisureworld is expected to continue to grow through improving occupancy and preferred accommodation utilization. The completion of its newest Class A facility in Orillia remains on schedule for the fourth quarter of 2006. Orillia will replace the Spencer House facility, which is to be closed and sold.

As a result of the strong cash flow generated by the Fund and its underlying investments, the Trustees have approved an increase in cash distributions of 3% or \$0.03 per unit on an annualized basis commencing with the August distributions payable in September. The Fund remains confident that it will maintain a payout ratio of less than 95% for 2006. The Fund also anticipates that in excess of 75% of distributions for 2006 will reflect a return of capital, based on current operations and barring any significant external shocks.

Selected Consolidated Financial and Operating Information

Unaudited

(in thousands of dollars unless otherwise noted)	Quarter Ended June 30, 2006	Quarter Ended June 30, 2005	Six months Ended June 30, 2006	Six months Ended June 30, 2005
Revenue	\$16,336	\$19,698	\$42,869	\$44,926
DCR adjustment in respect of 2005	(58)	-	1,093	-
	<u>\$16,278</u>	<u>\$19,698</u>	<u>\$43,962</u>	<u>\$44,926</u>
Income (loss) before the following:	(1,284)	1,876	3,148	7,400
Unrealized gain (loss) on gas swap contracts	808	(758)	1,133	(1,743)
Net interest (expense) income	(201)	(318)	(425)	(640)
Equity accounted loss from Leisureworld	(796)	-	(1,723)	-
Net income (loss)	<u><u>\$(1,473)</u></u>	<u><u>\$800</u></u>	<u><u>\$2,133</u></u>	<u><u>\$5,017</u></u>
<i>Per basic and fully diluted Unit (\$)</i>	<u><u>\$(0.049)</u></u>	<u><u>\$0.038</u></u>	<u><u>\$0.071</u></u>	<u><u>\$0.237</u></u>
Cash flows from operating activities	\$2,206	\$3,937	\$16,494	\$13,060
Distributable cash ⁽ⁱ⁾	\$6,308	\$4,271	\$17,109	\$11,966
<i>Per basic and fully diluted Unit (\$)</i>	\$0.210	\$0.202	\$0.569	\$0.565
Distributions declared to Unitholders	\$7,512	\$5,028	\$15,024	\$10,056
<i>Per basic and fully diluted Unit (\$)</i>	\$0.250	\$0.238	\$0.500	\$0.475
Payout ratio ⁽ⁱⁱ⁾	119%	113%	88%	84%
Weighted average number of trust units and Class B exchangeable units outstanding – ('000 Units)	30,048	21,169	30,048	21,169
Sale of electricity ('000s MWh)	243	306	586	651
Sale of steam ('000s lbs)	168	159	355	343
Total assets	<u>\$303,933</u>	<u>\$227,545</u>	<u>\$303,933</u>	<u>\$227,545</u>
Total long-term liabilities	<u>\$38,020</u>	<u>\$37,065</u>	<u>\$38,020</u>	<u>\$37,065</u>

(i) See the Distributable Cash and Payout Ratio for a reconciliation of distributable cash to cash flows from operating activities for the quarter. Distributable cash is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, distributable cash may not be comparable to similar measures presented by other issuers. June 30, 2005 has been restated for consistency.

(ii) Payout ratio is defined by the Fund as distributions declared as a proportion of distributable cash. Payout ratio is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, it may not be comparable to similar measures presented by other issuers. June 30, 2005 has been restated for consistency; see Distributable Cash and Payout Ratio.

Revenue

During the quarter ended June 30, 2006, the Cardinal Facility performed with an availability of 77.4% (Q2 2005 – 95.6%) and a capacity factor 75.0% (Q2 2005 – 94.1%). The reduction from the 2005 performance is a reflection of the shut-down for major maintenance. Cardinal was shutdown for approximately 22 days however was back on line 3 days sooner than planned. For the quarter ended June 30, 2006, revenue from operations was \$3,420 lower than the quarter ended June 30, 2005. The lower revenue due to the shutdown was offset somewhat by the 6% increase in DCR that occurred in Q1 2006.

Year to date revenue for the six months ended June 30, 2006 was \$43,962 compared to \$44,926 during the six months ended June 30, 2005. As discussed previously, the decrease of \$964 is due to the shutdown in Q2 2006 offset by the improved electricity rates and 2005 DCR adjustment that was received in Q1 2006. The minor DCR adjustment in the second quarter of 2006 relates to the final assessment for 2005.

Income from operations

Loss from operations before net interest, share of Leisureworld losses and unrealized gains on swap contracts for the quarter was \$1,284 for the quarter ended June 30, 2006, compared to income of \$1,876 for the quarter ended June 30, 2005. It was also lower by \$4,252 for the six months ended June 30, 2006 compared to the six months ended June 30, 2005. The primary impact was due to the shut down, as discussed previously but also contributing to the reduction were the recording of incentive fees and cost recoveries on a quarterly basis in 2006.

During the major maintenance shut down, Cardinal was able to reduce overall gas costs on a quarter over quarter basis by \$1,050 through increased gas mitigation. Operating costs were further reduced by \$1,920 with lower fuel consumption. During the quarter, major maintenance expense was higher by \$2,472 than the prior year's comparable quarter. For the six months ended June 30, 2006, operating costs were higher by \$668 than the comparable preceding quarter with higher maintenance costs due to the major maintenance offsetting against lower fuel costs.

Administration expenses for the six months ended June 30, 2006 totalled \$3,570 (2005 - \$966). The increase is due in part to incentive fees and cost reimbursement not previously recorded on a quarterly basis of \$1,632 with the remainder relating to management fees from Leisureworld and other Fund administration expenses.

Administrative expenses during the quarter include cost reimbursement of \$294 (Q2 2005 - \$61) and an incentive fee credit of \$309 (Q2 2005 - Nil) to reflect the seasonal reduction of distributable cash during the second quarter. In Q1 2006 the Fund began to record these costs on a quarterly basis to better align costs with operations - previously, these costs were primarily recorded in the fourth quarter of each year. Management and administration fees for the quarter were \$289 (Q2 2005 - \$171). The remainder of increase in administration expenses is due to Fund activities including regulatory requirements and renegotiation of Cardinal's long term debt facility.

Unrealized (gain) loss on gas swap contracts

At times, the Facility does not produce electricity, such as when the plant is shut down in order to perform regularly scheduled maintenance. This will cause the plant to have excess natural gas that it sells to mitigate the loss of revenue resulting from decreased electricity production. The sale of excess natural gas exposes the Fund to gas price volatility caused by fluctuations in the market rates for natural gas.

To stabilize the cash flows from excess gas sales, Cardinal entered into gas swap contracts in April 2004. The effect of the contracts is to partially fix the proceeds Cardinal receives from the sale of excess natural gas. Under the terms of the contracts, Cardinal receives fixed payments from a counterparty, in exchange for paying floating payments to the counterparty, that fluctuate based on the market prices of natural gas. The contracts are based on an estimated volume spread over the seven-month period from April to October. The contract volume can be adjusted to match the monthly profile of natural gas available for sale. The contracts with the counterparty are a series of monthly contracts from April to October of each year and will terminate on October 31, 2008. The contracts remove most of the revenue uncertainty with respect to the sale of excess natural gas.

An unrealized gain of \$808 (Q2 2005 - loss of \$758) was recorded for the quarter ended June 30, 2006 (for the six months ended June 30, 2006 - gain of \$1,133; June 30, 2005 loss of \$1,743), reflecting the movement in fair value of certain contracts entered into for 2007 and 2008. The gain is as a result of a decline in the forward gas curves. This unrealized gain has no impact on the operating cash flows or distributable cash for the quarter.

Net interest expense

The Fund converted its term loan from a prime rate loan to a series of banker's acceptances ("BAs"), which are renewed at their respective maturities. The borrowing costs on these loans are paid at the inception date of the respective transactions and are amortized over the term of the respective maturities. Borrowing costs of \$340 (Q2 2005 - \$331) were amortized in the quarter and \$703 (Q2 2005 - \$690) were amortized for six months ended.

On May 30, 2006, the Fund converted a prime rate loan to a BA at a rate of 4.96% per annum and maturing on August 28, 2006. During the quarter, the Fund incurred \$54 in interest charges on the prime rate loan. Another BA matured on June 13, 2006 and on that date was renewed to June 13, 2007 at a rate of 5.21% per annum.

Distributable cash and payout ratio

Distributable cash and payout ratio are not recognized performance measures under GAAP. Canadian open-ended trusts, such as the Fund, use distributable cash and payout ratio as indicators of financial performance. Distributable cash and payout ratio may differ from similar computations as reported by other entities and, accordingly, may not be comparable to distributable cash and payout ratio as reported by such entities. The manager believes that distributable cash and payout ratio are useful supplemental measures that may assist investors in assessing financial performance.

Distributable cash is based on cash flows from operating activities, the GAAP measure reported in the Fund's consolidated statement of cash flows. Cash flows from operating activities are adjusted for changes in the reserve accounts and distributions received from Leisureworld. In addition, the impact of changes in non-cash working capital is excluded (the movements in trade related current assets and liabilities) as the manager believes it should not be considered in a period calculation intended to demonstrate the degree to which cash flow from earnings support the financial obligations of the Fund.

The Fund updated its definition of distributable cash in the fourth quarter of 2005 and determined that, to better reflect the Fund's performance, the calculation should be amended to exclude releases from the capital expenditure reserve account. Previously, this amount was added back to distributable cash.

Unaudited

(in thousands of dollars unless otherwise noted)	Quarter Ended June 30, 2006	Quarter Ended June 30, 2005	Six months Ended June 30, 2006	Six months Ended June 30, 2005
Cash flows from operating activities	\$2,206	\$3,937	\$16,494	\$13,060
Add:				
Release from major maintenance reserve account	2,758	286	4,320	330
Distributions received from Leisureworld	2,587	-	5,174	-
Less:				
Changes in working capital	550	(754)	7,493	38
Allocation to major maintenance reserve account	592	604	1,184	1,185
Allocation to capital expenditure reserve account	101	102	202	201
<i>Distributable cash for the period</i>	<u>\$6,308</u>	<u>\$4,271</u>	<u>\$17,109</u>	<u>\$11,966</u>
Add:				
Release from capital expenditure reserve account	-	185	-	397
Distributable cash (as previously stated)	<u>-</u>	<u>\$4,456</u>	<u>-</u>	<u>\$12,363</u>
Weighted average number of trust units and Class B exchangeable units outstanding (Units)	<u>30,048,387</u>	<u>21,168,997</u>	<u>30,048,387</u>	<u>21,168,997</u>
Distributable cash per basic and fully diluted Unit	<u>\$0.210</u>	<u>\$0.202</u>	<u>\$0.569</u>	<u>\$0.565</u>
Distributable cash per basic and fully diluted Unit (as previously stated)	<u>-</u>	<u>\$0.210</u>	<u>-</u>	<u>\$0.584</u>

The Fund declared distributions to unitholders of \$7,512 (Q2 2005 – \$5,028) for the quarter ended June 30, 2006 and \$15,024 (2005 - \$10,056) for six months ended June 30, 2006. This represents a payout ratio of 119% (Q2 2005 – 113%) for the quarter ended June 30, 2006 (payout ratio is defined as distributions declared as a proportion of distributable cash).

Year to date the Fund continues to maintain a conservative payout ratio of 88% (2005 - 84%) .

Leisureworld Operations

Leisureworld owns and operates 19 long-term care ("LTC") facilities (3,147 beds), two retirement homes (87 beds) and an independent living facility (53 beds) located in the Province of Ontario. In addition, through various entities, Leisureworld includes two related businesses, Preferred Health Care Services ("PHCS") – which provides professional nursing, personal support and education services for both community-based home care and LTC facilities – and Ontario Long-term Care – which provides purchasing services to Leisureworld's LTC facilities.

Leisureworld has 17 mature facilities which had an average total occupancy of 98.0% for the six months ended June 30, 2006 (90.8% - for the six months ended June 30, 2005). One home, Vaughan, is in ramp up and has a current occupancy at June 30, 2006 of 80.6% (41.3% - June 30, 2005). The LTC license at Spencer House is to be transferred to Orillia upon completion of the facility at Orillia. As Orillia nears completion and is expected to open in the fourth quarter of 2006, Spencer House has begun to reduce occupancy. Spencer House's current occupancy is 58.8% (90.0% - June 30, 2005).

Preferred bed (these beds are in private or semi-private rooms and earn a higher accommodation rate) average total occupancy for the 17 mature facilities is 81.6% for the six months ended June 30, 2006 (77.5% for the six months ended June 30, 2005). Also improving overall results is increased government funding rates.

The investment is accounted for as an equity investment and as such the Fund records its share (45%) of any income or loss for the period. The Fund's share of the Leisureworld net loss was \$796 for the quarter ended June 30, 2006 (six months ended June 30, 2006 - \$1,723). Included in the Fund's pro rata portion of net loss was depreciation and amortization of \$2,368 (six months ended June 30, 2006 - \$4,597) and the amortization of deferred gain of \$51 (six months ended June 30, 2006 - \$102). Not included in the Fund's pro rata portion of net loss is construction funding of \$429 (six months ended June 30, 2006 - \$858) and an annuity payment of \$206 (six months ended June 30, 2006 - \$186) received in the quarter. The Fund's pro rata share of maintenance capital expenditures for the quarter is \$35 (six months ended June 30, 2006 - \$49). Construction funding is a reimbursement of costs related to the cost of construction of Class A homes. The annuity payment is from a five year cash annuity which has equal payouts on May 24 and November 24 each year for five years. During the quarter, Leisureworld paid \$2,587 (six months ended June 30, 2006 - \$5,174) in cash distributions to the Fund.

Presented below is selected financial and operating information of Leisureworld.

<i>Unaudited</i>	Quarter Ended June 30, 2006	Quarter Ended June 30, 2005 (ii)	Six months Ended June 30, 2006 (ii)	Six months Ended June 30, 2005 (ii)
Revenue	\$41,437	\$38,156	\$81,924	\$74,374
Operating and administration costs	35,648	33,079	70,563	65,059
Income before following:	5,789	5,077	11,361	9,315
Interest, net	2,295	1,511	4,672	3,066
Amortization	5,262	1,242	10,516	2,552
Income taxes	-	1,056	-	1,456
Net income (loss)	\$(1,768)	\$1,268	\$(3,827)	\$2,241
The Fund's pro rata share of the net loss	\$(796)	(i)	\$(1,723)	(i)
Cash flow provided by (used in) operating activities	\$(3,009)	(i)	\$(3,828)	(i)
Distributions paid to partners	\$5,750	(i)	\$11,500	(i)
The Fund's pro rata share of distributions paid	\$2,587		\$5,174	(i)
Total assets	\$532,903	(i)	\$532,903	(i)
Long-term debt	\$310,000	(i)	\$310,000	(i)

(i) Results for the prior year have been presented only if comparable.

(ii) Revenue and operating and administration costs have been restated in the six months ended June 30, 2006 and the comparative periods to be consistent with the presentation in the current quarter.

Revenue

For the quarter ended June 30, 2006, Leisureworld generated revenue of \$41,437 compared to \$38,156 for the quarter ended June 30, 2005. This increase of \$3,281 or 8.6% is primarily due to increased occupancy at the Brampton Meadows, Brampton Woods, Norfinch and Vaughan LTC homes that were opened in 2003 and 2004 and that more residents were provided with preferred accommodation in the newer homes, which have higher rates. LTC revenues also increased as government funding rates were 3.5% higher than in the prior year period and \$507 of additional funding was provided for a number of new initiatives including convalescent care and a resident classification program. PHCS external revenue was in line with the prior year's quarter.

During the six months ended June 30, 2006, Leisureworld generated revenue of \$81,924 compared to \$74,374 in the prior year period. This increase of \$7,550 or 10.2% is mainly due to the increased occupancy at the newer homes mentioned above. In addition, preferred accommodation revenues increased by \$312 and new funding programs increased revenues by \$507. PHCS revenue contributed to \$251 of the overall increase due to increases in nursing and personal support contract revenues during the six month period.

Operating and administrative expenses

Leisureworld's operating and administrative expenses for the quarter were \$35,648, which were \$2,569 or 7.8% higher than the prior year's quarter, reflecting the increases in occupancy and associated increases in staff and operating costs at the newer homes. Head office costs that were paid by an entity owned by the vendor in the prior year quarter and unionized staff pay increases also contributed to the increase. PHCS expenses increased by \$267 over the prior year's quarter due to costs associated with providing increased training and education services to LTC homes and pay increases to front-line nursing staff.

During the six months ended June 30, 2006, operating and administrative expenses were \$70,563, which were \$5,504 or 8.5% higher than the prior year period. The increase was primarily due to the increases in occupancy and associated increases in staff and operating costs at the newer homes. In addition there was an increase in corporate and acquisition integration costs over the prior year period due to the change in ownership and pay

increases for unionized staff at the beginning of fiscal 2006. PHCS expenses increased by \$609 over the prior year period due to the costs of providing increased training and education services to LTC homes, servicing growth in nursing and personal support contracts and pay increases for nursing staff.

Amortization

Amortization increased by \$4,020 or 323.7% for the quarter ended June 30, 2006 over the corporate quarter in 2005 due to increases in the value of intangibles, land and buildings as a result of the allocation the purchase price paid for Leisureworld. The main components of the quarter's amortization charge relate to resident relationships — \$3,000, professional nursing and personal support contracts — \$234, and property, plant and equipment — \$1,962.

During the six months ended June 30, 2006, amortization increased by \$7,964 or 312.1% over the prior year period to \$10,516. The main components of the period's amortization charge relate to resident relationships — \$6,000, professional nursing and personal support contracts — \$468, and property, plant and equipment — \$3,916.

Financial expenses

Net interest expense amounted to \$2,295 during the quarter, an increase of \$784 or 51.9% from the second quarter of fiscal 2005. This increase reflects the interest on the long-term debt expensed in the quarter of \$3,665. Interest income of \$1,370 was recognized in the quarter, \$1,029 of which related to construction funding. Interest expense in the prior year quarter was \$1,511, consisting of mortgage interest of \$2,883 and interest income on construction funding of \$1,372.

In the six months ended June 30, 2006, net interest expense amounted to \$4,672, an increase of \$1,606 or 52.4% from the prior year period. During the period, interest expense on the long-term debt was \$7,417 and interest income of \$2,745 was recognized of which \$2,058 related to construction funding. Interest expense in the prior year period was \$3,066, consisting of mortgage interest of \$5,852 and interest income on construction funding of \$2,786.

Net loss

Net loss for the quarter was \$1,768, compared to a net income of \$1,268 in the prior year quarter. Higher amortization and interest charges were partially offset by increased operating income from higher occupancy, an increase in accommodation funding rates and increases in the preferred accommodation mix.

Leisureworld, as a partnership, is not subject to income tax.

Net loss for the six months ended June 30, 2006 was \$3,827, compared to a net income of \$2,241 in the prior year period with income growth from higher occupancy, increased funding rates, improvements to the preferred accommodation mix and personal support contracts in the PHCS segment only partially covering the increased amortization and interest charges. Leisureworld, as a partnership is not subject to income tax.

Liquidity and financial resources

The Fund expects to meet all of its operating obligations in 2006 and make distributions to unitholders from cash flow generated from operating activities. The Fund has positive working capital of \$16,415 as at June 30, 2006 (December 31, 2005 — \$17,805). As at June 30, 2006, cash on hand totalled \$17,966 (December 31, 2005 — \$11,738), of which \$12,877 (December 31, 2005 — \$3,158) was not designated as major maintenance, capital expenditure or general reserves.

The Fund has a \$15,000 revolving operating line of credit available (December 31, 2005 — \$15,000). As at June 30, 2006, there is no amount outstanding under this facility (December 31, 2005 — Nil). As at June 30, 2006 long-term debt outstanding is \$35,000 (December 31, 2005 - \$35,000).

The Fund has now completed its 2006 major maintenance program and continues to fund major maintenance and capital expenditures reserves which it believes are more than sufficient to meet all anticipated maintenance and capital requirements of Cardinal for the remainder of 2006.

Unaudited

(in thousands of dollars)

	June 30, 2006	December 31, 2005
Major maintenance reserve	\$1,009	\$4,145
Capital expenditure reserve	1,080	1,435
General reserve	3,000	3,000
Total reserve accounts	5,089	8,580
Other cash and cash equivalents	12,877	3,158
Total cash and cash equivalents	\$17,966	\$11,738

Seasonality

Since Cardinal has a long-term PPA and gas purchase contracts with fixed prices, its results are not significantly affected by fluctuations resulting from the market prices for electricity or the volatility in the price of natural gas. However, the PPA contains lower power rates during the six-month period from April to September (and higher rates from October to March) which is reflected in the variations in quarterly results.

In addition, the power station generally performs its major maintenance activities during the April to July period, which impact the Fund's operating results during that period. To partially offset this seasonality, the power station sells the excess natural gas not consumed through gas swap contracts with its gas supplier. In addition, the Fund maintains reserve accounts and free cash in order to offset the seasonality and other factors that may impact electricity demand. The manager believes that the active management of the reserve accounts and free cash is expected to be sufficient to maintain level monthly distributions to unitholders throughout the coming years.

The readers are referred to the Management's Discussion and Analysis included in the 2005 Annual Report and the previous Quarterly Financial Reports for an analysis of results of the financial performance of the Fund in prior quarters.

Selected quarterly information

Unaudited

For the quarters ended	Jun 30, 2006	Mar 31, 2006	Dec 31, 2005	Sep 30, 2005	Jun 30, 2005	Mar 31, 2005	Dec 31, 2004	Sep 30, 2004
(thousands of dollars)								
Revenue	\$16,278	\$27,684	\$24,620	\$20,689	\$19,698	\$25,228	\$24,256	\$18,650
Net income	(1,473)	3,606	1,697	1,656	800	4,217	5,282	876
Cash flows from operating activities	2,206	14,288	(782)	5,695	3,937	9,123	6,184	6,502
Distributable cash	6,308	10,800	7,786	6,292	4,271	7,695	7,614	3,590
Distributions declared	7,512	7,512	7,136	5,028	5,028	5,028	5,028	5,028
<i>(dollars)</i>								
Net income per weighted average of trust units and Class B exchangeable units outstanding	\$(0.049)	\$0.120	\$0.058	\$0.078	\$0.038	\$0.199	\$0.249	\$0.041
Cash flows from operating activities per weighted average of trust units and Class B exchangeable units outstanding	0.073	0.476	(0.027)	0.269	0.186	0.431	0.292	0.307
Distributable cash per weighted average of trust units and Class B exchangeable units outstanding	0.210	0.359	0.264	0.297	0.202	0.364	0.360	0.170
Distributions declared per weighted average of trust units and Class B exchangeable units outstanding	0.250	0.250	0.242	0.238	0.238	0.238	0.238	0.238

Related party transactions

Under the terms of the Administration and Management Agreements, the Fund makes payments to the manager for administration and management fees, incentive fees and cost reimbursement. The Fund incurred administration and management fees of \$289 for the quarter ended June 30, 2006 (Q2 2005 – \$171) for the quarter; the incentive fee recovery was a credit of \$(309) for the quarter ended June 30, 2006 (Q2 2005 – Nil) as distributable cash did not exceed the threshold of \$0.95 per unit for the quarter; and cost reimbursement of \$294 (Q2 2005 – \$61) for the quarter ended June 30, 2006. The manager receives reimbursement for cost of services provided to the Fund in relation to, but not limited to, administration, regulatory, finance, rent and information technology. For the six months ending June 30, 2006 administration and management fees were \$648 (\$330 – 2005); incentive fees were \$942 (Nil – 2005); and cost reimbursement was \$738 (\$115 – 2005).

Contractual obligations and other commitments

There were no significant changes in the Fund's obligations and commitments since March 21, 2006, the date of the Fund's Annual Information Form. The following describe the more significant contractual obligations and commitments of the Fund as at June 30, 2006.

Long-term debt

During the quarter, the Fund amended its term debt facility, the three-year term loan of \$35,000 (December 31, 2005 - \$35,000) to extend the maturity date from April 30, 2007 to May 16, 2011 Collateral for the facility is provided by a first ranking hypothec covering the assets of Cardinal. Utilization of the facility is subject to certain financial and non-financial covenants. Advances under the facility are made in the form of BAs or prime rate loans. In the case of BAs, interest is charged at the BA rate plus a stamping fee based on the Fund's ratio of

consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization and unrealized gain and losses. In the case of prime rate loans, interest is charged at the bank's prime rate plus an applicable margin based on the same ratio. At June 30, 2006, the Fund's term debt was in the form of a series of instruments as follows:

Type of instrument	Drawdown amount	Maturity	All-in rate
BA	\$11,700	August 28, 2006	4.96%
BA	\$11,700	December 16, 2006	4.99%
BA	\$11,600	June 13, 2007	5.21%

Borrowing costs, including interest, are paid at the inception of each BA loan. These costs are capitalized and amortized over the life of each respective loan. As at June 30, 2006, the unamortized portion of the capitalized borrowing costs totalled \$901 (December 31, 2005 – \$881) and is included in the consolidated statement of financial position.

Gas purchase contracts

Cardinal has entered into long-term purchase agreements for natural gas and gas transportation that expire on May 1, 2015 and October 31, 2014, respectively. Minimum commitments under such agreements are 9,289,104 MMBtu per year through to expiration in 2015. Under its long-term purchase agreement for natural gas, Cardinal is required to purchase a minimum volume of natural gas equivalent to 80% of the contract maximum, or the supplier is entitled to financial compensation from Cardinal.

Lease

Cardinal leases a portion of the site on which the Facility is located from Canada Starch Operating Company Inc. ("CASCO"). Under the lease, Cardinal pays nominal rent. The lease expires concurrently with the energy savings agreement between CASCO and Cardinal. The energy savings agreement currently expires on January 31, 2015 but can be extended by mutual agreement.

Gas swap contracts

Cardinal has entered into gas swap contracts to hedge itself against fluctuations in the price of excess gas sold under the gas mitigation clause of the gas purchase contracts. The gas swap contracts require Cardinal to pay variable payments to the counterparty based on 436,814 MMBtu of gas at the market rate of natural gas in exchange for receiving fixed payments based on 436,814 MMBtu of gas at a fixed price per MMBtu for up to five years ending October 31, 2008. The contracts cover the sale of gas for the seven-month period from April to October for each of the remaining contracts. As at June 30, 2006, the following contracts remained:

Period covered by contract

April 1 to October 31, 2006
 April 1 to October 31, 2007
 April 1 to October 31, 2008

Risks and uncertainties

The Manager is of the opinion that there have been no significant changes in risks and uncertainties since March 21, 2006. Please refer to the Risk Factors in the 2005 Annual Information Form which is filed electronically on www.SEDAR.com.

Critical accounting policies and estimates

The Fund has adopted certain accounting policies which require the use of estimates and assumptions about matters that are uncertain at the time the estimates are made.

The preparation of financial statements in accordance with GAAP requires the manager to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingencies, and the reported amounts of revenues and expenses during the quarter. Actual results could differ from those estimates.

Gas swap contracts

The Fund uses gas swap contracts to manage its exposure to price fluctuations on sales of excess natural gas. The Fund has adopted Accounting Guideline 13, Hedging Relationships (“AcG-13”) issued by the CICA, which set out the criteria for applying hedge accounting for these financial instruments. Gas swap contracts that have been designated and function effectively as hedges under AcG-13 will have the current period revenue or expenses generated recognized in the same period as adjustments to operating expenses. Gas swap contracts that do not qualify for hedge accounting under AcG-13 are recorded in the consolidated statement of financial position at fair value established by the market. Changes in fair value are recorded as adjustments to net income in the consolidated statement of income. In analyzing the effectiveness of gas swap contracts, it is necessary for the Fund to rely on publicly available future price curves for natural gas.

Impairment of assets

Long-lived assets are reviewed for impairment during the second quarter of the fiscal year or when indications of impairment arise during the year. An impairment loss is recognized when the fair value of the asset is less than the carrying amount. Fair value is based on estimates of future cash flows. The determination of fair value requires the manager to make significant assumptions about future operating performance, market prices for natural gas and electricity, retirement costs and discount rates. The impairment review performed in 2006 continues to support the carrying value of the Fund’s long-lived assets.

Asset retirement obligation

The Fund recognizes a liability for the present value of the expected future costs of retirement of the Cardinal plant. Expected values are probability weighted to deal with the risks and uncertainties inherent in the timing and amount of settlement of many asset retirement obligations. Expected values are discounted at the risk-free interest rate adjusted to reflect Cardinal’s current credit standing. Determining asset retirement obligations requires estimating the life of the related asset and the costs of activities such as demolition, dismantling, restoration and remedial work based on present-day methods and technologies. These estimates are reviewed each fiscal year and adjusted prospectively if required. During the quarter the Manager completed a reassessment of the asset retirement obligation and as a result has increased the obligation by \$555.

Long-term investment

The Fund has significant influence over its investment in Leisureworld and accounts for it using the equity method. Under the equity method, the cost of the investment is adjusted by the Fund’s proportionate share of operations and reduced by any distributions payable to the Fund by LTC Holding L.P. and LTC G.P.

Maintenance and repairs

Routine maintenance, repairs and major overhaul costs are charged to the consolidated statement of income in the period they are incurred.

Useful life of the Cardinal plant

Plant and equipment are amortized for accounting purposes over their estimated useful life of 20 years. The manager estimates useful life based on current facts and past experience, and takes into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand and the potential for technological obsolescence.

New accounting pronouncements

Financial instruments – recognition and measurement, CICA Handbook Section 3855

Section 3855 prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized in the consolidated statement of financial position and at what amount – sometimes using fair values; other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented.

Hedges, CICA Handbook Section 3865

Section 3865 is applicable whenever a company chooses to designate a hedging relationship for accounting purposes. It builds on existing Accounting Guideline AcG-13 “Hedging Relationships,” by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Comprehensive income, CICA Handbook Section 1530

Section 1530 introduces new standards for reporting and displaying of comprehensive income. Comprehensive income is the change in equity (net assets) of an entity during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Section 3,855, 3865 and 1530 apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal that ends on or after December 31, 2005. Financial statements of prior periods are required to be restated for certain comprehensive income items. The Fund will not be adopting this standard in 2006 and is reviewing Section 1530 to determine the impact this standard will have on the accounting for the Fund's financial instruments.

An entity adopting this Section for a fiscal year beginning before October 1, 2006 must also adopt Section 3855 "Financial Instruments – Recognition and Measurement," and Section 3865 "Hedges".

Macquarie Power & Infrastructure Income Fund
Consolidated Statement of Financial Position
(Unaudited, in thousands of dollars)

	June 30, 2006	December 31, 2005
Current Assets		
Cash and cash equivalents (note 4)	\$17,966	\$11,738
Accounts receivable	7,342	17,641
Inventory	111	93
Prepaid expenses and borrowing costs	901	1,274
Total Current Assets	26,320	30,746
Investment in Leisureworld (note 5)	83,746	90,643
Property, plant and equipment (note 6)	138,258	141,006
Electricity supply and gas purchase contracts (note 6)	37,586	39,986
Goodwill	18,023	18,023
Total Assets	\$303,933	\$320,404
Current Liabilities		
Trade payables and accrued expenses	\$7,401	\$10,562
Distributions payable	2,504	2,379
Total Current Liabilities	9,905	12,941
Long-term debt (note 8)	35,000	35,000
Gas swap contracts at fair value (note 13)	1,894	3,027
Liability for asset retirement	1,126	553
Total Liabilities	47,925	51,521
Unitholders' Equity (notes 9 and 10)	256,008	268,883
Total Unitholders' Equity and Liabilities	\$303,933	\$320,404

Macquarie Power & Infrastructure Income Fund
Consolidated Statement of Unitholders' Equity
For the Quarter Ended June 30, 2006
(Unaudited, in thousands of dollars)

	Unitholders' Capital	Class B Exchangeable Units	Retained Earnings	Cumulative Distributions	Total
Balance, December 31, 2005	\$253,460	\$35,500	\$15,606	\$(35,683)	\$268,883
Recovery of costs incurred in relation to subscription receipts offering	16	-	-	-	16
Net income for the quarter ended March 31, 2006	-	-	3,606	-	3,606
Distributions declared to Unitholders for the quarter ended March 31, 2006 (note 10)	-	-	-	(7,512)	(7,512)
Balance, March 31, 2006	\$253,476	\$35,500	\$19,212	\$(43,195)	\$264,993
Net loss for the quarter ended June 30, 2006	-	-	(1,473)	-	(1,473)
Distributions declared to Unitholders for quarter ended June 30, 2006	-	-	-	(7,512)	(7,512)
Balance, June 30, 2006	\$253,476	\$35,500	\$17,739	\$(50,707)	\$256,008

Macquarie Power & Infrastructure Income Fund
Consolidated Statement of Income
For the Quarter Ended June 30, 2006
(Unaudited, in thousands of dollars)

	Quarter ended June 30, 2006	Quarter ended June 30, 2005	Six Months Ended June 30, 2006	Six months Ended June 30, 2005
Revenue	\$16,278	\$19,698	\$43,962	\$44,926
Costs and expenses				
Operating costs	13,656	14,274	30,984	30,316
Administrative expenses	774	424	3,570	966
Depreciation and amortization	3,132	3,124	6,260	6,244
	<u>17,562</u>	<u>17,822</u>	<u>40,814</u>	<u>37,526</u>
	(1,284)	1,876	3,148	7,400
Unrealized gain (loss) on gas swaps (note 13)	808	(758)	1,133	(1,743)
Net interest expense	(201)	(318)	(425)	(640)
Equity accounted (losses) from Leisureworld	<u>(796)</u>	<u>-</u>	<u>(1,723)</u>	<u>-</u>
Net Income (loss)	<u>(1,473)</u>	<u>800</u>	<u>2,133</u>	<u>5,017</u>
Weighted average number of trust units and Class B exchangeable units outstanding (Units)	<u>30,048,387</u>	<u>21,168,997</u>	<u>30,048,387</u>	<u>21,168,997</u>
Basic and fully diluted income (loss) per Unit	<u>\$(0.049)</u>	<u>\$0.038</u>	<u>\$0.071</u>	<u>\$0.237</u>

Macquarie Power & Infrastructure Income Fund
Consolidated Statement of Cash Flow
For the Quarter Ended June 30, 2006
(Unaudited, in thousands of dollars)

	Quarter ended June 30, 2006	Quarter ended June 30, 2005	Six months Ended June 30, 2006	Six months Ended June 30, 2005
Cash flows from operating activities:				
Net income (loss)	\$(1,473)	\$800	\$2,133	\$5,017
Add back:				
Unrealized (gain)/loss on gas swap contracts	(808)	758	(1,133)	1,743
Depreciation and amortization	3,132	3,124	6,260	6,244
Amortization of prepaid borrowing costs	340	331	703	690
Accretion of asset retirement liability	9	9	18	18
Equity accounted losses from Leisureworld	796	-	1,723	-
Prepayment of borrowing costs and interests	(722)	(889)	(722)	(889)
Non-cash changes in working capital				
Decrease in accounts receivable	2,072	2,183	10,299	2,039
(Increase) decrease in inventory	23	-	(18)	(28)
(Increase) in prepaid expenses	124	(893)	392	(601)
(Decrease) in trade payables and accrued expenses	(1,287)	(1,486)	(3,161)	(1,173)
Total cash flows from operating activities	2,206	3,937	16,494	13,060
Cash flows from investing activities				
Distributions received from Leisureworld	2,587	-	5,174	-
Investment in property, plant and equipment	(294)	(185)	(557)	(397)
Total cash flows from investing activities	2,293	(185)	4,617	(397)
Cash flows from financing activities:				
Cash proceeds from public offerings	-	-	16	-
Distributions paid to Unitholders	(7,512)	(5,028)	(14,899)	(10,056)
Total cash flows from financing activities	(7,512)	(5,028)	(14,883)	(10,056)
Increase (decrease) in cash and cash equivalents	(3,013)	(1,276)	6,228	2,607
Cash and cash equivalents at the beginning of period	20,979	14,766	11,738	10,883
Cash and cash equivalents at the end of period	\$17,966	\$13,490	\$17,966	\$13,490
Interest paid	\$776	\$49	\$776	\$68

1. Organization

Macquarie Power & Infrastructure Income Fund (the "Fund") is an unincorporated open-ended trust established on March 15, 2004, under the laws of the Province of Ontario. The Fund began its operations on April 30, 2004 and indirectly acquired 100% of the equity of Cardinal Power of Canada L.P. ("Cardinal"). Cardinal is a 156-megawatt, gas-fired combined cycle cogeneration plant located in Cardinal, Ontario. On October 18, 2005 the Fund acquired an indirect 45% interest in Leisureworld, a long-term care ("LTC") provider in Ontario.

Macquarie Power Management Ltd. ("MPML, the manager"), a wholly owned subsidiary of Macquarie North America Ltd., provides administrative services to the Fund and Macquarie Power & Infrastructure Income Trust ("Trust") in accordance with an administration agreement, and management services to the Fund, the Trust, Cardinal and MPT LTC Holding L.P. ("LTC Holding, L.P.") in accordance with management agreements.

2. Significant accounting policies

The following is a summary of the significant accounting policies adopted by the Fund.

Basis of presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements, using the same accounting policies as were used for the audited consolidated financial statements for the year ended December 31, 2005. These unaudited interim consolidated financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles for annual financial statements and should be read in conjunction with the audited consolidated financial statements and the notes thereto included.

In addition to the Fund, these consolidated financial statements include the assets and liabilities and results of operations of the Trust, Cardinal Power Inc., ("Cardinal G.P."), Cardinal, MPT LTC Holding Ltd. ("LTC G.P."), and LTC Holding L.P., all of which are 100% owned subsidiaries of the Fund.

The Fund through its wholly owned subsidiaries LTC G.P. and LTC Holding L.P., uses the equity method to account for its 45% interest in Leisureworld Senior Care L.P. ("Leisureworld").

All intercompany balances and transactions have been eliminated upon consolidation.

Revenue recognition

Revenue from the sale of electricity and steam is recognized when delivered to the customer and priced in accordance with the provisions of the applicable power and steam sales agreements. The Power Purchase Agreement ("PPA") provides for an electricity rate adjustment, which is updated periodically both for the current and prior periods. The Fund accounts for such adjustments in the period when the adjustments are determined.

Use of estimates

The financial information contained in the accompanying consolidated financial statements has been prepared in accordance with Canadian generally accepted accounting principles, which require the Manager to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting quarter. Actual results could differ from the estimates and the differences could be significant.

Macquarie Power & Infrastructure Income Fund
Notes to the Consolidated Financial Statements
June 30, 2006 Quarterly Financial Report (unaudited)

(in thousands of dollars, except for trust units and per trust units amounts)

Long-term investment

The Fund has significant influence over its investment in Leisureworld and accounts for it using the equity method. Under the equity method, the cost of the investment is adjusted by the Fund's proportionate share of operations and reduced by any distributions payable to the Fund by LTC Holding L.P. and LTC G.P.

Property, plant and equipment

Property, plant and equipment have been recognized at cost of acquisition and are included in the consolidated statement of financial position. Plant and equipment are depreciated over their useful lives, ranging from five to 20 years using the straight-line method.

Maintenance and repairs

Routine maintenance, repairs and major overhaul costs are charged to the consolidated statement of income in the period they are incurred.

Impairment of assets

The Fund evaluates the operating and financial performance of its long-lived assets for potential impairment in accordance with CICA Accounting Recommendation 3063 "Impairment of long-lived assets." If an asset is determined to be impaired, the asset is written down to its fair value. The Fund reviews the fair value of long-lived assets in the second quarter of each fiscal year or as indicators of impairment arise.

Contracts

Electricity supply and gas purchase contracts are separately identifiable intangible assets. The assets are presented in the consolidated statement of financial position, and are recorded at their fair value at the date of acquisition. The contracts are amortized over their useful life of ten years using the straight-line method.

Goodwill

Goodwill is recorded at cost and is tested for impairment in the second quarter of each fiscal year or when indications of impairment arise. An impairment loss is recognized when the fair value of goodwill is less than its carrying amount.

Derivative instruments

The Fund uses swap contracts to manage its exposure to price fluctuations on sales of excess gas volumes.

The Fund applies Accounting Guideline 13 "Hedging Relationships" (AcG-13), issued by The Canadian Institute of Chartered Accountants, which establishes the criteria for applying hedge accounting for derivative instruments. Derivatives that have been designated and function effectively as hedges in accordance with AcG-13, are accounted for using hedge accounting principles. These principles require that the income or expense generated by the contracts be recognized during the period in which the underlying hedged transactions occur as adjustments to operating expenses.

Derivatives that do not qualify for hedge accounting are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in the consolidated statement of income.

Asset retirement obligation

The Fund recognizes a liability for the future retirement obligations associated with the Cardinal plant. These obligations are initially measured at fair value, which is the discounted future cost of the liability. The liability accretes until the date of expected settlement of the retirement obligations.

Income taxes

Under the terms of the Income Tax Act (Canada) (the "Tax Act"), Cardinal and LTC Holding L.P., as partnerships, are not subject to income taxes. Their income will be allocated to and included in computing the income of its partners, who are Cardinal G.P., LTC G.P. and the Trust. Under the terms of the Tax Act, the Fund and the Trust are not generally subject to income taxes to the extent their taxable income and taxable capital gains are distributed to Unitholders. As the Fund and the Trust are contractually committed to

Macquarie Power & Infrastructure Income Fund
Notes to the Consolidated Financial Statements
June 30, 2006 Quarterly Financial Report (unaudited)

(in thousands of dollars, except for trust units and per trust units amounts)

distribute all or virtually all of their taxable income and taxable capital gains to Unitholders, it is not likely that either entity will be subject to income taxes. Accordingly, no provision for income taxes has been recorded by the Fund or the Trust.

Variable interest entities

CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"), provides guidance for applying the principles in CICA Handbook Section 1590, "Subsidiaries," to those entities defined as Variable Interest Entities ("VIEs"), in which either the equity at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties, or equity investors lack either voting control, an obligation to absorb expected losses, or the right to receive residual returns. AcG-15 requires consolidation of VIEs by the primary beneficiary. The primary beneficiary is defined as the party that has exposure to the majority of a VIE's expected losses and/or residual returns. The Fund has evaluated its interests in electricity supply and gas purchase contracts and has determined that the Fund is the primary beneficiary as at June 30, 2006 and should continue to consolidate Cardinal.

Basic and fully diluted income per unit

Basic and fully diluted income per unit is established by dividing net income, as determined above, by the weighted average number of trust units and Class B units outstanding (Units) during the quarter.

3. Segmented Information

The Fund has two reportable industry segments, power generation and LTC, both of which relate to one geographic segment, Canada. Power generation consists of the operation of the Cardinal power station. The LTC segment consists of the Fund's indirect 45% investment in Leisureworld, the third largest operator of LTC facilities in Ontario, Canada. The Leisureworld indirect investment is accounted for using the equity method and is presented in these consolidated results as "Equity accounted loss from Leisureworld" in the consolidated statement of operations. All other information presented in the consolidated statement of operations relate to the power generation segment.

The performance of these segments is evaluated by the manager primarily on revenues, income from operations, net income and distributions received.

4. Cash and cash equivalents

Cash and cash equivalents comprise highly liquid investments with original maturities of less than 90 days. As at June 30, 2006 and December 31, 2005, cash and cash equivalents included the following:

	June 30, 2006	December 31, 2005
Major maintenance reserve	\$1,009	\$4,145
Capital expenditure reserve	1,080	1,435
General reserve	3,000	3,000
Total reserve accounts	5,089	8,580
Other cash and cash equivalents	12,877	3,158
Total cash and cash equivalents	\$17,966	\$11,738

Macquarie Power & Infrastructure Income Fund
Notes to the Consolidated Financial Statements
June 30, 2006 Quarterly Financial Report (unaudited)
(in thousands of dollars, except for trust units and per trust units amounts)

5. Investment in Leisureworld

The investment in Leisureworld comprises:

Investment at December 31, 2005	\$90,643
Equity accounted (loss) for the period	(1,723)
Distributions received in the period	(5,174)
Investment at June 30, 2006	<u>\$83,746</u>

6. Property, plant and equipment and electricity supply and gas purchase contracts

Property, plant and equipment	Cost	Accumulated Depreciation	June 30, 2006 Net Book Value	December 31, 2005 Net Book Value
Opening balance –April 1, 2006	\$154,093	\$(14,752)	\$139,341	\$148,240
Purchases of property, plant and equipment	294	-	294	464
Increase to estimated asset retirement obligation	555	-	555	-
Depreciation	-	(1,932)	(1,932)	(7,698)
Ending balance	<u>\$154,942</u>	<u>\$(16,684)</u>	<u>\$138,258</u>	<u>\$141,006</u>

Electricity supply and gas purchase contracts	Cost	Accumulated Depreciation	June 30, 2006 Net Book Value	December 31, 2005 Net Book Value
Opening balance – April 1, 2006	\$48,000	\$(9,214)	\$38,786	\$44,786
Amortization	-	(1,200)	(1,200)	(4,800)
Ending balance	<u>\$48,000</u>	<u>\$(10,414)</u>	<u>\$37,586</u>	<u>\$39,986</u>

7. Bank credit facility

The Fund has a \$15,000 operating line of credit. At maturity, this facility can be replaced by a facility with similar terms and conditions and for successive periods of 364 days. Collateral for the facility is provided by a first ranking hypothec covering the assets of Cardinal. The utilization of the facility is subject to certain financial and non-financial covenants. Advances under the facility are made in the form of banker's acceptances ("BAs") or prime rate loans. In the case of BAs, interest is charged at the BA rate plus a stamping fee based on the Fund's ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization and unrealized gains and losses. In the case of prime rate loans, interest is charged at the bank's prime rate plus an applicable margin based on the same ratio. As at June 30, 2006, there is no amount outstanding under this facility.

8. Long-term debt

During the quarter, the Fund amended its term debt facility. The three-year term loan of \$35,000 (December 31, 2005 - \$35,000) has been extended to mature on May 16, 2011. Collateral for the facility is provided by a first ranking hypothec covering the assets of Cardinal. Utilization of the facility is subject to certain financial and non-financial covenants. Advances under the facility are made in the form of BAs or prime rate loans. In

Macquarie Power & Infrastructure Income Fund
Notes to the Consolidated Financial Statements
June 30, 2006 Quarterly Financial Report (unaudited)

(in thousands of dollars, except for trust units and per trust units amounts)

the case of BAs, interest is charged at the BA rate plus a stamping fee based on the Fund's ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization and unrealized gains and losses. In the case of prime rate loans, interest is charged at the bank's prime rate plus an applicable margin based on the same ratio. As at June 30, 2006, the Fund's long-term debt was in the form of a series of instruments as follows:

Type of instrument	Draw down amount	Maturity	All-in rate
BA	\$11,700	August 28, 2006	4.96%
BA	\$11,700	December 16, 2006	4.99%
BA	\$11,600	June 13, 2007	5.21%

Borrowing costs, including interest, are paid at the inception of each BA loan. These costs are capitalized and amortized over the life of each respective loan. As at June 30, 2006, the unamortized portion of the capitalized borrowing costs totaled \$901 (December 31, 2005 – \$881) and is included in the consolidated statement of financial position.

During the quarter, the Fund converted its prime rate loan of \$11,700 into a BA at a rate of \$ 4.96% per annum and maturing on August 28, 2006. Another BA for \$11,600 was also renewed at a rate of 5.21% per annum with a maturity date of June 13, 2007.

9. Units issued by the Fund

An unlimited number of units may be issued by the Fund pursuant to its trust indenture. Each unit is transferable and represents a unitholder's proportionate undivided beneficial ownership interest in any distributions from the Fund, including distributions of net income, net realized capital gains or other amounts. Each unit also entitles the unitholder to share in the net assets of the Fund in the event of termination or wind up. All units have equal rights and privileges. The units are not subject to future calls or assessments and entitle the Unitholder to one vote for each unit held at all meetings of Unitholders. Units do not have conversion, retraction or pre-emptive rights, and are redeemable at any time on demand by Unitholders at an amount equal to the lesser of:

- (i) 90% of the daily weighted average price per unit during the period of the last ten days; and
- (ii) an amount equal to either:
 - (a) the closing price of the units on the date on which the units were tendered for redemption;
 - (b) the average of the highest and lowest prices of units on the date on which the units were tendered for redemption; or
 - (c) the average of the last bid and ask prices on the date on which the units were tendered for redemption.

The total amount payable in cash by the Fund in respect of such units and all other units tendered for redemption in the same calendar month shall not exceed \$50 (provided that such limitation may be waived at the discretion of the trustees of the Fund). In total, 26,798,997 units are outstanding as at June 30, 2006 (December 31, 2005: 26,798,997).

The Fund has also issued 3,249,390 Class B exchangeable units. Each exchangeable units are exchangeable into one unit of the Fund. The Class B exchangeable units are eligible to receive distributions under the same terms and conditions as units of the Fund.

The holders of the Class B exchangeable units cannot acquire any additional units of the Fund (other than pursuant to the exchange of the Class B exchangeable units or pursuant to a distribution reinvestment plan, if the Fund should implement such a plan) without the consent of the Fund until the tenth anniversary of the Acquisition Closing Date. Each Class B exchangeable unit will convert into units of the Fund on the tenth anniversary of the Acquisition Closing Date unless converted earlier at the option of the unitholders. The

Macquarie Power & Infrastructure Income Fund
Notes to the Consolidated Financial Statements
June 30, 2006 Quarterly Financial Report (unaudited)

(in thousands of dollars, except for trust units and per trust units amounts)

Class B exchangeable unitholders cannot sell more than 5% of the aggregate outstanding trust units in any four-month period and are not eligible to vote with any units it receives on exchange of its Class B exchangeable units until they, together, hold 1% or less of the aggregate outstanding units.

10. Distributions to Unitholders

Distributions to unitholders are paid on the last business day of each month, one month in arrears. The following distributions have been declared to unitholders including Class B exchangeable units for the quarter ended, June 30, 2006:

Period of distribution	Date of payment	Amount declared	Amount declared (per unit)*
April 1 to 30, 2006	May 31, 2006	\$2,504	\$0.08333
May 1 to 31, 2006	June 30, 2006	2,504	0.08333
June 1 to 30, 2006	July 31, 2006	2,504	0.08334
Quarter ended June 30, 2006		<u>\$7,512</u>	<u>\$0.25000</u>

* Amounts declared (per unit) are rounded for presentation purposes

Any income of the Fund that is applied to cash redemptions of units or is otherwise unavailable for cash distribution will be distributed to Unitholders in the form of additional units. Such additional units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

11. Related party transactions

MPML provides management services to Cardinal, LTC Holding L.P., the Fund and the Trust under 20-year management agreements. The Fund incurred management fees of \$263 (YTD - \$523) (Q2 2005 - \$146; YTD 2005 - \$291) in respect of the quarter ended June 30, 2006 for these services. MPML is entitled to seek reimbursement for all costs and expenses incurred in carrying out its management services. MPML may also earn an annual incentive fee equal to 25% of the amount by which the distributable cash per unit in a calendar year exceeds \$0.95 multiplied by the weighted average number of units of the Fund outstanding for the relevant fiscal year or part thereof.

Pursuant to a 20-year administration agreement, MPML provides the Fund and the Trust with certain administrative and support services. The Fund incurred administrative fees of \$26 (YTD - \$52) (Q2 2005 - \$25; YTD 2005 - \$50) for the quarter ended June 30, 2006. MPML is entitled to be reimbursed for all reasonable costs and expenses incurred in carrying out such services as approved by the independent trustees.

The Fund recorded cost reimbursements payable to MPML of \$294 (YTD - \$705) (Q2 2005 - \$61; YTD 2005 - \$106) for the quarter. Additionally, a reduction in the incentive fee accrued of \$309 (Q2 2005 - Nil) was recorded for the quarter ended June 30, 2006 as distributable cash did not exceed the annual threshold of \$0.95 per unit.

12. Commitments and contingencies

Electricity supply contract

Cardinal has entered into an agreement to sell all electricity produced at its facility, less the amount of electricity consumed in the operation of the facility, to the Ontario Electricity Financial Corporation ("OEFC") until December 31, 2014.

Macquarie Power & Infrastructure Income Fund
Notes to the Consolidated Financial Statements
June 30, 2006 Quarterly Financial Report (unaudited)

(in thousands of dollars, except for trust units and per trust units amounts)

Gas purchase contracts

Cardinal has entered into long-term purchase agreements for natural gas and gas transportation that expire on May 1, 2015 and October 31, 2014, respectively. Minimum commitments under such agreements are 9,289,104 MMBtu per year through to expiration in 2015. Under its long-term purchase agreement for natural gas, Cardinal is required to purchase a minimum volume of gas equivalent to 80% of the contract maximum or the supplier is entitled to financial compensation from Cardinal.

Gas swap contracts

Cardinal has entered into gas swap contracts to hedge itself against fluctuations in the price of excess gas sold under the gas mitigation clause of the gas purchase agreement. The gas swap contracts require Cardinal to make variable payments to the counterparty based on 436,814 MMBtu of gas at the market rate of natural gas in exchange for receiving fixed payments based on 436,814 MMBtu of gas at a fixed price per MMBtu for up to five years ending on October 31, 2008. The contracts cover the sale of gas for the seven-month period from April to October for each of the remaining contracts. As at June 30, 2006, the following contracts remained:

Period covered by contract

April 1 to October 31, 2006

April 1 to October 31, 2007

April 1 to October 31, 2008

Lease

Cardinal leases a portion of the site on which the facility is located from Canada Starch Operating Company Inc. ("CASCO"). Under the lease, Cardinal pays nominal rent. The lease expires concurrently with the energy savings agreement between CASCO and Cardinal. The energy savings agreement currently expires on January 31, 2015 but can be extended by mutual agreement.

13. Financial instruments

Financial instruments consist primarily of temporary cash investments, accounts receivable, current liabilities and gas swap contracts. The fair value of the Fund's financial instruments included in current assets and current liabilities approximate their carrying amounts due to their short-term maturities.

The Fund invests its cash balances in financial instruments of highly rated financial institutions and government securities. A substantial portion of its trade receivables are from a major electric utility and the associated credit risks are deemed to be limited.

The fair value of the Fund's long-term debt changes as interest rates change. The fair value of this floating rate debt approximates its carrying value.

The Fund has entered into gas swap contracts to fix the revenue derived from the sale of excess gas (refer to note 12). One of these contracts meets the effectiveness criteria for hedge accounting and accordingly, the fair value of this contract has not been reflected in these consolidated financial statements. The fair value of this derivative at June 30, 2006 is estimated to be a liability to the Fund of \$11 (December 31, 2005 – liability of \$2,271). However, the Fund intends to hold the contract to maturity to mitigate exposure to gas price fluctuations from sales of excess gas volumes in 2006.

There are two other gas swap contracts that do not meet the effectiveness criteria for hedge accounting and accordingly, the fair value of these contracts has been included in the consolidated statement of financial position with a corresponding unrealized gain of \$808 (Q2 2005 – unrealized loss of \$758) for the quarter recorded in the consolidated statement of income. The fair value of these derivatives at June 30, 2006 is estimated to be a liability to the Fund of \$1,894 (December 31, 2005 – liability of \$3,027). The Fund intends to hold these contracts to maturity to mitigate exposure to natural gas price fluctuations from sales of excess natural gas volumes in 2007 and 2008.

14. Economic dependence

For the quarter, approximately 97.6% (Q2 2005 – 98.8%) of the Fund's revenue was derived from the sale of electricity to OEFC. Approximately 94.0% (December 31, 2005 – 97.5%) of the accounts receivable balance was due from OEFC relating to electricity sales.

For the quarter, approximately 68.3% (Q2 2005 – 79.8%) of the Fund's operating costs were derived from the purchase of gas from Husky Energy Marketing Inc. ("Husky") under a long-term gas purchase contract. Approximately 53.2% (December 31, 2005 – 42.1%) of the trade payables and accrued expenses was payable to Husky relating to gas purchases.

ADDITIONAL INFORMATION

Please refer to the SEDAR website (www.sedar.com) for additional information about the Fund including the Fund's annual information form, dated March 21, 2006.

INVESTOR INFORMATION

TRANSFER AGENTS, REGISTRAR AND TRUSTEE

Computershare Investor Services Inc.
1500 University St., Suite 700, Montreal, QC H3A 3S9

FOR INVESTOR AND INVESTMENT ANALYST INQUIRIES PLEASE CONTACT:

Harry Atterton, Chief Financial Officer, (416) 607 5198

FOR MEDIA INQUIRIES PLEASE CONTACT:

Alex Doughty, Corporate Communications, Macquarie group, (212) 231 1710

EXCHANGE LISTING:

Macquarie Power & Infrastructure Income Fund's units are listed on the Toronto Stock Exchange and trade under the symbol MPT.UN

WEB SITE:

www.macquarie.com/mpt