

MACQUARIE POWER & INFRASTRUCTURE INCOME FUND
FINANCIAL REPORT

FOR THE QUARTER AND NINE MONTHS ENDED
SEPTEMBER 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 Nine Months Ended
September 30, 2006

This report for the Macquarie Power & Infrastructure Income Fund (the "Fund") summarizes the financial results for the quarter and nine months ended September 30, 2006. This discussion and analysis dated November 8, 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 nine months ended September 30, 2006 with the results for the quarter and nine months ended September 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 ("OEF") at contracted rates under the Power Purchase Agreement dated May 29, 1992 between Cardinal and OEF (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") homes (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 homes), and Ontario Long-Term Care providers, which provides laundry and purchasing services to Leisureworld's LTC homes.

Summary of operating results

The Fund and its underlying investments continued to produce strong cash flow in the quarter ended September 30, 2006. Distributable cash was \$6,947 (\$0.231 per unit) compared with \$6,234 (\$0.295 per unit) for the quarter ended September 30, 2005. The payout ratio for the quarter ended September 30, 2006 was 110% (2005 - 80%) following a \$0.05 and \$0.03 increase in distributions which were effective January and August 2006, respectively. All distributions were paid from current cash balances. For the nine-month period, the payout ratio was 94% (2005 - 83%).

The increase in the Fund's distributable cash is primarily due to distributions of \$2,588 received from Leisureworld. As Leisureworld was acquired on October 18, 2005 there was no corresponding distribution received in the third quarter in 2005. During the quarter, Cardinal continued to benefit from electricity rate increases under its PPA with the OEF as well as decreased fuel transportation costs for the quarter. Offsetting the increase in cash flow from Cardinal and Leisureworld's ongoing operations was an adjustment in the Direct to Consumer Rate ("DCR") of \$1,334 received in the third quarter of 2005. For 2006, a DCR adjustment of \$1,031 was received in the first quarter. The balance of the offset was higher administration costs.

Overall, the Fund's financial position is strong with positive working capital of \$16,290 with fully funded reserves and an uncommitted cash balance of \$4,910 as at September 30, 2006.

During the quarter, the Cardinal plant achieved an availability of 99.8% (2005 - 100%) and a capacity factor of 97.2% (2005 - 96.1%). The increase in the DCR of approximately 5.9% in the third quarter of 2006 was offset by the OEF adjustment of \$1,334 received in Q3 2005, resulting in an overall net decrease of \$333 in revenue compared with the quarter ended September 30, 2005. Ongoing operating costs decreased quarter to quarter by \$636. Operating costs were substantially the same in the first nine months of 2006 compared with 2005. The increased spending in preparation for the major maintenance in 2006 was comparable to the higher gas costs in 2005, as there was no comparable shutdown in 2005. Major maintenance costs are funded through the major maintenance reserve and have no impact on distributable cash.

Leisureworld provided distributions of \$2,588 for the quarter ended September 30, 2006. Leisureworld continued to demonstrate steady growth. Revenue grew by 8.3% and the income from operations grew by 13.5% compared with September 30, 2005, reflecting improved occupancy levels and optimization of preferred bed mix. Increased government funding rates also had a positive impact on improved overall results.

Seventeen LTC homes are considered mature and had average total occupancy of 98.3% for the nine months ended September 30, 2006 (2005 – 92.3%). One facility, Vaughan, is still in ramp up and recorded average total occupancy of 72.6% for the nine months ended September 30, 2006 (2005 – 34.5%). 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's average total occupancy for the nine months ended September 30, 2006 was 68.5% (2005 – 93.3%). Preferred bed average total occupancy for the same mature homes was 82.7% for the nine months ended September 30, 2006 (2005 – 77.8%).

Outlook

The Fund's outlook for the remainder of 2006 and into 2007 is positive, based on the growth inherent in its Cardinal and Leisureworld assets.

Cardinal has successfully completed its major maintenance program and is now entering its annual high season. From November to March, the PPA contains higher power rates, which will contribute to increased revenue. Additionally, the facility produces more electricity in the winter when the gas turbine attains its peak output as a result of lower ambient temperatures. Cardinal is expected to experience a continuing increase in cash flow due to the growth in margin between DCR and natural gas costs.

Growth for Leisureworld is expected to continue through improving occupancy and preferred accommodation utilization. Its newest Class A facility in Orillia remains on schedule for completion by the end of November and will open pending inspection by the Ministry of Health and Long-Term Care. Orillia will replace the Spencer House facility, which is to be closed and sold.

With the strong step-up in cash flow following the completion of Cardinal's major maintenance, the Fund anticipates maintaining a payout ratio of 90% to 95%, providing growth and stability of distributions to unitholders.

Management previously indicated that in excess of 75% of distributions for 2006 would reflect a return of capital, based on current operations and barring any significant unexpected external developments. In light of the proposed tax policy for flow through entities, including income trusts and limited partnerships, announced by the federal government on October 31, 2006, management intends to review the Fund's tax position with a view to maximizing unitholder value.

The proposed new legislation applies to publicly-listed Canadian trusts and partnerships, other than REITs and those that hold only portfolio investments. The proposed changes, which appear to effectively tax income funds in the same manner as corporations, are expected to have the most impact on tax-deferred investors (pension funds and RRSPs) and non-resident investors. The proposed tax policy is expected to become effective for the Fund and its unitholders in 2011.

To be considered a REIT for this purpose, a trust must hold no "non-portfolio" properties except real estate, must derive at least 95% of its income from rents, mortgages or gains from real property, and must hold real property in Canada, cash and government debt that accounts for at least 75% of its equity value. Management intends to evaluate the impact of this provision on the Fund.

Detailed legislative measures to give effect to this proposed policy have not yet been released. Management will evaluate the impact of the policy on the Fund and its unitholders as those details become available.

The Fund has delivered solid growth and value for unitholders since inception, reflecting the high quality and stability of the Fund's assets as well as the success of the Fund's operating strategies. Management believes that the fundamentals of the Fund's business are strong and remains confident in the Fund's long-term growth prospects, including growth through acquisitions. The Fund has four years to plan for the proposed changes,

and, in the interim, unitholders will continue to receive stable cash distributions and benefit from the Fund's continuing growth.

Selected Consolidated Financial and Operating Information

Unaudited

(in thousands of dollars unless otherwise noted)	Quarter Ended Sept. 30, 2006	Quarter Ended Sept. 30, 2005	Nine months Ended Sept. 30, 2006	Nine months Ended Sept. 30, 2005
Revenue	\$20,356	\$19,355	\$63,287	\$64,281
DCR adjustment in respect of other periods	-	1,334	1,031	1,334
	<u>\$20,356</u>	<u>\$20,689</u>	<u>\$64,318</u>	<u>\$65,615</u>
Income before the following:	2,212	2,871	5,360	10,271
Unrealized gain (loss) on gas swap contracts	678	(899)	1,811	(2,642)
Net interest (expense)	(285)	(316)	(710)	(956)
Equity accounted loss from Leisureworld	(353)	-	(2,076)	-
Net income	<u>\$2,252</u>	<u>\$1,656</u>	<u>\$4,385</u>	<u>\$6,673</u>
<i>Per basic and diluted Unit (\$)</i>	\$0.075	\$0.078	\$0.146	\$0.315
Cash flows from operating activities	\$(2,303)	\$5,695	\$14,191	\$18,755
Distributable cash ⁽ⁱ⁾	\$6,947	\$6,234	\$24,057	\$18,200
<i>Per basic and diluted Unit (\$)</i>	\$0.231	\$0.295	\$0.801	\$0.860
Distributions declared to Unitholders	\$7,662	\$5,028	\$22,686	\$15,084
<i>Per basic and diluted Unit (\$)</i>	\$0.255	\$0.238	\$0.755	\$0.713
Payout ratio ⁽ⁱⁱ⁾	110%	80%	94%	83%
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)	306	306	893	957
Sale of steam (MM lbs)	153	154	508	497
Total assets	<u>\$298,417</u>	<u>\$289,436</u>	<u>\$298,417</u>	<u>\$289,436</u>
Total long-term liabilities	<u>\$37,360</u>	<u>\$37,973</u>	<u>\$37,360</u>	<u>\$37,973</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. September 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. September 30, 2005 has been restated for consistency; see Distributable Cash and Payout Ratio.

Revenue

During the quarter ended September 30, 2006, the Cardinal Facility performed with an availability of 99.8% (2005 – 100%) and a capacity factor of 97.2% (2005 – 96.1%). Revenue from operations was \$1,001 higher than the quarter ended September 30, 2005. The increase related primarily to the 5.9% increase in DCR that was effective starting in Q1 2006.

For the nine months ended September 30, 2006, revenue from operations was \$63,287 compared with \$64,281 for the same period last year. The decrease of \$994 was primarily due to the shutdown in Q2 2006 for the major maintenance program, which was partially offset by the improved electricity rates in 2006. Total

revenue was also affected by adjustments for prior period DCR rates by the OEFC to adjust from estimated to actual rates.

Income from operations

Income from operations before net interest, share of Leisureworld losses and unrealized gains on swap contracts for the quarter was \$2,212 compared with \$2,871 for the quarter ended September 30, 2005, and \$5,360 for the nine months ended September 30, 2006, compared with \$10,271 for the same period last year. The reductions in both quarterly and year-to-date comparatives related to similar matters.

Further to the factors previously discussed, operating and administrative costs had the most significant impact on income from operations. Operating costs were lower by \$636 on a quarter-over-quarter basis. A significant reduction in maintenance costs (major maintenance preparation in 2005) was offset somewhat by higher fuel costs. Operating costs were similar on a year-to-date basis.

Administration expenses were higher by \$953 in the third quarter of 2006 compared with the same period last year. Approximately \$300 of the increase was due to increases in management fees and the accrual of cost reimbursement and incentive fees. The remainder of the increase was professional fees related to Bill 198, Fund administration and M&A activities. The Fund accrues incentive fees and cost reimbursement on a quarterly basis. Prior to 2006, these costs were primarily recorded in the fourth quarter.

Administration expenses for the nine months ended September 30, 2006 totalled \$4,889 (2005 - \$1,332). The increase is due in part to incentive fees and cost reimbursement of \$1,750 not previously recorded on a quarterly basis, with the remainder relating to management fees, other Fund administration, professional fees related to Bill 198 and M&A activities.

Unrealized (gain) loss on gas swap contracts

At times, the Cardinal 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.

For the quarter ended September 30, 2006, the Fund recorded an unrealized gain of \$678 (2005 – unrealized loss of \$899). For the nine months ended September 30, 2006, the Fund recorded an unrealized gain of \$1,811 (2005 - loss of \$2,642), reflecting the movement in fair value of certain contracts entered into for 2007 and 2008. The gain reflects 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 (2005 - \$690) were amortized in the quarter and \$703 (2005 – \$331) were amortized in the nine months ended September 30, 2006.

On August 28, 2006, the Fund renewed a BA for \$11,700 at a rate of 5.02% per annum that will mature on August 28, 2007.

Cash Flows from Operating Activities

Cash flows from operating activities were lower for the quarter ended 2006 by \$7,998 compared to 2005. The reduction is primarily due to two months of OEFC receipts being in accounts receivable in 2006 in comparison to 2005 where there was only one month of receipts.

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 supports the financial obligations of the Fund.

The Fund updated its definition of distributable cash in the fourth quarter of 2005. To better reflect the Fund's performance, the calculation was 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 Sept. 30, 2006	Quarter Ended Sept. 30, 2005	Nine months Ended Sept. 30, 2006	Nine months Ended Sept. 30, 2005
Cash flows from operating activities	\$(2,303)	\$5,695	\$14,191	\$18,755
Add:				
Release from major maintenance reserve account	-	1,237	4,292	1,567
Distributions received from Leisureworld	2,588	-	7,763	-
Less:				
Changes in working capital	(7,383)	5	110	43
Allocation to major maintenance reserve account	620	592	1,776	1,777
Allocation to capital expenditure reserve account	101	101	303	302
Distributable cash for the period	\$6,947	\$6,234	\$24,057	\$18,200
Add:				
Release from capital expenditure reserve account	-	58	-	455
Distributable cash (as previously stated)	-	\$6,292	-	\$18,655
Weighted average number of trust units and Class B exchangeable units outstanding (Units)	30,048,386	21,168,997	30,048,387	21,168,997
Distributable cash per basic and fully diluted Unit	\$0.231	\$0.295	\$0.801	\$0.860
Distributable cash per basic and fully diluted Unit (as previously stated)	-	\$0.297	-	\$0.881

The Fund declared distributions to unitholders of \$7,662 (2005 – \$5,028) for the quarter ended September 30, 2006 and \$22,686 (2005 - \$15,084) for the nine months ended September 30, 2006. This represents a payout ratio of 110% (2005 – 80%) for the quarter ended September 30, 2006 (payout ratio is defined as distributions declared as a proportion of distributable cash).

For the nine months ended September 30, 2006, the Fund continues to maintain a conservative payout ratio of 94% (2005 - 83%).

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.

The investment in Leisureworld 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 \$353 for the quarter ended September 30, 2006 (nine months ended September 30, 2006 – loss of \$2,076). Included in the Fund's pro rata portion of net loss was depreciation and amortization of \$2,367 (nine months ended September 30, 2006 - \$7,100) and amortization of the deferred gain of \$18 (nine months ended September 30, 2006 - \$59). Not included in the Fund's pro rata portion of net loss was construction funding of \$429 (nine months ended September 30, 2006 - \$1,286) and an annuity payment of Nil (nine months ended September 30, 2006 - \$226) received in the quarter. The Fund's pro rata share of maintenance capital expenditures for the quarter was \$42 (nine months ended September 30, 2006 - \$91). 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 \$2,588 (nine months ended September 30, 2006 - \$7,763) in cash distributions to the Fund.

Presented below is selected financial and operating information of Leisureworld.

<i>Unaudited</i>	Quarter Ended Sept. 30, 2006	Quarter Ended Sept. 30, 2005 (ii)	Nine months Ended Sept. 30, 2006 (ii)	Nine months Ended Sept. 30, 2005 (ii)
Revenue	\$43,143	\$39,712	\$125,067	\$114,086
Operating and administration costs	36,317	33,548	106,880	98,607
Income before following:	6,826	6,164	18,187	15,479
Interest, net	2,353	1,747	7,025	4,813
Amortization	5,260	1,098	15,776	3,650
Income taxes	-	1,243	-	2,699
Net income (loss)	\$(787)	\$2,076	\$(4,614)	\$4,317
The Fund's pro rata share of the net loss	\$(353)	(i)	\$(2,076)	(i)
Cash flow provided by operating activities	\$7,309	(i)	\$11,179	(i)
Distributions paid to partners	\$5,750	(i)	\$17,250	(i)
The Fund's pro rata share of distributions paid	\$2,588	(i)	\$7,763	(i)
Total assets	\$529,425	(i)	\$529,425	(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 nine months ended September 30, 2006 and the comparative periods to be consistent with the presentation in the current quarter.

Revenue

For the quarter ended September 30, 2006, Leisureworld generated revenue of \$43,143, compared with \$39,712 for the quarter ended September 30, 2005. This increase of \$3,431 or 8.6% was primarily due to

increased occupancy at the Brampton Meadows, Brampton Woods, Norfinch and Vaughan LTC homes that were opened in 2003 and 2004. Average total occupancy in the mature homes increased to 99.0% in the quarter ended September 30, 2006 from 95.2% in the prior year quarter. Average total occupancy at Vaughan was 84.2% in the current quarter compared with 43.9% in the same period last year. In addition, revenue increased by \$213 as more residents were provided with preferred accommodation in the newer homes, which attracts higher rates. LTC revenue also increased as government funding rates were 2.8% higher than in the prior year period and \$482 of additional funding was provided for a number of new initiatives, including convalescent care and a new resident classification program. PHCS external revenue was in line with the prior year's quarter.

During the nine months ended September 30, 2006, Leisureworld generated revenue of \$125,067 compared with \$114,086 in the same period last year. This increase of \$10,981 or 9.6% was mainly due to the increased occupancy at the newer homes mentioned above. The average total occupancy across mature homes increased to 98.3% from 92.3% in the same period last year. Average total occupancy at the Vaughan home increased to 72.6% from 34.5% in the nine months ended September 30, 2005. Government funding rates increased by 3.1% over the same period in 2005. In addition, preferred accommodation revenue increased by \$525, reflecting strong increases in occupancy of private rooms at the newer homes and new initiatives backed by government funding increased revenues by \$989. PHCS external revenue contributed \$212 of the overall increase due to increases in nursing and personal support contract revenue earlier in 2006.

Operating and administrative expenses

Leisureworld's operating and administrative expenses for the quarter ended September 30, 2006 were \$36,317, which were \$2,769 or 8.3% higher than in the same period last year, reflecting the increases in occupancy and associated increases in staff and operating costs at the newer homes. Operating and administration expenses also increased due to additional reporting requirements associated with the change in ownership and unionized staff pay increases also contributed to the expense increase. PHCS expenses increased by \$69 over the prior year quarter due to additional costs incurred in providing education and training services to the LTC homes.

During the nine months ended September 30, 2006, operating and administrative expenses were \$106,880, which was \$8,273 or 8.4% 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 period following the change in ownership and pay increases for unionized staff at the beginning of fiscal 2006. PHCS expenses increased by \$639 over the prior 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

During the third quarter ended September 30, 2006, amortization increased by \$4,162, or 379.1%, from the same period last year to \$5,260 due to increases in the amortizable values of intangible, land and building assets that were allocated from the purchase price paid for Leisureworld. The main components of the amortization charge relate to resident relationships (\$3,000), professional nursing and personal support contracts (\$235), and property, plant and equipment (\$1,959).

During the nine months ended September 30, 2006, amortization increased by \$12,126 or 332.2% from the prior year period to \$15,776. The main components of the amortization charge relate to resident relationships (\$9,000), professional nursing and personal support contracts (\$703), and property, plant and equipment (\$5,875).

Financial expenses

Net interest expense amounted to \$2,353 during the quarter, an increase of \$606 or 34.7% from the third quarter of fiscal 2005. This increase reflects the interest on long term debt expensed in the quarter of \$3,669. Interest income of \$1,316 was recognized in the quarter, \$1,029 of which related to construction funding. Interest expense in the third quarter of 2005 was \$1,747, consisting of mortgage interest of \$3,079 and interest income on construction funding of \$1,332.

For the nine months ended September 30, 2006, net interest expense amounted to \$7,025, an increase of \$2,212 or 46.0% from the same period last year. Interest expense on the long term debt was \$11,086 and interest income of \$4,061 was recognized, of which \$3,087 related to construction funding. Interest expense in the prior year period was \$4,813, consisting of mortgage interest of \$8,931 and interest income on construction funding of \$4,118.

Net loss

Net loss for the third quarter of 2006 was \$787, compared with net income of \$2,076 in the same period last year. 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.

Net loss for the nine months ended September 30, 2006 was \$4,614, compared with a net income of \$4,317 in the same period last year, reflecting increased amortization and interest charges. 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. As a partnership, Leisureworld 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 \$16,290 as at September 30, 2006 (December 31, 2005 – \$17,805). As at September 30, 2006, cash on hand totalled \$10,533 (December 31, 2005 – \$11,738), of which \$4,910 (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 September 30, 2006, there was no amount outstanding under this facility (December 31, 2005 – Nil). As at September 30, 2006, long-term debt outstanding was \$35,000 (December 31, 2005 - \$35,000).

After the completion of the 2006 major maintenance program, and with the continued funding of major maintenance and capital expenditure reserves, the Fund believes it has more than sufficient funds to meet all anticipated maintenance and capital requirements of Cardinal for the remainder of 2006.

Unaudited

(in thousands of dollars)

	September 30, 2006	December 31, 2005
Major maintenance reserve	\$1,573	\$4,145
Capital expenditure reserve	1,050	1,435
General reserve	3,000	3,000
Total reserve accounts	5,623	8,580
Other cash and cash equivalents	4,910	3,158
Total cash and cash equivalents	\$10,533	\$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, Cardinal generally performs its major maintenance activities during the April to July period, which affects the Fund's operating results during that period. To partially offset this seasonality, Cardinal 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.

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	Sep 30, 2006	Jun 30, 2006	Mar 31, 2006	Dec 31, 2005	Sep 30, 2005	Jun 30, 2005	Mar 31, 2005	Dec 31, 2004
(thousands of dollars)								
Revenue	\$20,356	\$16,278	\$27,684	\$24,620	\$20,689	\$19,698	\$25,228	\$24,256
Net income (loss)	2,252	(1,473)	3,606	1,697	1,656	800	4,217	5,282
Cash flows from operating activities	(2,303)	2,206	14,288	(782)	5,695	3,937	9,123	6,184
Distributable cash	6,947	6,308	10,800	7,786	6,292	4,271	7,695	7,614
Distributions declared	7,662	7,512	7,512	7,136	5,028	5,028	5,028	5,028
<i>(dollars)</i>								
Net income (loss) per weighted average of trust units and Class B exchangeable units outstanding	\$0.075	\$(0.049)	\$0.120	\$0.058	\$0.078	\$0.038	\$0.199	\$0.249
Cash flows from operating activities per weighted average of trust units and Class B exchangeable units outstanding	(0.077)	0.073	0.476	(0.027)	0.269	0.186	0.431	0.292
Distributable cash per weighted average of trust units and Class B exchangeable units outstanding	0.231	0.210	0.359	0.264	0.295	0.202	0.364	0.360
Distributions declared per weighted average of trust units and Class B exchangeable units outstanding	0.255	0.250	0.250	0.242	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 \$292 for the quarter ended September 30, 2006 (2005 – \$174); the incentive fee was a recovery of \$(64) for the quarter ended September 30, 2006 (2005 – Nil) as distributable cash did not exceed the threshold of \$0.95 per unit for the quarter; and cost reimbursement of \$367 (2005 – \$78) for the quarter ended September 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 nine months ending September 30, 2006 administration and management fees were \$868 (2005 - \$515); incentive fees were \$887 (2005 - Nil); and cost reimbursement was \$1,049 (2005 - \$214).

Contractual obligations and other commitments

There have been 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 September 30, 2006.

Long-term debt

The term debt facility is a term loan of \$35,000 (December 31, 2005 - \$35,000) maturing 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 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 September 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	December 16, 2006	4.99%
BA	\$11,600	June 13, 2007	5.21%
BA	\$11,700	August 28, 2007	5.02%

During the quarter 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 September 30, 2006, the unamortized portion of the capitalized borrowing costs totalled \$1,288 (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 September 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

Proposed Long-Term Care Homes Act (Bill 140)

On October 3, 2006, the Ontario government tabled the proposed Long-Term Care Homes Act (“the Proposed Act”) in the Ontario Legislature. Bill 140 consolidates the three acts that currently govern long-term care and introduces many new provisions.

Among other provisions, the Proposed Act provides for limits on the term of long-term care home licences ranging from 25 years to 10 years according to the age and structural classification of a home. Currently, LTC licences have one-year terms subject to renewal on an annual basis.

The proposed Act does not include a commitment from the government to capital funding. Consequently, should the proposed legislation be passed in its current form, it is expected to primarily affect Class B and C homes. All of Leisureworld’s Class A homes have opened since 1999 and appear to meet the definition of new under the proposed legislation. MPT does not currently expect that the proposed legislation would have a significant near- or medium-term impact on Leisureworld due to the preponderance of new homes in the portfolio. As of the date of this report, the proposed Act is not law.

Proposed Changes in Federal Tax Policy for Flow-Through Entities

On October 31, 2006, the federal government proposed a new tax policy for flow through entities, including publicly-listed Canadian income trusts and partnerships, other than REITs and those that hold only portfolio investments.

The proposed changes appear to effectively tax income funds in a similar, but not identical manner as corporations. The proposed tax policy will become effective for the Fund and its unitholders in 2011.

To be considered a REIT under this policy, the government has indicated that a trust must hold no “non-portfolio” properties except real estate, must derive at least 95% of its income from rents, mortgages or gains from real property, and must hold real property in Canada, cash and government debt that accounts for at least 75% of its equity value.

As of the date of this report, detailed legislative measures to give effect to this proposed policy have not yet been released. Management will evaluate the impact of the policy on the Fund and its unitholders as those details become available.

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

Critical accounting policies and estimates

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

The preparation of consolidated 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 Canadian Institute of Chartered Accountants (“CICA”), which sets 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. In the second 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 lives 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 the 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.

Sections 3855, 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 year 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 be adopting these standards in 2007 and is currently reviewing these standards to determine the impact these standards will have on the accounting for the Fund's financial instruments.

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

	September 30, 2006	December 31, 2005
Current Assets		
Cash and cash equivalents (note 4)	\$10,533	\$11,738
Accounts receivable	14,331	17,641
Inventory	127	93
Prepaid expenses and borrowing costs	1,758	1,274
Total Current Assets	26,749	30,746
Investment in Leisureworld (note 5)	80,805	90,643
Property, plant and equipment (note 6)	136,454	141,006
Electricity supply and gas purchase contracts (note 6)	36,386	39,986
Goodwill	18,023	18,023
Total Assets	\$298,417	\$320,404
Current Liabilities		
Trade payables and accrued expenses	\$7,880	\$10,562
Distributions payable	2,579	2,379
Total Current Liabilities	10,459	12,941
Long-term debt (note 8)	35,000	35,000
Gas swap contracts at fair value (note 13)	1,216	3,027
Liability for asset retirement	1,144	553
Total Liabilities	47,819	51,521
Unitholders' Equity (notes 9 and 10)	250,598	268,883
Total Unitholders' Equity and Liabilities	\$298,417	\$320,404

Macquarie Power & Infrastructure Income Fund
Consolidated Statement of Unitholders' Equity
For the Quarter Ended September 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	-	-	-	(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
Net income for the quarter ended September 30, 2006	-	-	2,252	-	2,252
Distributions declared to Unitholders for quarter ended September 30, 2006 (Note 10)	-	-	-	(7,662)	(7,662)
Balance, September 30, 2006	\$253,476	\$35,500	\$19,991	\$(58,369)	\$250,598

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

	Quarter ended Sept. 30, 2006	Quarter ended Sept. 30, 2005	Nine months ended Sept. 30, 2006	Nine months ended Sept. 30, 2005
Revenue	\$20,356	\$20,689	\$64,318	\$65,615
Costs and expenses				
Operating costs	13,690	14,326	44,674	44,642
Administrative expenses	1,319	366	4,889	1,332
Depreciation and amortization	3,135	3,126	9,395	9,370
	18,144	17,818	58,958	55,344
	2,212	2,871	5,360	10,271
Unrealized gain (loss) on gas swaps (note 13)	678	(899)	1,811	(2,642)
Net interest expense	(285)	(316)	(710)	(956)
Equity accounted (losses) from Leisureworld	(353)	-	(2,076)	-
Net Income	\$2,252	\$1,656	\$4,385	\$6,673
Weighted average number of trust units and Class B exchangeable units outstanding (Units)	30,048,386	21,168,997	30,048,387	21,168,997
Basic and diluted income per Unit	\$0.075	\$0.078	\$0.146	\$0.315

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

	Quarter ended Sept. 30, 2006	Quarter ended Sept. 30, 2005	Nine months ended Sept. 30, 2006	Nine months ended Sept. 30, 2005
Cash flows from operating activities:				
Net income	\$2,252	\$1,656	\$4,385	\$6,673
Add back:				
Unrealized (gain)/loss on gas swap contracts	(678)	899	(1,811)	2,642
Depreciation and amortization	3,135	3,126	9,395	9,370
Amortization of prepaid borrowing costs	436	359	1,138	1,049
Accretion of asset retirement liability	18	9	36	27
Equity accounted losses from Leisureworld	353	-	2,076	-
Prepayment of borrowing costs and interests	(565)	-	(1,288)	(889)
Non-cash changes in working capital				
(Increase) decrease in accounts receivable	(6,989)	(1,863)	3,310	176
(Increase) decrease in inventory	(16)	9	(34)	(19)
(Increase) decrease in prepaid expenses	(728)	272	(334)	(329)
(Decrease) increase in trade payables and accrued expenses	479	1,228	(2,682)	55
Total cash flows from operating activities	(2,303)	5,695	14,191	18,755
Cash flows from investing activities:				
Distributions received from Leisureworld	2,588	-	7,763	-
Investment in property, plant and equipment	(131)	(58)	(689)	(455)
Total cash flows from investing activities	2,457	(58)	7,074	(455)
Cash flows from financing activities:				
Cash proceeds from public offerings	-	-	16	-
Issuing costs for subscription receipts	-	(1,619)	-	(1,619)
Issuance of subscription receipts	-	64,745	-	64,745
Distributions paid to Unitholders	(7,587)	(5,028)	(22,486)	(15,084)
Total cash flows from financing activities	(7,587)	58,098	(22,470)	48,042
Increase (decrease) in cash and cash equivalents	(7,433)	63,735	(1,205)	66,342
Cash and cash equivalents at the beginning of period	17,966	13,490	11,738	10,883
Cash and cash equivalents at the end of period	\$10,533	\$77,225	\$10,533	\$77,225
Interest paid	\$565	\$ -	\$1,341	\$957

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
September 30, 2006 Quarterly Financial Report (unaudited)

(in thousands of dollars, except for trust units and per trust unit 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 the Canadian Institute of Chartered Accountants ("CICA") Accounting Recommendation Section 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 lives of 10 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 CICA Accounting Guideline 13 "Hedging Relationships" (AcG-13), 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 distribute all or virtually all of their taxable income and taxable capital gains to Unitholders, it is not likely that

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

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 September 30, 2006 and should continue to consolidate Cardinal.

Basic and 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 homes 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 income. All other information presented in the consolidated statement of income relates 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 September 30, 2006 and December 31, 2005, cash and cash equivalents included the following:

	September 30, 2006	December 31, 2005
Major maintenance reserve	\$1,573	\$4,145
Capital expenditure reserve	1,050	1,435
General reserve	3,000	3,000
Total reserve accounts	<u>5,623</u>	<u>8,580</u>
Other cash and cash equivalents	4,910	3,158
Total cash and cash equivalents	<u>\$10,533</u>	<u>\$11,738</u>

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

5. Investment in Leisureworld

The investment in Leisureworld comprises:

Investment at December 31, 2005	\$90,643
Equity accounted (loss) for the period	(2,076)
Distributions received in the period	(7,762)
Investment at September 30, 2006	<u>\$80,805</u>

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

Property, plant and equipment	Cost	Accumulated Depreciation	Sept. 30, 2006 Net Book Value	Dec. 31, 2005 Net Book Value
Opening balance – July 1, 2006	\$154,942	\$(16,684)	\$138,258	\$148,240
Purchases of property, plant and equipment	131	-	131	464
Depreciation	-	(1,935)	(1,935)	(7,698)
Ending balance	<u>\$155,073</u>	<u>\$(18,619)</u>	<u>\$136,454</u>	<u>\$141,006</u>

Electricity supply and gas purchase contracts	Cost	Accumulated Amortization	Sept. 30, 2006 Net Book Value	Dec. 31, 2005 Net Book Value
Opening balance – July 1, 2006	\$48,000	\$(10,414)	\$37,586	\$44,786
Amortization	-	(1,200)	(1,200)	(4,800)
Ending balance	<u>\$48,000</u>	<u>\$(11,614)</u>	<u>\$36,386</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 September 30, 2006, there is no amount outstanding under this facility.

8. Long-term debt

The term debt facility is a term loan for an amount of \$35,000 (December 31, 2005 - \$35,000) maturing 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,

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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 September 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	December 16, 2006	4.99%
BA	\$11,600	June 13, 2007	5.21%
BA	\$11,700	August 28, 2007	5.02%

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 September 30, 2006, the unamortized portion of the capitalized borrowing costs totalled \$1,288 (December 31, 2005 – \$881) and is included in the consolidated statement of financial position.

During the quarter, the Fund renewed a BA for \$11,700 at a rate of 5.02% per annum with a maturity date of August 28, 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). During the quarter, two units were redeemed by Unitholders in accord with the conditions set out above. In total, 26,798,995 units are outstanding as at September 30, 2006 (December 31, 2005 - 26,798,997).

The Fund has also issued 3,249,390 Class B exchangeable units. Each exchangeable unit is 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 10th anniversary of the Acquisition Closing Date. Each Class B exchangeable unit will convert into units of the Fund on the 10th anniversary of the Acquisition Closing Date unless converted earlier at the option of the unitholders. The Class B exchangeable unitholders cannot sell more than 5% of the aggregate outstanding trust units in any

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four-month period and are not eligible to vote with any units it receives on exchange of their 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, September 30, 2006:

Period of distribution	Date of payment	Amount declared	Amount declared (per unit)*
July 1 to 31, 2006	August 31, 2006	\$2,504	\$0.08333
August 1 to 31, 2006	September 29, 2006	2,579	0.08583
September 1 to 30, 2006	October 31, 2006	2,579	0.08583
Quarter ended September 30, 2006		<u>\$7,662</u>	<u>\$0.25499</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 \$266 (YTD - \$790) in respect of the quarter ended September 30, 2006 (Q3 2005 - \$148; YTD 2005 - \$439) 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 - \$78) for the quarter ended September 30, 2006 (Q3 2005 - \$26; YTD 2005 - \$76). 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 \$367 (YTD - \$1,049) for the quarter ended September 30, 2006 (Q3 2005 - \$78; YTD 2005 - \$214). Additionally, a reduction in the incentive fee accrued of \$64 was recorded in the quarter ended September 30, 2006 (Q3 2005 - Nil) as distributable cash did not exceed the annual threshold of \$0.95 per unit. For the nine months ending September 2006 accrued incentive fees are \$887 (YTD 2005 - Nil).

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.

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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 September 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 approximates 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 September 30, 2006 is estimated to be an asset to the Fund of \$111 (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. Accordingly, the fair value of these contracts has been included in the consolidated statement of financial position with a corresponding unrealized gain of \$678 (Q3 2005 – unrealized loss of \$899) for the quarter recorded in the consolidated statement of income. The fair value of these derivatives at September 30, 2006 is estimated to be a liability to the Fund of \$1,216 (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 98.9% (2005 – 98.8%) of the Fund's revenue was derived from the sale of electricity to OEFC. Approximately 97.4% (September 30, 2005 – 96.8%) of the accounts receivable balance was due from OEFC relating to electricity sales.

For the quarter, approximately 90.8% (Q3 2005 – 76.5%) of the Fund's operating costs was derived from the purchase of gas from Husky Energy Marketing Inc. (“Husky”) under a long-term gas purchase contract. Approximately 51.1% (September 30, 2005 – 59.3%) 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

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EXCHANGE LISTING:

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

WEBSITE:

www.macquarie.com/mpt