

MACQUARIE POWER & INFRASTRUCTURE INCOME FUND
FINANCIAL REPORT

FOR THE QUARTER AND YEAR ENDED
DECEMBER 31, 2006



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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 Year Ended
December 31, 2006

This report for Macquarie Power & Infrastructure Income Fund (the "Fund") summarizes the financial results for the quarter and year ended December 31, 2006. This discussion and analysis dated February 20, 2007 of the Fund's unaudited 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 Fund's audited consolidated financial statements and related notes, the Management's Discussion and Analysis and the Annual Information Form for the year ended December 31, 2005 and have been filed on the System for Electronic Document Analysis and Retrieval (SEDAR) 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 defined by 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 GAAP measures.

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. Other events and risk factors in addition to those discussed herein, including risk factors disclosed in the 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 Fund currently believes are reasonable assumptions. However, the Fund cannot 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 assumes no obligation to update or revise them to reflect new events or circumstances. The Fund cautions 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 operating results reflects the consolidated operations of the Fund, Macquarie Power & Infrastructure Income Trust (the "Trust"), Cardinal Power Inc. ("Cardinal GP"), Cardinal Power of Canada, LP ("Cardinal"), MPT LTC Holding Ltd. ("LTC GP") and MPT LTC Holding LP ("LTC Holding LP"). LTC Holding LP has an indirect 45% investment in Leisureworld Senior Care LP ("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 year ended December 31, 2006 with the results for the quarter and year ended December 31, 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 a Canadian chartered bank dated April 1, 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 (3,187 beds), one retirement home (29 beds) and one independent living home (53 beds) located in the Province of Ontario. In addition, through various entities, Leisureworld operates two related businesses, Preferred Health Care Services ("PHCS"), 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 delivered strong performance for the year and quarter ended December 31, 2006. Distributable cash for the year was \$34,058 (\$1.133 per unit) compared with \$25,989 (\$1.117 per unit) for the year ended December 31, 2005. For the fourth quarter, distributable cash was \$10,003 (\$0.333 per unit) compared with \$7,786 (\$0.264 per unit) for the same quarter last year. The payout ratios for the year and quarter ended December 31, 2006 were 89% (2005 – 85%) and 77% (2005 – 92%), respectively. In 2006, the Fund increased distributions to unitholders by \$0.05 and \$0.03 per unit per year effective in January and August, respectively. The strong growth in distributable cash was attributable to the ramp up of occupancy in Leisureworld's homes and the opening of the new LTC home in Orillia on November 17, 2006, which replaced the Spencer House facility. Cardinal also performed strongly during the year with increased PPA rates for sales of electricity under the PPA and lower gas transportation costs offsetting the outage associated with the major maintenance.

Cardinal's revenue in the quarter ended December 31, 2006 was \$25,622 compared with \$24,620 in the same period last year. Electricity sales for the quarter were also slightly ahead of 2005. Plant availability was 98.9% for the quarter (2005 - 98.7%). The plant's capacity factor in the quarter was 96.6% compared with 93.7% in 2005 when the plant curtailed 360 hours to benefit from higher natural gas spot rates. Electricity rates during the quarter increased by 1.4% from the same period last year. There was no significant change in operating costs as higher fuel costs were offset by lower fuel transportation costs. Administration costs were lower by \$941 in the quarter compared with the same quarter in 2005. Costs incurred as part of the Fund's internal control certification program in 2006 partially offset higher business development costs incurred in 2005.

During the year, the Cardinal plant achieved an availability of 94.0% (2005 – 98.5%) and a capacity factor of 91.6% (2005 – 95.4%). Overall electricity rates increased by 3.2%. In 2006, the plant had 519 hours of outage (2005 – 104 hours) and curtailed 263 hours (2005 – 510 hours). Revenue for the year was lower by \$295 as a result of reduced revenue in the second quarter due to the scheduled outage for major maintenance which was partially offset by the adjustment in the direct consumer rate ("DCR") of \$964.

Operating costs were consistent in 2006 and 2005 as increased maintenance costs were offset by lower fuel costs.

The Fund's financial position remained strong with positive working capital of \$19,151, fully funded reserves and an uncommitted cash balance of \$5,868 as at December 31, 2006.

Leisureworld made distributions of \$2,588 and \$10,350 for the quarter and year ended December 31, 2006, respectively to the Fund. Leisureworld continued to demonstrate steady growth. For the quarter, revenue grew by 15.5% and income from operations grew by 26.1% from 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 were considered mature and had average total occupancy of 98.5% for the year ended December 31, 2006 (2005 – 93.5%). The Vaughan home, which was in ramp up, recorded average total occupancy for the year of 79.4% (2005 – 38.3%). The remaining home, Spencer House, was closed and replaced by a new home in Orillia in November 2006. Spencer House's average total occupancy for the year was 53.2% (2005 – 93.2%). At December 31, 2006, Orillia had achieved an occupancy of 56.3% and a preferred bed occupancy of 40.4%. Preferred bed average total occupancy for the seventeen mature homes was 83.4% for the year.

Outlook

The Fund's excellent performance in 2006 was in line with expectations. The Fund anticipates continued strong performance in 2007 based on the quality and stability inherent in the Cardinal and Leisureworld assets.

Cardinal is expected to experience a strong increase in cash flow due to higher revenue from increased electricity rates and less scheduled maintenance time. This will likely be partially offset by higher gas transportation costs in 2007. Anticipated maintenance and capital expenditure requirements at Cardinal are fully funded by established reserve accounts. Planned maintenance in 2007 will consist of a combustion inspection, which typically requires a five-day outage.

In 2006, Leisureworld achieved its performance targets in its first full year of operation within the Fund's portfolio. Growth for Leisureworld is expected to continue through improved occupancy.. In February 2007, occupancy of Leisureworld's newest Class A home in Orillia exceeded 97%. Management expects that in 2007 all 19 LTC homes will achieve the 97% occupancy threshold that is required for full funding. Leisureworld will also continue to execute its strategy to optimize preferred accommodation and provide high quality care and services to residents. In addition, the Fund expects to realize one-time proceeds in the second quarter of 2007 on the sale of Spencer House, which was closed at the time the new Orillia home opened.

The Fund will continue to explore investment opportunities that complement the cash flow profile of Cardinal and Leisureworld, extend the average asset life of the Fund's portfolio and deliver sustainable increases in distributable cash per unit with the potential for capital growth.

On October 31, 2006 the federal government proposed a new tax regime for flow-through entities that applies to publicly-listed Canadian trusts and partnerships, other than Real Estate Investment Trusts ("REIT") and those flow through entities that only hold portfolio investments. The proposed changes, which appear designed to effectively tax income funds in the same manner as corporations, are expected to have the most impact on tax deferred investors such as pension funds and RRSPs and non-resident investors. The proposed tax changes are expected to become effective for the Fund and its unitholders in 2011.

To be considered a REIT for this purpose, a trust must not hold "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 is continuing to evaluate the impact of these provisions on the Fund.

On December 15, 2006, the federal government clarified the level of growth that income funds would be permitted during the transition period to 2011. Income funds will be permitted to increase equity capital through the issuance of new equity by an amount that does not exceed the greater of \$50 million and an objective safe harbour that is measured by reference to an income fund's market capitalization as of the close of trading on October 31, 2006. From November 1, 2006 to the end of 2007, the safe harbour will be 40% of the October 31, 2006 benchmark. For each of the 2008 through 2010 calendar years, the safe harbour will be

20% of that benchmark, together allowing growth of up to 100% of an income fund's market capitalization at October 31, 2006 over the four-year transition period. The safe harbour amounts are cumulative. Additionally, mergers of two or more income funds that were publicly-traded on October 31, 2006 will not be subject to the foregoing growth caps to the extent that there is no net addition to their aggregate equity capital as a result of the merger or reorganization. Furthermore, the government stated that income funds will be permitted to convert into corporations without any tax consequences to investors.

Although the legislation introduced on December 21, 2006 did not contain any such guidance, management is encouraged by the government's stated position and the flexibility it provides for the Fund's continuing growth. The Fund has delivered increasing 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. The fundamentals of the Fund's business are strong and management is confident in the Fund's long-term growth prospects, including growth through acquisitions.

The Management anticipates that the Fund will maintain a payout ratio of 90% to 95% in 2007, which provides stability and growth of distributions to unitholders. For 2006, 79% of the distributions paid to unitholders will be non-taxable as a return of capital. Management expects the return of capital portion to be approximately 70% for the 2007 fiscal year, barring any significant external shocks.

Selected Consolidated Financial and Operating Information of the Fund

Unaudited

(in thousands of dollars unless otherwise noted)	Quarter Ended December 31, 2006	Quarter Ended December 31, 2005	Year Ended December 31, 2006	Year Ended December 31, 2005
Revenue	\$25,689	\$24,620	\$88,976	\$90,101
DCR adjustment in respect of other periods	(67)	-	964	134
	<u>\$25,622</u>	<u>\$24,620</u>	<u>\$89,940</u>	<u>\$90,235</u>
Income before the following:	5,206	3,289	10,566	13,562
Unrealized gain (loss) on gas swap contracts	(291)	(598)	1,520	(3,240)
Net interest (expense)	(264)	(190)	(974)	(1,146)
Equity accounted loss from Leisureworld	(625)	(804)	(2,701)	(804)
Net income	<u>\$4,026</u>	<u>\$1,697</u>	<u>\$8,411</u>	<u>\$8,372</u>
Basic Income per Unit	\$0.134	\$0.060	\$0.280	\$0.364
Diluted Income per Unit	\$0.134	\$0.058	\$0.280	\$0.360
Cash flows from operating activities	\$6,853	\$(782)	\$21,044	\$20,230
Distributable cash ⁽ⁱ⁾	\$10,003	\$7,786	\$34,058	\$25,989
Per diluted Unit (\$)	\$0.333	\$0.264	\$1.133	\$1.117
Distributions declared to Unitholders	\$7,737	\$7,136	\$30,423	\$22,220
Per diluted Unit (\$)	\$0.257	\$0.242	\$1.012	\$0.950 ⁽ⁱⁱⁱ⁾
Payout ratio ⁽ⁱⁱ⁾	77%	92%	89%	85%
Weighted average number of trust units and Class B exchangeable units outstanding (Units)	30,048,385	28,407,630	30,048,386	22,993,529
Diluted weighted average number of Units	30,048,385	29,447,956	30,048,386	23,271,173
Sale of electricity ('000s MWh)	334	325	1,227	1,282
Sale of steam (MM lbs)	168	186	676	683
Total assets	<u>\$297,392</u>	<u>\$320,404</u>	<u>\$297,392</u>	<u>\$320,404</u>
Total long-term liabilities	<u>\$37,668</u>	<u>\$38,580</u>	<u>\$37,668</u>	<u>\$38,580</u>

(i) See "Distributable Cash and Payout Ratio" for a reconciliation of distributable cash to cash flows from operating activities for the quarter and year. 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.

(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.

(iii) All unitholders were paid distributions equivalent to \$0.95 per unit.

Revenue

Cardinal's revenue for the quarter ended December 31, 2006 was \$25,622 compared with \$24,620 in the same period last year. Electricity generation was approximately 3% higher than in 2005 and plant availability was 98.9% compared with 98.7% for the same period in 2005. The plant's capacity factor during the quarter was 96.6% compared with 93.7% in 2005 when the plant curtailed 360 hours. During the quarter, there were 23 hours of outages (2005 – 26 hours). Overall electricity rates increased by 1.4% from the same period in 2005. During curtailment, the plant continues to operate but at less than capacity. During an outage, the plant does not generate any electricity.

For the year ended December 31, 2006, revenue was \$89,940 compared with \$90,235 for 2005. The decrease of \$295 was primarily due to the major maintenance, which required the plant to be shut down for 22 days. The decrease was partially offset by a 3.2% increase in electricity rates in 2006 and the receipt of a DCR adjustment of \$964 which represents payments received in the period from the OEFC to adjust estimated DCR rates to actual DCR rates.

Income from operations

Income from operations before net interest, share of Leisureworld losses and unrealized gains on swap contracts for the quarter ended December 31, 2006 was \$5,206 compared with \$3,289 for the same quarter in 2005. Operating costs for the quarter were in line with 2005. Fuel costs increased as there was no curtailment but this was offset by lower fuel transportation charges due to reduced toll rates. The increase in income from operations during the quarter reflected increased revenue of \$1,002 and a decrease in administration expenses of \$941 as cost reimbursement and incentive fees decreased from the fourth quarter of 2005 as a result of the Fund recording these expenses as incurred throughout 2006. In 2005, the majority of these expenses were recorded in the fourth quarter.

For the year ended December 31, 2006, income from operations was \$10,566 compared with \$13,562 for the same period in 2005. A reduction in revenue accounted for \$295 of the change. Operating expenses were \$102 higher in 2006 as lower fuel costs offset the higher maintenance costs incurred in 2006. The variance in income from operations primarily related to higher administration costs of \$2,556. This increase was largely due to higher management fees of \$388 (reflecting a full year of operations of Leisureworld), higher cost reimbursement of \$411 related to increased activity levels in Fund administration and business development, and an increase in incentive fees of \$587 arising from the Fund's strong performance. The Fund also incurred higher costs in relation to its internal control certification program and governance activities.

Unaudited (in thousands of dollars)	Quarter Ended December 31, 2006	Quarter Ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005
Management and administrative fees	\$302	\$265	\$1,170	\$782
Cost reimbursement	344	1,187	1,393	982
Incentive fee	970	1,260	1,847	1,260
Other administrative expenses	539	384	2,753	1,583
	<u>\$2,155</u>	<u>\$3,096</u>	<u>\$7,163</u>	<u>\$4,607</u>

Unrealized (gain) loss on gas swap contracts

From time to time, Cardinal does not produce electricity, such as when the plant is shut down to perform regularly scheduled maintenance. As a result, the plant has excess natural gas that it sells to mitigate the loss of revenue due to 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 that Cardinal receives from the sale of excess natural gas. Under the terms of the swap 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 much of the uncertainty with respect to the proceeds from sales of excess natural gas.

For the quarter ended December 31, 2006, the Fund recorded an unrealized loss of \$291 (2005 – unrealized loss of \$598). For the year ended December 31, 2006, the Fund recorded an unrealized gain of \$1,520 (2005 - unrealized loss of \$3,240), reflecting the movement in fair value of certain contracts entered into for 2007 and 2008. The gain reflected a decline in the forward gas curves. This unrealized gain had no impact on the operating cash flows or distributable cash for the quarter.

Net interest expense

The Fund's term debt loan consists of 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 \$429 (2005 - \$358) were amortized during the quarter and \$1,567 (2005 - \$1,406) were amortized during the year ended December 31, 2006.

Cash flows from operating activities

Cash flows from operating activities were higher for the fourth quarter ended 2006 by \$7,635 compared with the same period in 2005. The increase was primarily due to the timing of the settlement of invoices in accounts receivable for sales of electricity.

Distributable cash and payout ratio

Distributable cash and payout ratio are not recognized performance measures under GAAP. Many Canadian income funds, 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 issuers and, accordingly, may not be comparable to distributable cash and payout ratio as reported by such issuers. The manager believes that distributable cash and payout ratio are useful supplemental measures that may assist investors in assessing the Fund's financial performance.

Distributable cash is based on cash flows from operating activities, the GAAP measure which is reported in the Fund's consolidated statement of cash flow. 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 management 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.

Unaudited

(in thousands of dollars unless otherwise noted)

	Quarter Ended December 31, 2006	Quarter Ended December 31, 2005	Year Ended December 31, 2006	Year Ended December 31, 2005
Cash flows from operating activities	\$6,853	\$(782)	\$21,044	\$20,230
Maintenance of productive capacity:				
Release from major maintenance reserve account	3	391	4,294	1,958
Allocation to major maintenance reserve account	(592)	8	(2,368)	(1,769)
Allocation to capital expenditure reserve account	(101)	(701)	(404)	(1,002)
	6,163	(1,084)	22,566	19,417
Other adjustments:				
Distributions received from Leisureworld	2,588	1,852	10,350	1,852
Changes in working capital	1,252	7,018	1,142	4,720
Distributable cash for the period	\$10,003	\$7,786	\$34,058	\$25,989
<i>Per diluted Unit (\$)</i>	\$0.333	\$0.264	\$1.133	\$1.117
Distributions declared to Unitholder	\$7,737	\$7,136	\$30,423	\$22,220
<i>Per diluted Unit (\$)</i>	\$0.257	\$0.242	\$1.012	\$0.950
Payout ratio	77%	92%	89%	85%
Diluted weighted average number of Units	30,048,385	29,447,956	30,048,386	23,271,173

Distributable cash prior to the deduction of incentive fee was \$35,934 for the year ended December 31, 2006. For the quarter and year ended December 31, 2006, the Fund declared distributions to unitholders of \$7,737 (2005 - \$7,136) and \$30,423 (2005 - \$22,220), respectively. This represents a payout ratio of 77% (2005 - 92%) for the quarter ended December 31, 2006 and 89% for the full year (2005 - 85%). Payout ratio is defined as distributions declared as a proportion of distributable cash.

Leisureworld Operations

The Fund's investment in Leisureworld is accounted for as an equity investment and as such the Fund records its pro rata share (45%) of any income or loss for the period. The Fund's share of Leisureworld's net loss was \$625 for the quarter ended December 31, 2006 (year ended December 31, 2006 - loss of \$2,701). Included in the Fund's pro rata portion of net loss was depreciation and amortization of \$2,406 (year ended December 31, 2006 - \$9,505), the amortization of a deferred gain of \$51 (year ended December 31, 2006 - \$203) and an impairment of property for sale of \$180 for the quarter and year to date. Not included in the Fund's pro rata portion of net loss was construction funding of \$448 (year ended December 31, 2006 - \$1,734) and an annuity payment of \$226 (year ended December 31, 2006 - \$453) received in the quarter. The Fund's pro rata share of maintenance capital expenditures for the quarter was \$44 (year ended December 31, 2006 - \$137). 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 (year ended December 31, 2006 - \$10,350) in cash distributions to the Fund.

Selected consolidated financial and operating information

Unaudited (in thousands of dollars)	Quarter Ended December 31, 2006	Quarter Ended December 31, 2005 (ii)	Year Ended December 31, 2006 (ii)	Year Ended December 31, 2005 (ii)
Revenue	\$46,987	\$40,689	\$172,054	\$154,775
Operating and administration costs	40,347	35,424	147,227	134,031
Income from operations	6,640	5,265	24,827	20,744
Interest, net	2,282	1,929	9,307	6,741
Amortization	5,346	4,509	21,122	8,159
Impairment of property held for sale	400	-	400	-
Income taxes	-	230	-	2,929
Net income (loss)	<u>\$(1,388)</u>	<u>\$(1,403)</u>	<u>\$(6,002)</u>	<u>\$2,915</u>
Cash flow provided by operating activities	\$577	(i)	\$11,756	(i)
Distributions paid to partners	\$5,750	(i)	\$23,000	(i)
Total assets	\$517,812	\$553,424	\$517,812	\$553,424
Long-term debt	\$310,000	\$310,000	\$310,000	\$310,000

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

(ii) Revenue and operating and administration costs have been restated in the year ended December 31, 2006 and the comparative periods to be consistent with the presentation in the current quarter.

The average total occupancy and average preferred occupancy for Leisureworld's LTC homes for the year ended December 31, 2006, were as follows:

	Average total occupancy		Average preferred occupancy	
	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2006	Year Ended December 31, 2005
Mature Homes	98.5%	93.5%	83.4%	78.3%
Vaughan	79.4%	38.3%	40.3%	12.7%
Orillia	5.1%	N/A	4.0%	N/A
Spencer House	53.2%	93.2%	28.1%	45.9%

Mature homes are homes that have reached an average of 97% occupancy. The Vaughan and Orillia homes are the most recently opened homes. Vaughan reached 97% occupancy during the fourth quarter of 2006. Orillia opened on November 17, 2006 had achieved occupancy of 56.3% at year end.. Occupancy at Spencer House reduced during the year as it transitioned towards closure on November 16, 2006. The actual total occupancy and actual preferred occupancy for Vaughan and Orillia as at December 31, 2006 were as follows:

	Actual total occupancy	Actual preferred occupancy
Vaughan	97.8%	49.3%
Orillia	56.3%	40.4%

Revenue

For the quarter ended December 31, 2006, Leisureworld generated revenue of \$46,987 compared with \$40,689 for the quarter ended December 31, 2005. This increase of \$6,298 or 15.5% was partly 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 from 97.3% in the prior year quarter to 98.7% during the quarter ended December 31, 2006. Average total occupancy at Vaughan was 96.2% during the current quarter compared with 50.8% during the prior year's quarter. In addition, revenue increased by \$191 as more residents were provided with preferred accommodation in the newer homes, which attracts higher rates. LTC revenues also increased as government funding rates were 2.8% higher than in the prior year's quarter and actual spending of government funding increased during the fourth quarter of 2006. Additional funding of \$289 was provided for a number of new initiatives including convalescent care and a new resident classification program. PHCS's external revenue was marginally above the prior year quarter.

During the year ended December 31, 2006, Leisureworld generated revenue of \$172,054 compared with \$154,775 in the prior year. This increase of \$17,279 or 11.2% was mainly due to the increased occupancy at the newer homes discussed above. Average total occupancy at the Vaughan home increased from 38.3% in the year ended December 31, 2005 to 79.4% in the current year. The average total occupancy across mature homes increased from 93.5% in the prior year to 98.5% in the year ended December 31, 2006. Government funding rates increased by 3.0% over 2005. In addition, preferred accommodation revenues increased by \$714 reflecting strong increases in occupancy of private rooms at the newer homes and new initiatives backed by government funding which increased revenues by \$1,278. PHCS's external revenue increased by 4.3% and contributed \$230 of the overall increase due to increases in nursing and personal support contract revenues during 2006.

Operating and administrative expenses

Leisureworld's operating and administrative expenses for the quarter were \$40,347, which were \$4,923 or 13.9% higher than the prior year quarter, reflecting the increases in occupancy and associated increases in staff and operating costs at the newer homes. Also contributing to the increase in operating and administrative expenses were the higher level of spending of government funding, an increase in head office costs due to additional reporting requirements associated with the change in ownership, and unionized staff pay increases. PHCS's expenses increased by \$188 or 7.0% over the prior year's quarter due to additional costs incurred in providing education and training services to the LTC homes.

During the year ended December 31, 2006, operating and administrative expenses were \$147,227, which was \$13,196 or 9.8% higher than the prior year. 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 following the change in ownership and pay increases for unionized staff at the beginning of fiscal 2006. PHCS's expenses increased by \$900 or 8.7% over the prior year 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 \$837 or 18.6% over the prior year's quarter to \$5,346 due to increases in the amortizable values of intangible, land and building assets that were allocated from the purchase price paid by the Fund 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 — \$2,043.

During the year ended December 31, 2006, amortization increased by \$12,963 or 158.9% over the prior year to \$21,122. The main components of the period's amortization charge relate to resident relationships — \$12,000, professional nursing and personal support contracts — \$937, and property, plant and equipment — \$7,920.

Financial expenses

Net interest expense amounted to \$2,282 during the quarter, an increase of \$353 or 18.3% from the fourth quarter of fiscal 2005. Interest on long term debt expensed in the quarter of \$3,621 was \$2,140 higher than in the fourth quarter of 2005 due to the bond being issued during the quarter. Interest income of \$1,339 was recognized in the quarter, \$1,060 of which related to construction funding. Interest expense in the prior year's quarter was \$1,929, consisting of the interest on long term debt of \$1,481, interest on the bridge facility of \$1,161, mortgage interest of \$570 net of interest income of \$1,283 including interest income on construction funding of \$1,113.

In the year ended December 31, 2006, net interest expense amounted to \$9,307, an increase of \$2,566 or 38.1% from the prior year. During the year, interest expense on long term debt was \$14,674 and interest income of \$5,367 was recognized of which \$4,146 related to construction funding. Interest expense in the prior year was \$6,741, consisting of interest on long term debt of \$1,481, interest on the bridge facility of \$1,161 and mortgage interest of \$9,536 net of interest income of \$5,437 including interest income on construction funding of \$5,232.

Net loss

Net loss for the quarter was \$1,388 compared with a net loss of \$1,403 in the prior year quarter. Increased operating income from higher occupancy, an increase in accommodation funding rates and increases in the preferred accommodation mix was offset by higher interest expense, amortization and a \$400 impairment charge on the property held for sale. Leisureworld, as a partnership, is not subject to income taxes.

Net loss for the year ended December 31, 2006 was \$6,002 compared with a net income of \$2,915 in the prior year due to the increased amortization and interest charges being only partly offset by 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.

Liquidity and financial resources

The Fund expects to meet all of its operating obligations in 2007 and make distributions to unitholders from cash flow generated from operating activities and distributions received from Leisureworld. The Fund has positive working capital of \$19,151 as at December 31, 2006 (2005 - \$17,805). As at December 31, 2006, cash on hand totalled \$12,142 (2005 - \$11,738), of which \$5,868 (2005 - \$3,158) was not designated for major maintenance, capital expenditure or general reserves.

The Fund has a \$15,000 revolving operating line of credit available (2005 - \$15,000). As at December 31, 2006, there was no amount outstanding under this facility (2005 - Nil). As at December 31, 2006, long-term debt outstanding was \$35,000 (2005 - \$35,000). This long term debt matures in 2011.

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 2007.

Unaudited

(in thousands of dollars)

	December 31, 2006	December 31, 2005
Major maintenance reserve	\$2,219	\$4,145
Capital expenditure reserve	1,055	1,435
General reserve	3,000	3,000
Total reserve accounts	6,274	8,580
Other cash and cash equivalents	5,868	3,158
Total cash and cash equivalents	<u>\$12,142</u>	<u>\$11,738</u>

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. In addition, the Fund maintains reserve accounts and free cash in order to offset the seasonality and other factors that may impact electricity demand. Management 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 Management's Discussion and Analysis included in the Fund's 2005 Annual Report and the previous 2006 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	Dec 31, 2006	Sep 30, 2006	Jun 30, 2006	Mar 31, 2006	Dec 31, 2005	Sep 30, 2005	Jun 30, 2005	Mar 31, 2005
(thousands of dollars)								
Revenue	25,622	20,356	16,278	27,684	24,620	20,689	19,698	25,228
Net income (loss)	4,026	2,252	(1,473)	3,606	1,697	1,656	800	4,217
Cash flows from operating activities	6,853	(2,303)	2,206	14,288	(782)	5,695	3,937	9,123
Distributable cash	10,003	6,947	6,308	10,800	7,786	6,292	4,271	7,695
Distributions declared	7,737	7,662	7,512	7,512	7,136	5,028	5,028	5,028
(dollars)								
Basic net income (loss) per Unit	0.134	0.075	(0.049)	0.120	0.060	0.078	0.038	0.199
Diluted net income (loss) per Unit	0.134	0.075	(0.049)	0.120	0.058	0.078	0.038	0.199
Cash flows from operating activities per Unit (Diluted)	0.228	(0.077)	0.073	0.476	(0.027)	0.269	0.186	0.431
Distributable cash per Unit (Diluted)	0.333	0.231	0.210	0.359	0.264	0.295	0.202	0.364
Distributions declared per Unit (Diluted)	0.257	0.255	0.250	0.250	0.242	0.238	0.238	0.238

Related party transactions

Under the terms of the Administration and Management Agreements for Cardinal and LTC Holding LP, the Fund makes payments to the manager for administration and management services, incentive fees and cost reimbursement. The Fund incurred administration and management fees of \$302 for the quarter ended December 31, 2006 (2005 - \$265); the incentive fee for exceeding the distributable cash threshold of \$0.95 per unit for the quarter was \$970 for the quarter ended December 31, 2006 (2005 - \$1,260); and cost reimbursement of \$344 (2005 - \$1,187) for the quarter ended December 31, 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 year ended December 31, 2006 administration and management fees were \$1,170 (2005 - \$782); incentive fees were \$1,847 (2005 - \$1,260); and cost reimbursement was \$1,393 (2005 - \$1,460).

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 describes the more significant contractual obligations and commitments of the Fund as at December 31, 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 December 31, 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	\$11,600	June 13, 2007	5.21%
BA	\$11,700	August 28, 2007	5.02%
BA	\$11,700	December 14, 2007	4.83%

During the quarter, the Fund renewed a BA for \$11,700 at a rate of 4.83% per annum that will mature on December 14, 2007. 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 December 31, 2006, the unamortized portion of the capitalized borrowing costs totalled \$1,145 (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 two 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 December 31, 2006, the following contracts remained:

Period covered by contract

April 1 to October 31, 2007

April 1 to October 31, 2008

Risks and uncertainties

The Fund, Cardinal and Leisureworld face various risk factors and uncertainties that could have an adverse impact on their businesses, operating results and financial condition, which could adversely affect the Fund's results and ability to pay distributions to its unitholders. The Fund attempts to mitigate the risks and uncertainties that may affect its performance through a process of identifying, assessing, reporting and managing risks of significance. The following information should be read in conjunction with this quarterly report, the Fund's annual information form and other disclosure documents filed with the provincial securities commissions, which are available on SEDAR at www.sedar.com.

Risks Related to Cardinal

Operational performance of Cardinal's plant

Cardinal's revenue is proportional to the amount of electrical energy and steam it generates. The Cardinal plant, including its connection to the Hydro One transmission grid, is subject to operational risks, including premature wear or failure, due to defects in design, material or workmanship, and longer than anticipated down times for maintenance and repair. The risks associated with Cardinal are partially mitigated by the proven nature of its cogeneration technology, comprehensive maintenance program, and the design of the plant. In addition, the

plant is geographically located at a single site which could subject the Fund to greater risk of a material negative impact on distributable cash from the occurrence of a significant event disrupting the plant's ability to produce or sell power for an extended period of time.

Expiry of power purchase agreement

All the electricity generated by Cardinal, less the amount consumed in its operations, is currently sold to OEFC under the PPA, which could be terminated on December 31, 2014. In the event that the PPA expires or is not renewed, Cardinal could be required to:

- bid all of the power it produces into the Independent Electricity System Operator (IESO)-administered market and receive the market price for the electricity sold;
- enter into a bilateral power purchase contract with another counterparty to sell electricity at a negotiated price; or
- do a combination of both, bidding some power into the IESO-administered market and selling the rest under a bilateral contract with a counterparty.

In the event that Cardinal chooses to renegotiate or enter into a power purchase contract, there can be no assurance that Cardinal will be able to renegotiate or enter into a power supply contract on terms that are commercially reasonable, if at all. In the event that Cardinal chooses to bid the power it produces into the IESO-administered markets, and assuming current market structure, there can be no assurance that the market price Cardinal will receive for the electricity so offered would exceed the facility's marginal cost of operations. Furthermore, Cardinal may be economically less competitive than other power producing facilities.

Fuel costs, supply and transportation

The gas purchase agreement expires on May 1, 2015. Upon expiry of the gas purchase agreement, Cardinal will have to renegotiate the agreement or enter into a new gas supply agreement. Current natural gas prices are significantly greater than those payable pursuant to the gas purchase agreement. There can be no assurance that Cardinal will be able to renegotiate the gas purchase agreement or enter into a new gas supply agreement on terms that are similar to the gas purchase agreement, if at all. Furthermore, there can be no assurance as to the supply or price of gas available at the time of the expiry of the gas purchase agreement. The plant is also dependent on the transportation of natural gas to it, and as such, any service interruption may result in a significant reduction in distributable cash due to loss of production at the facility.

Cardinal uses gas swap agreements to mitigate the effect of gas price fluctuations on the net proceeds that Cardinal receives for natural gas in excess of the plant's requirements. The gas swap agreements could expose the Fund to losses that could occur under various circumstances, including the counterparty defaulting in respect of its obligations under the gas swap agreements, if the gas swap agreements provide an imperfect hedge, or in the event that the Fund's swap policies and procedures are not followed.

Contract performance

The amount of distributable cash available for distribution to unitholders is highly dependent on the parties to the applicable agreements fulfilling their contractual obligations, particularly the OEFC under the PPA (which accounts for approximately 98.9% of the gross revenues expected from Cardinal) and Husky Marketing under the gas purchase agreement. An inability or failure by any such party to meet its contractual commitments could have an adverse impact on Cardinal's business.

Default under credit agreement

The credit agreement expires in 2011. The credit agreement contains a number of standard financial and other covenants. A failure by Cardinal to comply with its obligations in the credit agreement could result in a default, which, if not cured or waived, could result in the termination of distributions by Cardinal and permit acceleration of the relevant indebtedness. If the indebtedness under the credit agreement were to be accelerated, there could be no assurance that Cardinal's assets would be sufficient to repay in full that indebtedness. There can be no assurance that Cardinal will generate sufficient cash flow from operations or that future distributions will be available in amounts sufficient to pay outstanding indebtedness, or to fund any other liquidity needs. There can be no assurance that the Fund or its subsidiaries could refinance the credit agreement or obtain additional financing on commercially reasonable terms, if at all. The credit agreement is, and future borrowings may be, at variable rates of interest, which exposes the Fund to the risk of increased interest rates. This factor may increase the sensitivity of distributable cash to interest rate variations.

Expiry of lease

The initial term of the lease expires on January 31, 2015, but may be extended by up to two years at Cardinal's option and runs concurrently with the energy savings agreement. In certain circumstances, Cardinal may continue the term of the lease until a date no later than December 31, 2020. In no event can the term of the lease extend beyond December 31, 2030. At the expiration of the term of the lease, Cardinal is responsible for dismantling and removing all improvements on the leased land and restoring the leased land to its condition prior to the commencement of the term of the lease and is specifically liable for all costs related to remedial action that would need to be taken in order for hazardous substances, if any, to be removed so that the leased land complies with environmental laws. There can be no assurance that Cardinal will have the benefit of the lease beyond January 31, 2017. Furthermore, there can be no assurance that Cardinal will be able to negotiate an extension to the lease or renegotiate a lease agreement with CASCO on commercially reasonable terms, if at all. At such time as the lease expires, Cardinal will be unable to continue to operate the plant. There can be no assurance that Cardinal will have the necessary financial resources or will be able to obtain the necessary financial resources to fund or cause to be funded the required restoration and remediation of the leased land to its original condition.

Risks Related to Leisureworld

Government regulation and funding

In Ontario, all LTC homes must be licenced under applicable provincial legislation. Such licences are for a term of one year, but are routinely renewed each year unless there is a concern or complaint about the home. Therefore, these licences do not represent any guarantee of continued operation beyond the one-year term of the licence. While Leisureworld endeavors to ensure compliance with all regulatory requirements applicable to the Leisureworld homes, it is not unusual for stringent inspection procedures to identify deficiencies in operations. Should this occur, it is possible that Leisureworld may not be able to remedy such deficiencies within the time frames allowed.

The provincial regulation of LTC homes includes the control of LTC fees. The Province of Ontario also funds care, programs and support provided in LTC homes, and subsidizes accommodation costs for qualifying residents. As a result of increasing health care costs, the risk exists that funding agencies may in the future reduce the level of, or eliminate such fees, payments or subsidies. There can be no assurance that the current level of such fees, payments, and subsidies will be continued or that such fees, payments, and subsidies will increase commensurate with expenses. A reduction of such fees, payments or subsidies could have an impact on Leisureworld's business, operating results and financial condition, which could adversely affect the Fund's results and ability to pay distributions to unitholders. In addition, future government initiatives could encourage the oversupply of LTC beds in the province, causing a sustained decrease in average occupancy in LTC homes, which could have an impact on Leisureworld's business.

Bill 140, the *Long-Term Care Homes Act 2006*, contains a number of new provisions which, if enacted in its present form, could impact on the operations of the Leisureworld homes. Among the new provisions are licence term limits for LTC homes according to class from 15 to 25 years (currently, LTC licences have one-year terms subject to automatic renewal on an annual basis). As well, Bill 140 provides that licences can be revoked in cases of non-compliance. Although many of its provisions are already in place at the Leisureworld homes, Bill 140, if enacted, could have an impact on Leisureworld's business.

LTC home ownership and operation

By investing indirectly in Leisureworld, the Fund is exposed to the general business risks inherent in the seniors' housing industry. These risks include fluctuations in levels of occupancy and the inability to achieve economic accommodation funding or residency fees (including anticipated increases in such fees). The inability to achieve such funding or fees could occur as a result of, among other factors, regulations controlling LTC funding; regulations controlling rents for the RHs and IL homes; possible future changes in labour relations; increases in labour, other personnel costs, and other operating costs; competition from or oversupply of other similar properties; changes in conditions of Leisureworld or general economic conditions; and the imposition of increased or new taxes. These risks also include the effects of health-related risks and disease outbreaks. As such, there is no assurance that future occupancy rates at Leisureworld will be consistent with historical occupancy rates achieved.

As well, all of Leisureworld's business and operations is currently conducted in the Province of Ontario. If the Ontario market was to generally experience a decline in financial performance as a result of changes in local or regional economic conditions, such as the addition of new LTC homes, or an adverse change to the regulatory environment in Ontario, the market value of the Leisureworld homes, the income generated from them, and the Fund's overall financial performance could be negatively affected.

Minority interest

The Fund owns an indirect 45% minority interest in Leisureworld. As such, the Fund has restricted legal rights to influence the management of Leisureworld. The remaining indirect 55% interest in Leisureworld is owned by Macquarie Bank Limited, which has transferred the economic benefits of its ownership to Macquarie International Infrastructure Fund (MIIF). MIIF or any future holders of its 55% interest may have different objectives than those of the Fund for Leisureworld. As a result, Leisureworld's ability to generate cash and to pay distributions to the Fund could be adversely affected by certain actions of the indirect majority owner of Leisureworld.

Reliance on key personnel

The success of the Leisureworld LTC business depends upon the retention of senior management. There can be no assurance that Leisureworld would be able to find qualified replacements for the individuals who make up its senior management team if their services were no longer available. The loss of services of one or more members of such senior management team could have a material adverse effect on Leisureworld, its operating results, and financial condition, which could adversely affect the Fund's results and ability to pay distributions to unitholders.

Default under Leisureworld's long term debt and credit facility

A portion of Leisureworld's cash flow is devoted to servicing its debt and there can be no assurance that Leisureworld will continue to generate sufficient cash flow from operations to meet required interest and principal payments on the long term debt or drawings under its credit facility. If Leisureworld were unable to meet such interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. If this were to occur it could have an impact upon the business, operating results and financial condition of Leisureworld which could adversely affect the Fund's results and ability to pay distributions to unitholders. As well, the long term debt and the credit facility contain a number of standard financial and other covenants and a failure by Leisureworld to comply with its obligations under these instruments could result in a default, which, if not cured or waived, could result in the termination of distributions by Leisureworld and permit acceleration of the relevant indebtedness.

Labour relations and cost

As at December 31, 2006, Leisureworld employed, directly and indirectly, over 3,200 people. All of the Leisureworld LTC homes are currently unionized with approximately 80% of employees represented by unions, including the Service Employees International Union, the Ontario Nurses Association, the Christian Labour Association of Canada and the Canadian Union of Public Employees. There can be no assurance that Leisureworld will not at any time, whether in connection with a renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could have a material adverse effect on Leisureworld's and the Fund's operating results and financial condition. However, all LTC homes in the Province of Ontario are governed by the *Hospital Labour Disputes Arbitration Act* (Ontario), which prohibits strikes and lockouts in the seniors' housing industry. Therefore, collective bargaining disputes are more likely to be resolved through compulsory third party arbitration.

Leisureworld's LTC business is labour intensive, with labour-related costs comprising a substantial portion of Leisureworld's direct operating expenses. The Leisureworld LTC business competes with other health care providers with respect to attracting and retaining qualified personnel. A shortage of trained or other personnel may require Leisureworld to enhance wage and benefits provided to employees in order to compete. No assurance can be given that labour costs will not increase or that if they do increase, that they will be matched by corresponding increases in revenue.

Risks Related to the Fund

Proposed changes in federal tax policy for flow-through entities

On October 31, 2006, the federal government proposed a new tax regime for flow-through entities, including publicly-listed Canadian income trusts (such as the Fund) and partnerships, other than real estate investment trusts and those flow-through entities that hold only portfolio investments. If implemented, the proposed tax regime will tax income funds in a similar, but not identical, manner as corporations beginning in 2011. Legislation to give effect to this proposed tax regime was released on December 18, 2006 but has not yet been passed into law. The Manager of the Fund will continue to evaluate any impact on the Fund and its unitholders as the legislative process evolves.

Variability of distributions

The actual amount of cash distributions to unitholders will depend on numerous factors, including the financial performance of the Fund's operations, ability to meet debt covenants and obligations, working capital requirements, future capital requirements and tax-related matters. The market value of the units may deteriorate if the Fund is unable to maintain its cash distribution levels in the future, and that deterioration may be material.

Unitholder liability

The Fund Declaration of Trust provides that no unitholder will be subject to any liability whatsoever to any person in connection with a holding of units. In addition, legislation has been enacted in the Provinces of Ontario, Alberta, and Quebec that is intended to provide unitholders in those provinces with limited liability. However, there remains a risk, which the Fund considers to be remote in the circumstances, that a unitholder could be held personally liable for the Fund's obligations to the extent that claims are not satisfied out of the Fund's assets. It is intended that the Fund's affairs will be conducted to seek to minimize such risk wherever possible.

Dependence on the Manager and potential conflicts of interest

The Manager directly, or indirectly through its operating subsidiaries, makes all decisions relating to the Fund, the Trust, Cardinal and Leisureworld's businesses, which are also dependent on the Manager, through the administration agreement and the management agreements, for all management and administrative services relating thereto. The Manager, its affiliates, employees or agents and other funds and vehicles managed by affiliates of the Manager may be engaged or invest, directly or indirectly, in a variety of other companies or entities involved in owning, managing, advising on or being otherwise engaged in the power business or other infrastructure businesses. The management agreements, the administration agreement, the Trust's Declaration of Trust, and the Fund's Declaration of Trust contain provisions respecting the procedures to be followed in the event of such conflict of interests. In certain circumstances, such conflicts may result in the Fund or its subsidiaries having to engage persons other than the Manager to provide acquisition and support services in respect of certain acquisitions or investments.

Insurance

The Fund and Leisureworld maintain at all times insurance coverage in respect of potential liabilities and the accidental loss of value of their assets from risks, in amounts, with such insurers, and on such terms as the Trustees and the directors of Leisureworld consider appropriate, taking into account all relevant factors including the practices of owners of similar assets and operations. However, not all risk factors are covered by such insurance, and no assurance can be given that insurance will be consistently available on a commercially reasonable basis or that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the Fund's assets or operations.

Environmental, health and safety

Cardinal and Leisureworld are subject to a complex and increasingly stringent environmental, health and safety regulatory regime, which includes environmental, health and safety laws. As such, the operation of the facilities carries an inherent risk of environmental, health and safety liabilities (including potential civil actions, compliance or remediation orders, fines and other penalties), which may result in the facilities being involved from time to time in administrative and judicial proceedings related to such matters. Neither Cardinal nor Leisureworld, to the Fund's or the Manager's knowledge, has been notified of any such civil or regulatory action in regards to their operations. However, it is not possible to predict with certainty what position a regulatory authority may

take regarding matters of non-compliance with environmental, health and safety laws. Changes in such laws, or more aggressive enforcement of existing laws, could lead to material increases in unanticipated liabilities or expenditures for investigation, assessment, remediation or prevention, capital expenditures, restrictions or delays in the facilities' activities, the extent of which cannot be predicted.

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 Fund 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 management 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 LP and LTC GP.

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 5 to 20 years. Management 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 will be effective for the Fund’s first quarter in 2007. 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 and quantifying the impact these standards will have on the accounting for the Fund’s financial instruments.

Distributable Cash

The CICA has released draft interpretive guidance on distributable cash for income trusts and other flow-through entities that recommends standardized calculation and reporting of distributable cash. The Canadian Securities Administrators have also released for comment proposed amendments to National Policy 41-201 - Income Trusts and Other Indirect Offerings. These pronouncements are not yet policy.

The Fund has reviewed these pronouncements and anticipates adopting the final recommendations.

The OEFC is Cardinal’s primary customer which accounts for over 99% of revenue. Cardinal bills the OEFC once every month. As there are only 12 payments during the year, each payment has a significant impact on the Fund’s working capital. According to the OEFC’s billing schedule, each bill is to be paid by the 21st business day of the following month. However, the number of business days in a month varies depending on the timing of holidays or weekends. As a result, the OEFC may not pay a bill until the following month which could result in a situation where two invoices are paid in the same month. Such circumstances could cause significant fluctuation in working capital, distributable cash and payout ratio that is not reflective of the Fund’s ongoing distributable cash or stability of operations.

Including the impact of changes in working capital, distributable cash would be \$8,751 and \$32,916 for the quarter and year ended December 31, 2006, respectively. Payout ratio would be 88% for the quarter and 92% for the year.

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

	December 31, 2006	December 31, 2005
Current Assets		
Cash and cash equivalents (note 4)	\$12,142	\$11,738
Accounts receivable	18,021	17,641
Inventory	191	93
Prepaid expenses and borrowing costs	1,634	1,274
Total Current Assets	31,988	30,746
Investment in Leisureworld (note 5)	77,592	90,643
Property, plant and equipment (note 6)	134,603	141,006
Electricity supply and gas purchase contracts (note 6)	35,186	39,986
Goodwill	18,023	18,023
Total Assets	\$297,392	\$320,404
Current Liabilities		
Trade payables and accrued expenses	\$10,258	\$10,562
Distributions payable	2,579	2,379
Total Current Liabilities	12,837	12,941
Long-term debt (note 8)	35,000	35,000
Gas swap contracts at fair value (note 14)	1,507	3,027
Liability for asset retirement (note 9)	1,161	553
Total Liabilities	50,505	51,521
Unitholders' Equity (notes 10 and 11)	246,887	268,883
Total Unitholders' Equity and Liabilities	\$297,392	\$320,404
Commitments (note 13)		

See accompanying Notes to the Consolidated Financial Statements

Macquarie Power & Infrastructure Income Fund
Consolidated Statement of Unitholders' Equity
For the Quarter Ended December 31, 2006
(Unaudited, in thousands of dollars)

	Unitholders' Capital	Class B Exchangeable Units	Cumulative 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	-	-	-	(7,662)	(7,662)
Balance, September 30, 2006	\$253,476	\$35,500	\$19,991	\$(58,369)	\$250,598
Net income for the quarter ended December 31, 2006	-	-	4,026	-	4,026
Distributions declared to Unitholders for quarter ended December 31, 2006	-	-	-	(7,737)	(7,737)
Balance, December 31, 2006	\$253,476	\$35,500	\$24,017	\$(66,106)	\$246,887

See accompanying Notes to the Consolidated Financial Statements

Macquarie Power & Infrastructure Income Fund
Consolidated Statement of Income
For the Quarter Ended December 31, 2006
(Unaudited, in thousands of dollars)

	Quarter ended December 31, 2006	Quarter ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005
Revenue	\$25,622	\$24,620	\$89,940	\$90,235
Costs and expenses				
Operating costs	15,115	15,107	59,670	59,568
Administrative expenses	2,155	3,096	7,163	4,607
Depreciation and amortization	3,146	3,128	12,541	12,498
	20,416	21,331	79,374	76,673
	5,206	3,289	10,566	13,562
Unrealized gain (loss) on gas swaps (note 14)	(291)	(598)	1,520	(3,240)
Net interest expense	(264)	(190)	(974)	(1,146)
Equity accounted loss from Leisureworld (note 5)	(625)	(804)	(2,701)	(804)
Net income	\$4,026	\$1,697	\$8,411	\$8,372
Weighted average number of trust units and Class B exchangeable units outstanding (Units)	30,048,385	28,407,630	30,048,386	22,993,529
Basic income per Unit	\$0.134	\$0.060	\$0.280	\$0.364
Diluted weighted average number of Units	30,048,385	29,447,956	30,048,386	23,271,173
Diluted income per Unit	\$0.134	\$0.058	\$0.280	\$0.360

See accompanying Notes to the Consolidated Financial Statements

Macquarie Power & Infrastructure Income Fund
Consolidated Statement of Cash Flow
For the Quarter Ended December 31, 2006
(Unaudited, in thousands of dollars)

	Quarter ended December 31, 2006	Quarter ended December 31, 2005	Year ended December 31, 2006	Year ended December 31, 2005
Cash flows from operating activities:				
Net income	\$4,026	\$1,697	\$8,411	\$8,372
Add back:				
Unrealized (gain)/loss on gas swap contracts	291	598	(1,520)	3,240
Depreciation and amortization	3,146	3,128	12,541	12,498
Amortization of prepaid borrowing costs	429	358	1,567	1,406
Accretion of asset retirement liability	17	9	53	36
Equity accounted loss from Leisureworld	625	804	2,701	804
Prepayment of borrowing costs and interest	(544)	(565)	(1,832)	(1,454)
Non-cash changes in working capital				
(Increase) in accounts receivable	(3,690)	(9,064)	(380)	(8,888)
(Increase) decrease in inventory	(64)	14	(98)	(5)
(Increase) decrease in prepaid expenses	239	326	(95)	(5)
(Decrease) increase in trade payables and accrued expenses	2,378	1,913	(304)	4,226
Total cash flows from operating activities	6,853	(782)	21,044	20,230
Cash flows from investing activities:				
Investment in Leisureworld	-	(57,799)	-	(57,799)
Distributions received from Leisureworld	2,588	1,852	10,350	1,852
Investment in property, plant and equipment	(95)	(9)	(783)	(464)
Total cash flows from investing activities	2,493	(55,956)	9,567	(56,411)
Cash flows from financing activities:				
Cash proceeds from public offerings	-	-	-	64,745
Costs in relation to offerings	-	(1,870)	16	(5,746)
Return of capital to subscription holders	-	(446)	-	(446)
Distributions paid to Unitholders	(7,737)	(6,433)	(30,223)	(21,517)
Total cash flows from financing activities	(7,737)	(8,749)	(30,207)	37,036
Increase (decrease) in cash and cash equivalents	1,609	(65,487)	404	855
Cash and cash equivalents, beginning of period	10,533	77,225	11,738	10,883
Cash and cash equivalents, end of period	\$12,142	\$11,738	\$12,142	\$11,738
Supplemental information:				
Interest paid	\$544	\$565	\$1,885	\$1,522

See accompanying Notes to the Consolidated Financial Statements

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 LP ("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 Senior Care LP ("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 LP ("LTC Holding, LP") in accordance with management agreements.

2. Summary of 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 may 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. These unaudited interim consolidated financial statements should be read in conjunction with the Annual Information Form, and the Short Form Prospectus dated September 22, 2005, all of which are filed electronically on SEDAR at www.sedar.com.

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 GP"), Cardinal, MPT LTC Holding Ltd. ("LTC GP"), and LTC Holding LP, all of which are 100% owned subsidiaries of the Fund.

The Fund, through its wholly owned subsidiaries, LTC GP and LTC Holding LP, uses the equity method to account for its 45% interest in 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 determinable.

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
December 31, 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 Leisureworld's results and reduced by any distributions payable to the Fund by Leisureworld.

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 estimated 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. Improvements that increase or prolong the service life or capacity of an asset are capitalized.

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 were 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.

Exchangeable securities

The Fund has applied the recommendations of the Emerging Issues Committee (EIC) of The Canadian Institute of Chartered Accountants who issued an Abstract of Issues Discussed No. 151, Exchangeable Securities by Subsidiaries of Income Trusts (EIC-151), which provides guidance on the presentation of exchangeable securities issued by a subsidiary of an income trust. In order to be presented as equity, the exchangeable securities must have distributions that are economically equivalent to distributions on units

issued directly from the Fund and the exchangeable securities must also ultimately be exchanged for units of the Fund. The LP units issued by a subsidiary of the Fund meet the above criteria and, accordingly, have been presented as equity.

Income taxes

Under the terms of the Income Tax Act (Canada) (the "Tax Act"), Cardinal and LTC Holding LP, as partnerships, are not subject to income taxes. Their income is allocated to and included in computing the income of its partners, who are Cardinal GP, LTC GP 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 distributed their taxable income and taxable capital gains to Unitholders in 2006, neither entity will be subject to income taxes in 2006. Accordingly, no provision for income taxes has been recorded by the Fund or the Trust.

On October 31, 2006, the Government of Canada announced a Tax Fairness Plan that proposed changes to the way income trusts are taxed. Under draft legislation proposals released in December 2006, distributions paid by the Fund would be subject to a distribution tax beginning in 2011. At December 31, 2006, as this proposed legislation was not substantially enacted, it did not impact these consolidated financial statements.

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 determined that it is the primary beneficiary as at December 31, 2006 and should continue to consolidate Cardinal.

Basic and diluted income per unit

Basic and diluted income per unit is established by dividing net income, as determined above, by the weighted average number of trust units and Class B exchangeable 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.

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4. Cash and cash equivalents

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

	December 31, 2006	December 31, 2005
Major maintenance reserve	\$2,219	\$4,145
Capital expenditure reserve	1,055	1,435
General reserve	3,000	3,000
Total reserve accounts	6,274	8,580
Other cash and cash equivalents	5,868	3,158
Total cash and cash equivalents	<u>\$12,142</u>	<u>\$11,738</u>

5. Investment in Leisureworld

The investment in Leisureworld comprises:

Investment at October 1, 2006	\$80,805
Equity accounted loss for the period	(625)
Distributions received in the period	(2,588)
Investment at December 31, 2006	<u>\$77,592</u>

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

Property, plant and equipment			December 31,	December 31,
	Cost	Accumulated Depreciation	2006 Net Book Value	2005 Net Book Value
Opening balance - October 1, 2006	\$155,073	\$(18,619)	\$136,454	\$148,240
Purchases of property, plant and equipment	95	-	95	464
Depreciation	-	(1,946)	(1,946)	(7,698)
Ending balance	<u>\$155,168</u>	<u>\$(20,565)</u>	<u>\$134,603</u>	<u>\$141,006</u>

Electricity supply and gas purchase contracts			December 31,	December 31,
	Cost	Accumulated Amortization	2006 Net Book Value	2005 Net Book Value
Opening balance - October 1, 2006	\$48,000	\$(11,614)	\$36,386	\$44,786
Amortization	-	(1,200)	(1,200)	(4,800)
Ending balance	<u>\$48,000</u>	<u>\$(12,814)</u>	<u>\$35,186</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. As at December 31, 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, including limits on the amount of leverage and the ratio of debt to capital, and a minimum interest coverage ratio. 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 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 December 31, 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	\$11,600	June 13, 2007	5.21%
BA	\$11,700	August 28, 2007	5.02%
BA	\$11,700	December 14, 2007	4.83%

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 December 31, 2006, the unamortized portion of the capitalized borrowing costs totalled \$1,145 (December 31, 2005 - \$881) and is included as an asset in the consolidated statement of financial position.

During the quarter, the Fund renewed a BA for \$11,700 at a rate of 4.83% per annum with a maturity date of December 14, 2007.

9. Liability for asset retirement

The Fund recognizes a liability for the future retirement obligations associated with the Cardinal plant. The carrying value of these obligations is based on estimated cash flows of \$2,100 required to settle the obligations in present day costs as at the date of the last assessment, June 30, 2006. The timing of settlement is based on probability weighted scenarios ranging in time from 2014 to 2023. A 2.0% inflation rate is assumed to estimate the cash flows in the future, and a credit-adjusted risk-free rate of 6.2% is used to discount the future cost of the liability.

The result, as at the date of the last assessment, was an expected present value of the retirement obligations of \$1,126. This amount is included as a liability on the consolidated statement of financial position and accretes until the date of expected settlement of the retirement obligations. The present value of the retirement obligations is also included in the cost of property, plant and equipment and is depreciated over the useful life of the plant.

10. 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 December 31, 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 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.

11. 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, December 31, 2006:

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Period of distribution	Date of payment	Amount declared	Amount declared (per unit)*
October 1 to 31, 2006	November 30, 2006	\$2,579	\$0.08583
November 1 to 30, 2006	December 29, 2006	2,579	0.08583
December 1 to 31, 2006	January 31, 2007	2,579	0.08583
Quarter ended December 31, 2006		<u>\$7,737</u>	<u>\$0.25749</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.

12. Related party transactions

MPML provides management services to Cardinal, LTC Holding LP, the Fund and the Trust under 20-year management agreements. The Fund incurred management fees of \$275 (YTD - \$1,065) in respect of the quarter ended December 31, 2006 (Q4 2005 - \$240; YTD 2005 - \$680) 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 \$27 (YTD - \$105) for the quarter ended December 31, 2006 (Q4 2005 - \$25; YTD 2005 - \$102).

The Fund recorded cost reimbursements payable to MPML of \$344 (YTD - \$1,393) for the quarter ended December 31, 2006 (Q4 2005 - \$1,187; YTD 2005 - \$1,460). Additionally, an incentive fee of \$970 was recorded in the quarter ended December 31, 2006 (Q4 2005 - \$1,260) for exceeding the distributable cash per unit target of \$0.95. For the year ended December 31, 2006 accrued incentive fees were \$1,847 (YTD 2005 - \$1,260).

13. 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 OEFC until December 31, 2014.

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

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

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 two 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 December 31, 2006, the following contracts are outstanding:

Period covered by contract

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.

14. 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 the OEFC 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 13). One of these contracts that expired during the quarter ended December 31, 2006 met the effectiveness criteria for hedge accounting and accordingly, the fair value of this contract had not been reflected in these consolidated financial statements. The fair value of this derivative at December 31, 2005 was estimated to be a liability to the Fund of \$2,317.

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 loss of \$291 (2005 - unrealized loss of \$598) for the quarter recorded in the consolidated statement of income. The fair value of these derivatives at December 31, 2006 is estimated to be a liability to the Fund of \$1,507 (December 31, 2005 - liability of \$3,027). These contracts are to mitigate exposure to natural gas price fluctuations from sales of excess natural gas volumes in 2007 and 2008.

15. Economic dependence

For the quarter, approximately 99.0% (2005 - 98.9%) of the Fund's revenue was derived from the sale of electricity to OEFC. Approximately 97.3% (December 31, 2005 - 97.5%) of the accounts receivable balance was due from OEFC relating to electricity sales.

For the quarter, approximately 85.5% (2005 - 86.8%) of the Fund's operating costs were from the purchase of gas from Husky Energy Marketing Inc. ("Husky") under a long-term gas purchase contract. Approximately 43.7% (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 AGENT, REGISTRAR

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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