

**MACQUARIE POWER INCOME FUND**  
FINANCIAL REPORT

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005



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Macquarie Power 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 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 possible delays in repayment and loss of income and capital invested. Neither MPML, nor any member of the Macquarie Bank Group, guarantees the performance of the Fund, the repayment of capital or the payment of a particular rate of return on the Fund's units.

MPML, as the Manager of the Fund, is entitled to fees for so acting. Macquarie Bank Limited and its related corporations, together with their officers and directors may hold units in the Fund from time to time.

**Macquarie Power Income Fund**  
Management's Discussion and Analysis  
For the Quarter Ended and Year to Date,  
September 30, 2005

This report for the Macquarie Power Income Fund (the "Fund") summarizes the financial results for the quarter ended and year to date, September 30, 2005. This discussion and analysis dated November 8, 2005 of the Fund's consolidated operating results, cash flow and financial position presented herein should be read in conjunction with the consolidated financial statements and related notes contained in this financial report, as well as the audited December 31, 2004, and unaudited March 31 and June 30, 2005 consolidated financial statements and related notes, and December 31, 2004 Management's Discussion and Analysis and Annual Information Form, all of which are filed electronically on SEDAR.

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 measurements according to GAAP. For instance, the Fund measures earnings before interest, taxes, depreciation and amortization and unrealized gains and losses ("EBITDA") because this method allows management to assess the financial performance of the Fund's operations. Additional information in the section dealing with non-GAAP measurements compares the non-GAAP figures with the most comparable financial information.

The purpose of this discussion and analysis is to help the reader understand the financial performance of the Fund since its inception. Certain statements in this report may constitute "forward looking statements" and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund to be materially different from any performance or achievement expressed or implied by such "forward looking statements".

**Consolidation and comparison of operating results**

The discussion and analysis of the operating results reflect the consolidated operations of the Fund, Macquarie Power Income Trust (the "Trust") and Cardinal Power of Canada L.P. ("Cardinal"). On the basis of revenue and EBITDA, the operating results for the consolidated entity are virtually identical to those of Cardinal as a stand-alone entity. As such, it is possible to compare the consolidated results of the Fund for the year to date operating results of the Cardinal plant to the same period in the prior year.

The following discussion and analysis compares the actual results of the Fund for the quarter ended and year to date, September 30, 2005 to the results of the Fund for the quarter ended and of Cardinal for year to date, September 30, 2004. Results presented for the 9 months ended September 30, 2004 include results for the 4 months ended April 30, 2004, a period of time before which the Fund owned Cardinal. For these reasons, comparative results for the prior year provide a basis of comparison that is approximate, since the results of operations combine periods of time when different owners managed Cardinal. All amounts have been expressed in thousands of Canadian dollars unless otherwise stated.

## SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

<i>(in thousands of dollars, except per unit amounts)</i>	Quarter Ended September 30, 2005	Quarter Ended September 30, 2004	Year to Date September 30, 2005	Year to Date September 30, 2004
Revenue for the period	20,555	18,650	65,481	61,702
DCR adjustments in respect of prior years	134	-	134	2,835
<b>Total Revenue</b>	<b>20,689</b>	<b>18,650</b>	<b>65,615</b>	<b>64,537</b>
EBITDA <sup>(i)</sup>	5,997	4,377	19,641	21,190
Depreciation and amortization	3,126	3,134	9,370	(ii)
Unrealized loss on gas swap contracts	899	-	2,642	(ii)
Net interest expense	316	367	956	(ii)
Net income	1,656	876	6,673	(ii)
<i>Per trust unit (\$)</i>	<i>0.078</i>	<i>0.041</i>	<i>0.315</i>	(ii)
Cash flow from operations	5,695	6,502	18,755	(ii)
Distributable cash <sup>(i)</sup>	6,292	3,590	18,655	(ii)
<i>Per trust unit (\$)</i>	<i>0.297</i>	<i>0.170</i>	<i>0.881</i>	(ii)
Distributions declared to Unitholders	5,028	5,028	15,084	(ii)
<i>Per trust unit (\$)</i>	<i>0.238</i>	<i>0.238</i>	<i>0.713</i>	(ii)
Payout ratio <sup>(iii)</sup>	80%	140%	81%	(ii)
Number of trust units outstanding (000s)	21,169	21,169	21,169	(ii)
Sale of electricity (000s MWh)	306	298	957	945
Sale of steam (000s lbs)	154	150	497	510

- (i) See "Additional information about non-GAAP performance measures" for a reconciliation of EBITDA and Distributable Cash to Net Income and Cash Flows from Operations Activities for the quarter. EBITDA and Distributable Cash are not recognized measures under GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers.
- (ii) Financial results from the prior year have been presented only if comparable to the current year.
- (iii) The payout ratio is defined 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.

### Overview

The Fund continues to benefit from the strong performance of the Cardinal plant and will soon begin to benefit from the recently completed investment in Leisureworld Inc. and its associated entities ("Leisureworld"). On October 18, 2005, the Fund completed its 45% (on a fully diluted basis) indirect equity investment in Leisureworld. Leisureworld is the third largest private operator of long term care facilities in the Province of Ontario, Canada. The Leisureworld operation includes 19 long-term care facilities (3,147 beds), 2 retirement homes (87 beds) and 1 independent living facility (53 beds) as well as two related businesses, Preferred Health Care Services and Ontario Long Term Care Inc., both of which provide services to the long term care business. The Fund has reflected the issuance and closing of the subscription receipt offering in the balance sheet of the Fund as at September 30, 2005. The investment will be accounted for as an equity investment. The outlook section in this MD&A provides further information on this acquisition and future strategy of the Fund.

Overall, the Cardinal plant surpassed 2004 results and exceeded the 2005 plan and continues to maintain a strong cash balance. Payout ratio for the quarter is 80% and for the year to date is 81%. The Cardinal Power Purchase Agreement ("PPA") with the Ontario Electricity Finance Corporation ("OEF") allows for lower

rates of electricity for the months from April to September. In spite of these lower rates and preparation for major maintenance activity during this period the Fund has been able to demonstrate excellent financial results. Further enhancing the Cardinal plant results is the electricity rate adjustment by OEFC of approximately \$1,200. The adjustment primarily relates to increases in electricity rates in 2005. The fourth quarter will further strengthen these results as the PPA provides for increased electricity rates. The PPA in conjunction with the fuel supply contracts continue to provide the Fund with stable and predictable results.

### **Revenue**

The Cardinal plant has provided high reliability with availability of 98.3% and a capacity load factor of 96.1% for the year to date. These results exceeded both 2005 plan and 2004 results. For the quarter ended the Fund generated revenue of \$20,689 approximately 10.9% better than 2004. This improvement was due primarily to an electricity rate adjustment of \$1,200 of which \$1,066 relates to 2005 with the balance relating to periods prior to 2005. Operationally the Cardinal plant benefited from reduced curtailment in 2005 when compared to 2004 from the combustion inspection (the equivalent combustion inspection for 2005 occurred in the second quarter in 2004). Other factors impacting the quarter over quarter increase were increased electricity rates and higher operational factors as identified above. Revenue from operations for the period to date was \$65,481 or 6.1% better than the previous comparable period.

### **EBITDA**

The total EBITDA generated by the Fund during the quarter was \$5,997, an increase of \$1,620 when compared to the same quarter of the previous year. The increase in EBITDA was primarily due to the improvement in revenue identified above and was offset somewhat by increases in spending in 2005 for the major maintenance in 2006. For the year to date, the Fund generated EBITDA of \$19,641, this was better by 6.2% than the same period in 2004 excluding the effect of the DCR adjustments from the prior years.

### **Unrealized loss on gas swap contracts**

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

To stabilize the cash flows from excess gas sales, Cardinal entered into 5 gas swap contracts in April 2004. The effect of the contracts is to fix the revenues Cardinal receives from the sale of excess gas. Under the terms of the contracts, Cardinal receives fixed payments from a counter-party, in exchange for paying floating payments to the counter-party that fluctuate based on the market prices of natural gas. The contracts are based on an estimated volume spread over the 7-month period from April until October. The contract volume can be adjusted to match the monthly profile of gas available for sale. The contracts with the counter-party are a series of monthly contracts from April to October of each year and terminate October 31, 2008. The swap removes most of the revenue uncertainty with respect to the sale of excess gas.

An unrealized loss of \$899 was recorded for the quarter and \$2,642 in the year to date, September 30, 2005 to reflect the movement in fair value of certain of the contracts entered into for 2007 and 2008. This unrealized loss had no impact on the operating cash flows or distributable cash for the quarter ended.

### **Net interest expense**

In fiscal 2004, the Fund converted its term loan from a prime rate loan to a series of BA's 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 \$359 were amortized in the quarter and \$1,049 in the year to date, September 30, 2005.

## Cash flows

Due to the seasonality of the Cardinal plant's revenue (see discussion on seasonality below), free cash increased by \$609 in the quarter, which was comprised of cash flow from operations of \$5,695, distributions paid of \$5,028, and investments in capital assets of \$58.

## Liquidity and financial resources

As at September 30, 2005, unrestricted cash and cash equivalents totalled \$14,098 after net allocations (releases) of (\$645) for the quarter and \$210 for the year to date to the major maintenance reserve and \$43 for the quarter and (\$153) for the year to date from the capital expenditure reserve. The breakdown of cash and cash equivalents at September 30, 2005 is as follows:

	September 30, 2005 (\$000s)
Major maintenance reserve	4,544
Capital expenditure reserve	744
General reserve	3,000
Other cash and cash equivalents	5,810
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Cash and cash equivalents	14,098
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Restricted cash from issuance of subscription receipts	63,127
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Restricted cash of \$63,127 represents funds raised in the sale of subscription receipts. These funds were held in escrow until October 18, 2005 at which time the acquisition of Leisureworld was closed and the funds were released and made available to the Fund to finance the purchase of a 45% indirect interest in the Leisureworld business noted above.

The Fund has a \$15,000 revolving operating line of credit available. Currently there is no amount outstanding on the facility. Term debt currently outstanding is \$35,000.

Long-term liabilities were stable during the quarter. As at September 30, 2005, Unitholders' Equity was \$241,138, reflecting an increase during the quarter due to the issuance of subscription receipts which is offset by Fund distributions in excess of Net Income.

## Additional information about non-GAAP performance measures

### *EBITDA*

To assess the financial performance of its assets, the Fund uses EBITDA, even though it is not a performance measurement under GAAP. EBITDA is a widely accepted financial indicator used by investors to assess the performance of a company or a fund, and its ability to generate cash through operations. Management believes that this is especially relevant for the Fund, which pays out virtually all of its cash flow in regular distributions. However, since EBITDA is not a measurement of performance under GAAP, it may not be comparable to similarly named measures used by other companies. Investors should not use EBITDA as an alternative for Net Income, as an indicator of operating results or cash flows, or as a parameter for measuring liquidity.

The following table reconciles EBITDA to Net Income:

	Quarter Ended September 30, 2005 (\$000s)	Quarter Ended September 30, 2004 (\$000s)	9 months Ended September 30, 2005 (\$000s)	5 months Ended September 30, 2004 (\$000s)
Net income for the period	1,656	876	6,673	1,954
Net interest expense	316	367	956	609
Depreciation and amortization	3,126	3,134	9,370	5,209
Unrealized loss on the fair value of gas swap contracts	899	-	2,642	-
EBITDA for the period	5,997	4,377	19,641	7,772

*Distributable cash*

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

The following is a reconciliation of distributable cash:

	Quarter Ended Sept 30, 2005 (\$000s)	Quarter Ended Sept 30, 2004 (\$000s)	9-months Ended Sept 30, 2005 (\$000s)	5-months Ended Sept 30, 2004 (\$000s)
Cash from operations	5,695	6,502	18,755	6,888
Add:				
Release from major maintenance reserve account	1,237	113	1,567	130
Release from capital expenditure reserve account	58	120	455	120
Changes in working capital	-	-	-	302
Less:				
Changes in working capital	5	2,465	43	-
Allocation to major maintenance expenditure reserve account	592	581	1,777	968
Allocation to capital expenditure reserve account	101	99	302	165
Distributable cash for the period	6,292	3,590	18,655	6,307
Distributable cash per unit for the period (\$)	0.297	0.170	0.881	0.298

The Fund declared distributions to Unitholders of \$5,028 for the quarter and \$15,084 for the year to date. This represents a payout ratio of 80% for the quarter and 81% for the year to date (payout ratio is defined as distributions declared as a proportion of distributable cash) and reflects the seasonality of cash flows, which are normally higher in the first quarter of the fiscal year. During the quarter, the Fund generated sufficient distributable cash to pay distributions.

## Seasonality

Since the Fund's power station 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 prices from October to March) which originally reflected differences in market demand between these two different segments of the year.

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

The reader is referred to the Management Discussion and Analysis included in the 2004 Annual Report and the June 30, 2005 Quarterly Financial Report for an analysis of results of the financial performance of the Fund in prior quarters.

## Selected quarterly information

<i>(in thousands of dollars, except per unit amounts)</i>	Quarter Ended September 30, 2005	Quarter Ended June 30, 2005	Quarter Ended March 31, 2005	Quarter Ended December 31, 2004
Revenue	20,689	19,698	25,228	24,256
Net income	1,656	800	4,217	5,282
Net income per unit (basic and diluted)	0.078	0.038	0.199	0.249
Cash flow from operations per unit	0.269	0.228	0.431	0.317
Distributions declared per unit	0.238	0.238	0.238	0.238

The Fund's results are partly seasonal due to the nature of the electricity market and related fuel costs. Higher maintenance costs are ordinarily incurred in the second and third quarters when electricity prices are expected to be lower as electricity prices generally increase in the winter months in the Canadian market. Production usually decreases in the second and third quarters in connection with increased maintenance.

## Related party transactions

The Fund incurred management fees of \$148 for the quarter and \$439 for the year to date, and administrative fees of \$26 for the quarter and \$76 for the year to date, payable to Macquarie Power Management Ltd ("MPML"). Also, the Fund recorded additional cost reimbursements of \$78 for the quarter and \$214 for the year to date.

A subsidiary of the Fund entered into an agreement with a subsidiary of Macquarie Bank Limited dated as of September 12, 2005, which provided for the acquisition by the Fund of an indirect 45% ownership interest in Macquarie Senior Care LP ("MSCLP") and its general partner. Following such acquisition and immediately prior to the closing of the Leisureworld business acquisition, the Fund made an investment, indirectly, in MSCLP (collectively with such acquisition, the "Investment") in order to partially fund the Leisureworld business acquisition and costs associated with the Investment. Included in the acquisition costs was approximately \$16,000 paid to an affiliate of Macquarie Bank Limited for advisory services for which the Fund was responsible for its *pro rata* share. The balance of the funds required by MSCLP for the Leisureworld business acquisition will be provided to MSCLP by way of a loan from a financing trust. The purchase price under the acquisition agreements was paid by MSCLP to the vendors in cash and indirectly in Class B Exchangeable Units in connection with the closing of the Leisureworld business acquisition.



### Trust units on issue

At September 30, 2005, the Fund had 21,168,997 trust units outstanding. There were no changes to trust units outstanding during the quarter. On September 30, 2005 the Fund closed an offering of 5,630,000 subscription receipts each representing a right to receive one unit of the Fund. Concurrently, the Fund also entered into a commitment to issue 3,249,390 of exchangeable units. These units are exchangeable into one trust unit of the Fund. On closing of the transaction, October 18, 2005 the subscription receipts were exchanged for units of the Fund and the exchangeable units were issued.

### Contractual obligations and other commitments

There were no significant changes in the Fund's obligations and commitments since March 21, 2005, the date of the Fund's Annual Information Form other than as identified above with respect to the subscription receipt offering and the issuance of exchangeable units. The following describe the more significant contractual obligations and commitments of the Fund as of September 30, 2005.

#### *Long-term debt*

The term debt facility is a 3-year term loan for an amount of \$35,000 maturing April 29, 2007. 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 EBITDA. In the case of Prime Rate loans, interest is charged at the bank's Prime Rate plus an applicable margin based on the same ratio. At September 30, 2005, the Fund's term debt was in the form of a series of instruments as follows:

Type of instrument	Draw down amount (\$000s)	Maturity	All-in Rate
BA	\$11,700	December 16, 2005	4.50%
BA	\$11,700	May 1, 2006	3.92%
BA	\$11,600	June 13, 2006	3.80%

Borrowing costs, including interest, are paid at the inception of each BA loan. These costs are capitalized and amortized over the life of each respective loan. As at September 30, 2005, the unamortized portion of the capitalized borrowing costs totaled \$673 and is included in the 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 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.

### Risks and uncertainties

Management is of the opinion that there have been no significant changes in risks and uncertainties since March 21, 2005. Please refer to Risk Factors in the Fund's Annual Information Form dated March 21, 2005.

### Critical accounting policy and estimates

The Fund has adopted certain accounting policies which require the use of estimates and assumptions about matters that are uncertain at the time the estimates are made. The Fund's significant accounting policies are described in Note 2 to the consolidated financial statements. The most critical accounting policies relate to the valuation of derivative instruments, goodwill and asset retirement obligations.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions (see Note 2 to the consolidated financial statements) 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 swap contracts to manage its exposure to price fluctuations on sales of excess natural gas. The Fund has adopted Accounting Guideline 13, Hedging Relationships ("AcG-13") issued by the CICA which set out the criteria for applying hedge accounting for these financial instruments. 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. Swap contracts that do not qualify for hedge accounting under AcG-13 are recorded on the statement of financial position at fair value established by the market, changes in fair value are recorded as adjustments to net income on the statement of income. In analyzing the effectiveness of 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 management 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 2005 continues to support the carrying value of the Fund's long-lived assets.

#### *Decommissioning liabilities*

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 risk 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 the entity's current credit standing. Determining asset retirement obligations requires estimating the life of the related asset and the costs of such activities such as demolition, dismantling, restoration and remedial work based on present-day methods and technologies. These estimates are reviewed during the fourth quarter of each fiscal year and adjusted prospectively if required.

#### *Useful life of the Cardinal plant*

Plant and equipment are amortized for accounting purposes over their estimated useful life of 20 years. Management estimate useful life based on current facts and past experience, and take 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**

#### *Variable interest entities*

On January 1, 2005, the Fund prospectively adopted the requirements of CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"), which is effective for fiscal year 2005 and provides guidance for applying the principles in Section 1590, "Subsidiaries", to those entities defined as Variable Interest Entities ("VIEs"), in which either the equity at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties, or equity investors lack either voting control, an obligation to absorb expected losses, or the right to receive residual returns. AcG-15 requires consolidation of VIEs by the Primary Beneficiary. The Primary Beneficiary is defined as the party that has exposure to the majority of a VIE's expected losses and/or residual returns. The Fund has evaluated its interests in electricity supply and gas purchase contracts and has determined that the Fund is the Primary Beneficiary at September 30, 2005 and should continue to consolidate Cardinal Power of Canada, L.P.

*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 on the statement of financial position and at what amount – sometimes using fair value; other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented.

Section 3855 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year that ends on or after December 31, 2004. The Fund is reviewing Section 3855 to determine the impact this standard will have on the accounting for the Fund's financial instruments.

*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.

Section 3865 applies for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year that ends on or after December 31, 2004. The Fund is reviewing Section 3865 to determine the impact this standard will have on the accounting for the Fund's financial instruments.

*Comprehensive income, CICA Handbook section 1530*

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

Section 1530 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. Financial statements of prior periods are required to be restated for certain comprehensive income items. The Fund is reviewing Section 1530 to determine the impact this standard will have on the Fund's financial statements.

An entity adopting this Section for a fiscal year beginning before October 1, 2006 must also adopt section 3855 – Financial instruments – recognition and measurement, and section 3865 – Hedges.

## Outlook

The Cardinal plant has completed another strong quarter and the Fund has managed to achieve a payout ratio of 80% during this seasonally low quarter and maintain its strong cash position. The transition of Leisureworld is moving ahead in accordance with the transition plan. With the completion of the Leisureworld acquisition on October 18, 2005 the Fund looks forward to the stable cash flow growth from the asset. The Fund expects that the investment in Leisureworld will be accretive to unitholders by providing an increase to the Fund's cash available for distribution. As such the Leisureworld investment will provide approximately 30% of the distributable cash with the remainder being provided by Cardinal.

Once the Leisureworld business transition plan has been completed the Fund will review its financial position and operational outlook with a view to considering if there is a need to revisit a possible increase in the current distribution level provided to unitholders. There are several key factors affecting the financial results for the remainder of 2005.

### *Cardinal*

The Cardinal PPA now moves into a higher rate format during the 4<sup>th</sup> quarter of 2005 and the 1<sup>st</sup> quarter of 2006. These higher rates will provide for improved results during those periods. As a result of the contractual commitments in respect of gas and gas mitigation there are no other significant uncertainties that should affect operations.

On December 16, 2005 a Bankers Acceptance in the amount of \$11,700 will mature. Currently there is an intention to renew this amount in a similar or same instrument. The rate of interest at time of renewal will impact results to the extent that the new rate is either higher or lower than the current rate of the instrument.

In 2006 the Cardinal plant will perform a major maintenance during April and May. During the periods leading up to the major maintenance the Cardinal plant has been releasing funds from its major maintenance reserve to pay for necessary equipment and related labour in preparation for the curtailment. The specific timing of certain expenditures may change, however this timing will not impact distributable cash as all reserves are currently funded in line with the business plan.

### *Leisureworld*

Looking forward to the 4<sup>th</sup> quarter of 2005 we anticipate that Leisureworld will provide a stable cashflow and increasing cash available for distribution. The acquisition was financed through the issuance of 5,630,000 subscription receipts which on October 18, 2005 or thereabouts were converted on a one-for-one basis to units of the Fund. At the same time the Fund issued 3,249,390 Class B exchangeable units which are exchangeable to the units of the Fund on a one-for-one basis.

One of the key operational drivers will be occupancy. The ability of Leisureworld to continue to improve occupancy rates will have a significant impact on the business. Current results indicate that occupancy targets are being achieved in accordance with plan.

Macquarie Power Income Fund  
Consolidated Statements of Financial Position  
(Unaudited)

	September 30, 2005 (\$000s)	December 31, 2004 (\$000s)
<b>Current Assets</b>		
Cash and cash equivalents (note 3)	14,098	10,883
Restricted cash (note 3)	63,127	-
Accounts receivable	8,577	8,753
Inventory	107	88
Prepaid expenses and borrowing costs	1,393	1,223
<b>Total Current Assets</b>	<u>87,302</u>	<u>20,947</u>
Property, plant and equipment (note 4)	142,924	148,240
Electricity supply and gas purchase contracts (note 4)	41,187	44,786
Gas swap contracts at fair value (note 13)	-	213
Goodwill	18,023	18,023
<b>Total Assets</b>	<u>289,436</u>	<u>232,209</u>
<b>Current Liabilities</b>		
Trade payables and accrued expenses	8,649	6,336
Distributions payable	1,676	1,676
<b>Total Current Liabilities</b>	<u>10,325</u>	<u>8,012</u>
Long term debt (note 6)	35,000	35,000
Gas swap contracts at fair value (note 13)	2,429	-
Liability for asset retirement	544	517
<b>Total Liabilities</b>	<u>48,298</u>	<u>43,529</u>
<b>Unitholders' Equity (notes 7, 8 and 10)</b>	<u>241,138</u>	<u>188,680</u>
<b>Total Unitholders' Equity and Liabilities</b>	<u>289,436</u>	<u>232,209</u>

**Macquarie Power Income Fund**  
 Consolidated Statement of Unitholders' Equity  
 For the Quarter Ended and Year to Date, September 30, 2005  
 (Unaudited)

	Unitholders' Capital (\$000s)	Subscription Receipts (\$000s)	Retained Earnings (\$000s)	Cumulative Distributions (\$000s)	Total (\$000s)
<b>Balance, December 31, 2004</b>	194,907	-	7,236	(13,463)	188,680
Net income for the quarter ended March 31, 2005	-	-	4,217	-	4,217
Distributions declared to Unitholders for the quarter ended March 31, 2005 (note 10)	-	-	-	(5,028)	(5,028)
<b>Balance, March 31, 2005</b>	194,907	-	11,453	(18,491)	187,869
Net income for the quarter ended June 30, 2005	-	-	800	-	800
Distributions declared to Unitholders for the quarter ended June 30, 2005 (note 10)	-	-	-	(5,028)	(5,028)
<b>Balance, June 30, 2005</b>	194,907	-	12,253	(23,519)	183,641
Issuance of subscription receipts, net of issuing costs of \$3,876 (note 8)	-	60,869	-	-	60,869
Net income for the quarter ended September 30, 2005	-	-	1,656	-	1,656
Distributions declared to Unitholders for the quarter ended September 30, 2005 (note 10)	-	-	-	(5,028)	(5,028)
<b>Balance, September 30, 2005</b>	<u>194,907</u>	<u>60,869</u>	<u>13,909</u>	<u>(28,547)</u>	<u>241,138</u>

Macquarie Power Income Fund  
Consolidated Statement of Income  
For the Quarter Ended and Year to Date, September 30, 2005  
(Unaudited)

	Quarter ended September 30, 2005	Quarter ended September 30, 2004	9-months ended September 30, 2005	5-months ended September 30, 2004
	(\$000s)	(\$000s)	(\$000s)	(\$000s)
Revenue	20,689	18,650	65,615	31,592
Cost and expenses				
Operating costs	14,326	13,986	44,642	23,344
Administrative expenses	366	287	1,332	476
Depreciation and amortization	3,126	3,134	9,370	5,209
	17,818	17,407	55,344	29,029
Income from operations	2,871	1,243	10,271	2,563
Unrealized loss on gas swap contracts (note 12)	(899)	-	(2,642)	-
Net interest expense	(316)	(367)	(956)	(609)
<b>Net income for the period</b>	<b>1,656</b>	<b>876</b>	<b>6,673</b>	<b>1,954</b>
Weighted average number of trust units outstanding (units)	21,168,997	21,168,997	21,168,997	21,168,997
Basic earnings per trust unit (\$)	0.078	0.041	0.315	0.092
Diluted weighted average number of trust units outstanding (units) (note 8)	21,230,193	21,168,997	21,189,620	21,168,997
Diluted earnings per trust unit (\$)	0.078	0.041	0.315	0.092

Macquarie Power Income Fund  
Consolidated Statement of Cash Flow  
For the Quarter Ended and Year to Date, September 30, 2005  
(Unaudited)

	Quarter ended September 30, 2005 (\$000s)	Quarter ended September 30, 2004 (\$000s)	9-months ended September 30, 2005 (\$000s)	5-months ended September 30, 2004 (\$000s)
Cash flows from operating activities:				
Net income	1,656	876	6,673	1,954
Add back:				
Movement of fair value of gas swap contracts (note 12)	899	-	2,642	-
Depreciation and amortization	3,126	3,134	9,370	5,209
Amortization of prepaid borrowing costs	359	375	1,049	442
Accretion of asset retirement liability	9	27	27	27
Prepayment of borrowing costs and interest	-	-	(889)	(1,136)
Non-cash changes in working capital				
Decrease (increase) in accounts receivable	(1,863)	1,229	176	788
Decrease (increase) in inventory	9	8	(19)	54
Decrease (increase) in prepaid expenses	272	264	(329)	(678)
Increase in trade payables and accrued expenses	1,228	589	55	228
<b>Total cash flows from operating activities</b>	<b>5,695</b>	<b>6,502</b>	<b>18,755</b>	<b>6,888</b>
Cash flows from investing activities:				
Cash paid in relation to the acquisition of Cardinal Power of Canada LP, net of cash acquired	-	(465)	-	(219,943)
Investment in property, plant and equipment	(58)	(120)	(455)	(120)
<b>Total cash flows from investing activities</b>	<b>(58)</b>	<b>(585)</b>	<b>(455)</b>	<b>(220,063)</b>
Cash flows from financing activities:				
Cash proceeds received from the initial public offering	-	-	-	211,690
Costs recovered (paid) in relation to the initial public offering	-	465	-	(16,783)
Cash proceeds received from the issue of the Term Loan	-	-	-	35,000
Issuing costs for subscription receipts	(1,619)	-	(1,619)	-
Issuance of subscription receipts	64,745	-	64,745	-
Distributions paid to Unitholders	(5,028)	(5,028)	(15,084)	(6,759)
<b>Total cash flows from financing activities</b>	<b>58,098</b>	<b>(4,563)</b>	<b>48,042</b>	<b>223,148</b>
<b>Net increase in cash and cash equivalents</b>	<b>63,735</b>	<b>1,354</b>	<b>66,342</b>	<b>9,973</b>
Cash and cash equivalents at the beginning of period	13,490	8,619	10,883	-
<b>Cash and cash equivalents at the end of period</b>	<b>77,225</b>	<b>9,973</b>	<b>77,225</b>	<b>9,973</b>
Interest paid	-	-	957	1,136



## 1. Organization

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. Cardinal is a 156-megawatt, gas-fired combined cycle cogeneration plant located in Cardinal, Ontario. On October 18, 2005 the Fund acquired an indirect 45% interest in Leisureworld, a long-term care provider in Ontario.

MPML, a wholly-owned subsidiary of Macquarie North America Ltd., provides administrative services to the Fund and Trust, in accordance with an administration agreement, and management services to Cardinal, in accordance with a management agreement.

## 2. Significant accounting policies

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

### *Basis of presentation*

The accompanying unaudited interim consolidated financial statements do not include all information and footnote disclosures required under Canadian generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments (consisting primarily of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows at September 30, 2005 and 2004 and for all periods presented, have been included. The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto included in the Fund's consolidated financial statements for the year ended December 31, 2004.

### *Use of estimates*

The financial information contained in the accompanying financial statements has been prepared in accordance with GAAP, which require management 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 difference could be significant.

### *Basis of presentation*

In addition to the Fund, these consolidated financial statements include the assets and liabilities and results of operations of the Trust, Cardinal Power Inc. (the "General Partner") and Cardinal, all of which are 100% owned subsidiaries of the Fund. All inter-company balances and transactions have been eliminated.

### *Contracts*

Electricity supply and gas purchase contracts are separately identifiable intangible assets. The assets are presented in the Statement of Financial Position, and are recorded at their fair value at the date of acquisition. The contracts are amortized over their useful life of 10 years using the straight-line method.

### *Property, plant and equipment*

Property, plant and equipment have been recognized at cost of acquisition and are included in the Statement of Financial Position. Plant and equipment are depreciated over their useful life of 20 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.

*Impairment of assets*

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

*Derivative instruments*

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

The Fund has adopted Accounting Guideline 13, Hedging Relationships ("AcG 13") issued by the Canadian Institute of Chartered Accountants, which establishes the criteria for applying hedge accounting for derivative instruments. Derivatives that have been designated and function effectively as hedges in accordance with AcG-13, are accounted for using hedge accounting principles. These require that the reporting quarter 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 Statement of Financial Position at fair value. Changes in fair value recorded in Net Income are reflected in the Statement of Income.

*Asset retirement obligation*

The Fund recognizes a liability for the future retirement obligations associated with the Cardinal Facility. 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.

*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 current and prior periods. The Fund accounts for such adjustments in the period when the adjustments are determined.

*Maintenance and repairs*

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

*Income taxes*

Under the terms of the Income Tax Act (Canada) (the "Tax Act"), Cardinal LP, as a partnership, is not subject to income taxes. Its income will be allocated to and included in computing the income of its partners, who are the General Partner and the Trust. Under the terms of the Tax Act, the Fund and the Trust are not generally subject to income tax to the extent their taxable income and taxable capital gains are distributed to Unitholders. As the Fund and the Trust are contractually committed to distribute all or virtually all of their taxable income and taxable capital gains to Unitholders, it is not likely that either entity will be subject to income tax. Accordingly, no provision for income taxes has been recorded in the Fund or the Trust.

*Variable interest entities*

On January 1, 2005, the Fund prospectively adopted the requirements of CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG 15"), which is effective for fiscal year 2005 and provides guidance for applying the principles in Section 1590, "Subsidiaries", to those entities defined as Variable Interest Entities ("VIEs"), in which either the equity at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties, or equity investors lack either voting control, an obligation to absorb expected losses, or the right to receive residual returns. AcG 15 requires consolidation of VIEs by the Primary Beneficiary. The Primary Beneficiary is defined as the party that has exposure to the majority of a VIE's expected losses and/or residual returns. The Fund has evaluated its

Macquarie Power Income Fund  
Notes to the Consolidated Financial Statements  
September 30, 2005 Quarterly Financial Report  
(Unaudited)

interests in electricity supply and gas purchase contracts and has determined that the Fund is the Primary Beneficiary at September 30, 2005 and should continue to consolidate Cardinal Power of Canada, L.P.

*Net Income per Unit*

Net Income per Unit is established by dividing Net Income, as determined above, by the Weighted Average Number of Units Outstanding during the quarter and year to date on both a basic and diluted basis.

Diluted Net Income per Unit reflects the dilutive effect of the subscriptions receipts described in Note 8.

**3. Cash and cash equivalents and restricted cash**

Cash and cash equivalents comprise highly liquid investments with original maturities of less than 90 days. At September 30, 2005 and December 31, 2004, cash and cash equivalents included the following:

	September 30, 2005 (\$000s)	December 31, 2004 (\$000s)
Major maintenance reserve	4,544	4,334
Capital expenditure reserve	744	897
General reserve	3,000	3,000
Total reserve accounts	8,288	8,231
Other cash and cash equivalents	5,810	2,652
	14,098	10,883
Restricted cash from issuance of subscription receipts	63,127	-

At quarter end, restricted cash of \$63,127 represents funds raised in the sale of subscription receipts. These funds were held in escrow until October 18, 2005 at which time the transaction was closed and the funds were released and made available to the Fund to finance the purchase of an indirect 45% interest in the Leisureworld business.

**4. Property, plant and equipment and electricity supply and gas purchase contracts**

	Cost (\$000s)	Accumulated Depreciation (\$000s)	September 30, 2005 Net Book Value (\$000s)
<b>Property, plant and equipment</b>			
Balance, June 30, 2005	153,763	(8,970)	144,793
Purchases of fixed assets during the quarter	58	-	58
Depreciation for the quarter	-	(1,927)	(1,927)
<b>Balance, September 30, 2005</b>	<b>153,821</b>	<b>(10,897)</b>	<b>142,924</b>

At December 31, 2004, the net book value of property, plant and equipment was \$148,240.

Macquarie Power Income Fund  
Notes to the Consolidated Financial Statements  
September 30, 2005 Quarterly Financial Report  
(Unaudited)

	Cost	Accumulated Amortization	September 30, 2005 Net Book Value
Electricity supply and gas purchase contracts	(\$000s)	(\$000s)	(\$000s)
Balance, June 30, 2005	48,000	(5,614)	42,386
Amortization for the quarter	-	(1,199)	(1,199)
<b>Balance, September 30, 2005</b>	<b>48,000</b>	<b>(6,813)</b>	<b>41,187</b>

At December 31, 2004 the net book value of electricity supply and gas purchase contracts is \$44,786.

### 5. 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. During the quarter, and in conjunction with the Leisureworld transaction, the Fund negotiated the removal of a debt to capitalization covenant. 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 EBITDA. In the case of Prime Rate loans, interest is charged at the bank's Prime Rate plus an applicable margin based on the same ratio. As at September 30, 2005, no amount is outstanding under the facility.

### 6. Term debt facility

The term debt facility is a 3-year term loan for an amount of \$35,000 maturing April 29, 2007. 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 EBITDA. In the case of Prime Rate loans, interest is charged at the bank's Prime Rate plus an applicable margin based on the same ratio. At September 30, 2005, the Fund's term debt was in the form of a series of instruments as follows:

Type of instrument	Draw down amount (\$000s)	Maturity	All-in Rate
BA	\$11,700	December 16, 2005	4.50%
BA	\$11,700	May 1, 2006	3.92%
BA	\$11,600	June 13, 2006	3.80%

Borrowing costs, including interest, are paid at the inception of each BA loan. These costs are capitalized and amortized over the life of each respective loan. As at September 30, 2005, the unamortized portion of the capitalized borrowing costs totaled \$673 and is included in the Statement of Financial Position.

### 7. 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 winding-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 10 days; and
- (ii) an amount equal to either:
  - (a) the closing price of the units on the date on which the units were tendered for redemption;
  - (b) the average of the highest and lowest prices of units on the date on which the units were tendered for redemption; or
  - (c) the average of the last bid and ask prices on the date on which the units were tendered for redemption.

The total amount payable in cash by the Fund in respect of such units and all other units tendered for redemption in the same calendar month shall not exceed \$50 (provided that such limitation may be waived at the discretion of the trustees of the Fund). In total, 21,168,997 units have been issued and were outstanding as at September 30, 2005.

#### **8. Subscription receipts**

On September 30, 2005 the Fund issued 5,630,000 subscription receipts at \$11.50 in a public offering. Each subscription receipt represents the right to receive, without payment of additional consideration, one Unit upon the closing of the Leisureworld investment. The net proceeds of the offering was \$60,869. The Fund paid \$1,619 for issuing costs in the quarter. The remaining balance of issuing costs of \$1,619 is due and payable on the closing of the investment in Leisureworld on October 18, 2005.

#### **9. Distributable cash**

The amount of distributable cash is based on 100% of the cash flow from operations of the Fund adjusted for non-cash changes in working capital and allocations to the reserve accounts. The distributable cash also takes into account additions to property, plant and equipment, and any other amount that the Trustees reasonably consider to be necessary to provide for the payment of any costs or expenses for the operation of the Fund and for reasonable reserves.

Macquarie Power Income Fund  
Notes to the Consolidated Financial Statements  
September 30, 2005 Quarterly Financial Report  
(Unaudited)

The following is a reconciliation of distributable cash for the quarter and year to date:

	Quarter Ended September 30, 2005 (\$000s)	Quarter Ended September 30, 2004 (\$000s)	Year to Date September 30, 2005 (\$000s)	Year to Date September 30, 2004 (\$000s)
Cash from operations	5,695	6,502	18,755	6,888
Add:				
Release from major maintenance reserve account	1,237	113	1,567	130
Release from capital expenditure reserve account	58	120	455	120
Changes in working capital	-	-	-	302
Less:				
Changes in working capital	5	2,465	43	-
Allocation to major maintenance reserve account	592	581	1,777	968
Allocation to capital expenditure reserve account	101	99	302	165
Distributable cash for the period	6,292	3,590	18,655	6,307
Distributable cash per unit for the period (\$)	0.297	0.170	0.881	0.298

## 10. Distributions to Unitholders

Distributions to Unitholders are paid on the last business day of each month, one month in arrears. The following distributions have been declared to Unitholders for the quarter ended and year to date, September 30, 2005:

Period of distribution	Date of payment	Amount declared (\$000s)	Amount declared (\$ per unit)
January 1 to 31, 2005	February 28, 2005	1,676	0.07917
February 1 to 28, 2005	March 31, 2005	1,676	0.07917
March 1 to 31, 2005	April 29, 2005	1,676	0.07917
Quarter ended March 31, 2005		5,028	0.23751
April 1 to 30, 2005	May 31, 2005	1,676	0.07917
May 1 to 31, 2005	June 30, 2005	1,676	0.07917
June 1 to 30, 2005	July 29, 2005	1,676	0.07917
Quarter ended June 30, 2005		5,028	0.23751
July 1 to 30, 2005	August 31, 2005	1,676	0.07917
August 1 to 31, 2005	September 30, 2005	1,676	0.07917
September 1 to 30, 2005	October 31, 2005	1,676	0.07917
Quarter ended September 30, 2005		5,028	0.23751
Year to date, September 30, 2005		15,084	0.71253

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

## 11. Related party transactions

MPML provides management services to Cardinal under a 20-year management agreement. A fee of \$587 in respect of the 2005 fiscal year is payable by Cardinal to MPML for the provision of these services, adjusted annually in line with the Consumer Price Index. 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. MPML will receive an annual fee of \$102 in respect of the 2005 fiscal year for these services and is entitled to be reimbursed for all reasonable costs and expenses incurred in carrying out such services as approved by the independent Trustees.

During the quarter, the Fund incurred management fees of \$148 for the quarter and \$439 for the year to date, and administrative fees of \$26 for the quarter and \$76 for the year to date, payable to MPML. Also, the Fund recorded additional costs reimbursements payable to MPML of \$78 for the quarter and \$214 for the year to date.

A subsidiary of the Fund entered into an agreement with a subsidiary of Macquarie Bank Limited dated as of September 12, 2005, which provided for the acquisition by the Fund of an indirect 45% ownership interest in Macquarie Senior Care LP ("MSCLP") and its general partner. Following such acquisition and immediately prior to the closing of the Leisureworld business acquisition, the Fund made an investment, indirectly, in MSCLP (collectively with such acquisition, the "Investment") in order to partially fund the Leisureworld business acquisition and costs associated with the Investment. Included in the acquisition costs was approximately \$16,000 paid to an affiliate of Macquarie Bank Limited for advisory services for which the Fund was responsible for its *pro rata* share. The balance of the funds required by MSCLP for the Leisureworld business acquisition will be provided to MSCLP by way of a loan from a financing trust. The purchase price under the acquisition agreements was paid by MSCLP to the vendors in cash and indirectly in Class B Exchangeable Units in connection with the closing of the Leisureworld business acquisition.

## 12. Commitments and Contingencies

### *Electricity supply contract*

Cardinal has entered into an agreement to sell all electricity produced at its Facility, less the amount of electricity consumed in the operation of the Facility, to the 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 Cardinal to pay variable payments to the counter-party based on 436,814 MMBtu of gas at the market rate of natural gas in exchange for receiving fixed payments based on 436,814 MMBtu of gas at a fixed price per MMBtu for up to five years ending October 31, 2008. The contracts cover the sale of gas for the seven-

month period from April to October for each of the remaining contracts. As at September 30, 2005, the following contracts remained:

Period Covered by Contract

April 1 to October 31, 2005  
April 1 to October 31, 2006  
April 1 to October 31, 2007  
April 1 to October 31, 2008

*Lease*

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

### 13. Financial Instruments

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

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

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

The Fund has entered into gas swap contracts to fix the revenue derived from the sale of excess gas (refer to note 12). Two of these contracts meet the effectiveness criteria for hedge accounting and accordingly, the fair value of these contracts has not been reflected in the financial statements. The fair value of these derivatives at September 30, 2005 is estimated to be a liability to the Fund of \$2,958. However, the Fund intends to hold these contracts to maturity to mitigate exposure to gas price fluctuations from sales of excess gas volumes in 2005 and 2006.

There are two other gas swap contracts that do not meet the effectiveness criteria for hedge accounting and accordingly, the fair value of these contracts has been included in the Statement of Financial Position with a corresponding unrealized loss of \$899 in the quarter and \$2,642 in the year to date recorded in the Statement of Income. The fair value of these derivatives at September 30, 2005 is estimated to be a liability to the Fund of \$2,429. The Fund intends to hold these contracts to maturity to mitigate exposure to gas price fluctuations from sales of excess gas volumes in 2007 and 2008.

### 14. Economic dependence

For the quarter, approximately 98.8% of the Fund's revenue was derived from the sale of electricity to Ontario Electricity Financial Corporation ("OEFC"). Approximately 96.8% of the September 30, 2005 accounts receivable balance was due from OEFC relating to electricity sales.

For the quarter ended, approximately 76.5% of the Fund's cost of goods sold derived from the purchase of gas from Husky Energy Marketing Inc. ("Husky") under a long-term gas purchase contract. Approximately 59.3% of the September 30, 2005 trade payables and accrued expenses was payable to Husky relating to gas purchases.



## 15. Subsequent Events

On September 30, MPT closed a 5,630,000 subscription receipts offering to finance an indirect 45% investment in the long term care business of Leisureworld and two related businesses (collectively "Leisureworld".) The Fund raised gross proceeds of \$64,745 from the issue, with each receipt representing the right to receive one unit of the Fund upon closing. Certain vendors will receive 3,249,390 Class B exchangeable units valued at \$35,500 as consideration on closing of the transaction. On October 18, 2005, the Leisureworld acquisition was closed after receiving the necessary regulatory approval. On closing, the subscription receipts were converted to Units and the Class B exchangeable units were issued.

Leisureworld is the third largest private operator of long term care facilities in the Province of Ontario, Canada. The Leisureworld operation includes 19 long term care facilities (3,147 beds) , two retirement homes (87 beds) and an independent living facilities (53 beds) as well as two related businesses, Preferred Health Care Services and Ontario Long Term Care Inc., both of which provide services to the long term care business.

The Fund will account for the 45% indirect investment in Leisureworld using equity accounting, where the Fund will record the proportionate share of the net income or loss for the period. Further details of the Leisureworld business can be found in the subscription receipts offering prospectus dated September 22, 2005.

## ADDITIONAL INFORMATION

For additional information about the Fund, please refer to the SEDAR website ([www.sedar.com](http://www.sedar.com)) for the prospectus, dated April 19, 2004, and the annual information form, dated March 21, 2005.

## INVESTOR INFORMATION

### TRANSFER AGENTS, REGISTRAR AND TRUSTEE

Computershare Trust Company of Canada  
1500 University St. Suite 700, Montreal, QC H3A 3S9

### FOR INVESTOR AND INVESTMENT ANALYST INQUIRIES PLEASE CONTACT:

Harry Atterton, Chief Financial Officer, Macquarie Power Income Fund, (416) 607 5198

### FOR MEDIA INQUIRIES PLEASE CONTACT:

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

### EXCHANGE LISTING:

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

### WEB SITE:

[www.macquarie.com/mpt](http://www.macquarie.com/mpt)