



MACQUARIE POWER & INFRASTRUCTURE INCOME FUND
REVISED FINANCIAL REPORT

FOR THE QUARTER ENDED
MARCH 31, 2007



MACQUARIE



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
Revised Management's Discussion and Analysis
For the Quarter Ended
March 31, 2007

This report for Macquarie Power & Infrastructure Income Fund (the "Fund") summarizes the financial results for the quarter ended March 31, 2007. This discussion and analysis dated May 9, 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, 2006, which 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 ended March 31, 2007 with the results for the quarter ended March 31, 2006. 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 covering the years, 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 in the summer months of 2007 and 2008. 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 quarter ended March 31, 2007. Distributable cash was \$12,068 (\$0.402 per unit) for the quarter ended March 31, 2007 compared with \$10,800 (\$0.359 per unit) for the quarter ended March 31, 2006. The payout ratio for the quarter ended March 31, 2007 was 64% (2006 – 70%). The strong growth in distributable cash was attributable to increased power production and the continuing impact of electricity rate increases under Cardinal's PPA.

The Fund's financial position remained strong with positive working capital of \$23,089, fully funded reserves and an uncommitted cash balance of \$17,283 as at March 31, 2007.

Cardinal's revenue for the quarter was \$28,969, including a \$1.3 million adjustment in the 2006 Direct-to-Consumer Rate ("DCR"), compared with \$27,684 in the same period last year, which included a DCR adjustment of \$1.1 million. The DCR is a component of the overall electricity rate from the OEFC. Electricity sales for the quarter were also slightly ahead of 2006. Plant availability was 99.2% (2006 - 100%) and capacity was 97.9% (2006 – 97.5%). Electricity rates during the quarter increased by 4.4% from the same period last year. Operating costs were lower by 8.8% due to higher costs in 2006 in preparation for the major maintenance. Administration costs were lower by \$45 in the quarter compared with the same quarter in 2006.

Leisureworld made distributions of \$2,587 for the quarter ended March 31, 2007. Revenue grew by 8.1% and income from operations grew by 3.5% from the same quarter in 2006, reflecting improved occupancy levels, optimization of preferred bed mix and increased government funding rates.

All 19 LTC homes are considered mature and had average total occupancy of 97.5% for the quarter ended March 31, 2007 (2006 – 94.7%) reflecting the ramp-up of the Vaughan and Orillia homes. Preferred bed average total occupancy for all homes was 79.5% for the quarter (2006 – 76.2%).

Recent developments

On April 18, 2007, MPT entered into a support agreement with Clean Power Income Fund ("CPIF") under which MPT agreed to make an offer (the "Offer") to acquire all of the outstanding units of CPIF. CPIF agreed to support the Offer upon the terms and conditions set out in the MPT support agreement. A take-over bid

circular containing the full terms of the Offer will be mailed to CPIF's unitholders, and holders of its 6.75% convertible debentures, along with the circular of the Board of Trustees of Clean Power Operating Trust ("CPOT") and other related documents, by mid-May. The Offer will be open for acceptance for 35 days. The consideration represents a total value of approximately \$6.39 per CPIF unit based on the Fund's closing price of \$11.11 on Friday, April 13, 2007, representing an overall transaction value of approximately \$226 million.

MPT believes that its Offer provides superior value for CPIF unitholders and anticipates that the transaction will be accretive to distributions per unit in the first year of combined operations. The combination of MPT and CPIF will result in a larger portfolio of diverse, long-life infrastructure assets, adding wind, water and biomass power generation assets representing installed capacity of 303MW, thereby creating a significant platform to pursue further growth opportunities in the North American power infrastructure sector.

Outlook

Management anticipates continuing strong performance in 2007, based on the growth and stability inherent in the Cardinal and Leisureworld assets.

Cardinal is expected to experience increased cash flow due to higher revenue from increased electricity rates and reduced scheduled maintenance time. This will be partially offset by higher gas transportation costs in 2007. Subsequent to quarter end, Cardinal successfully completed its planned combustion inspection in under four days instead of the five-day outage typically required. Cardinal's maintenance and capital expenditure requirements are fully funded by established reserve accounts.

Growth at Leisureworld is expected to continue in 2007 as occupancy continues to improve and as Leisureworld continues to execute its strategy to optimize preferred accommodation and provide high quality care and services to residents. Management expects that in 2007 all 19 LTC homes will achieve the 97% annual occupancy threshold that is required for full funding. Leisureworld also expects to benefit from continuing increases in government funding in line with inflation. In April 2007, government funding for nursing and personal care and programs and support services increased by 4.49%. An increase in the accommodation envelope is expected in July 2007. Subsequent to quarter end, Leisureworld reached a definitive agreement to sell Spencer House, which was closed at the time the new home in Orillia opened, for \$3.1 million. The sale is expected to be completed on or before June 11, 2007.

MPT anticipates maintaining a payout ratio of 90% to 95% in 2007, which provides stability and growth of distributions to unitholders. For 2007, management expects approximately 70% of the distributions paid to unitholders will be non-taxable as a return of capital, barring any significant external shocks.

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 qualified 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/or government debt that accounts for at least 75% of its equity value. Management is continuing to evaluate the impact of this provision on MPT.

As currently proposed, as of January 1, 2011, MPT expects to be required to pay taxes at a rate of 31.5% on the taxable portion of its distributions paid to unitholders. For fiscal 2006, based on MPT's distributions to unitholders of \$1.012 per unit and a return of capital of 79%, the impact would have been approximately \$0.07 per unit for non-taxable investors. As taxable distributions to unitholders are expected to be treated as dividends, there will be no real impact to the net distributions amount for taxable investors.

On December 15, 2006, the government clarified the level of growth that income funds would be permitted during the transition period. 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 amount will be 20% of that benchmark, together allowing growth of up to 100% 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 considered growth to the extent that there is no net addition to equity 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.

Management is encouraged by the government's stated position and the flexibility it provides for MPT's continuing growth. MPT has delivered increasing value for unitholders since inception, reflecting the high quality and stability of MPT's assets as well as the success of MPT's operating strategies. The fundamentals of MPT's business are strong, and management is confident in MPT's long-term growth prospects, including growth through acquisitions.

Selected Consolidated Financial and Operating Information of the Fund

Unaudited

(in thousands of dollars unless otherwise noted)

| | Quarter Ended March 31, 2007 | Quarter Ended March 31, 2006 |
|---|---------------------------------|---------------------------------|
| Revenue | \$27,661 | \$26,591 |
| DCR adjustment in respect of other periods | 1,308 | 1,093 |
| | <u>\$28,969</u> | <u>\$27,684</u> |
| Income before the following: | 7,645 | 4,432 |
| Unrealized (loss) gain on gas swap contracts | (771) | 325 |
| Unrealized gain on embedded derivative instruments | 1,896 | - |
| Net interest (expense) | (222) | (224) |
| Equity accounted loss from Leisureworld | (1,190) | (927) |
| | <u>\$7,358</u> | <u>\$3,606</u> |
| Net income | <u>\$7,358</u> | <u>\$3,606</u> |
| <i>Basic Income per Unit</i> | \$0.245 | \$0.120 |
| Cash flows from operating activities | \$17,287 | \$14,288 |
| Distributable cash ⁽ⁱ⁾ | \$12,068 | \$10,800 |
| <i>Per Unit (\$)</i> | \$0.402 | \$0.359 |
| Distributions declared to Unitholders | \$7,737 | \$7,512 |
| <i>Per Unit (\$)⁽ⁱⁱ⁾</i> | \$0.257 | \$0.250 |
| Payout ratio ⁽ⁱⁱⁱ⁾ | 64% | 70% |
| Weighted average number of trust units and Class B exchangeable units outstanding (Units) | 30,048,385 | 30,048,387 |
| Sale of electricity (000s MWh) | 344 | 343 |
| Sale of steam (MM lbs) | 175 | 187 |
| Total assets | \$306,262 | \$297,392 |
| Total long-term liabilities | \$62,065 | \$37,668 |

(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 the amount shown.

Revenue

Cardinal's revenue for the quarter ended March 31, 2007 was \$28,969 compared with \$27,684 in the same period last year. The improvement in revenue was a result of a slight increase in generation of 1,300 MWh, as lower ambient temperatures offset higher outage and curtailment hours. In addition, overall electricity rates increased 4.4% from the same period in 2006. Cardinal performed well with availability of 99.2% (2006 - 100%) and capacity of 97.9% (2006 - 97.5%). During the quarter, there were 16 hours (2006 - 0.7 hours) of outages and 23 hours of curtailment (2006 - Nil) resulting from a stoppage in interruptible gas supply due to pipeline constraints. During curtailment, the plant continues to operate but at less than capacity. During an outage, the plant does not generate any electricity.

Income before the following

Income from operations before net interest, share of Leisureworld losses, unrealized gains (losses) on swap and on embedded derivatives in gas purchase contracts for the quarter ended March 31, 2007 was \$7,645 compared with \$4,432 for the same quarter in 2006. Operating costs for the quarter were lower in 2007 by \$1,515 due primarily to less scheduled maintenance time, which was partially offset by higher transportation costs. This reduction in operating expense and the increase in revenue of \$1,285 accounts for the majority of the increase. Administration expenses remained substantially the same. The increase in incentive fees was offset by lower other administrative expenses.

| Unaudited (in thousands of dollars) | Quarter Ended March 31, 2007 | Quarter Ended March 31, 2006 |
|--|---------------------------------|---------------------------------|
| Management and administrative fees | \$294 | \$286 |
| Cost reimbursement | 496 | 388 |
| Incentive fee | 1,648 | 1,250 |
| Other administrative expenses | 373 | 932 |
| | \$2,811 | \$2,856 |

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. 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.

The Fund's gas swap contracts fix the revenue derived from the sale of excess gas (refer to note 15) and resulted in an unrealized loss of \$771 for the quarter ended March 31, 2007 (2006 - unrealized gain of \$325). These contracts do not meet the effectiveness criteria for hedge accounting and accordingly, the movement in the fair value of these contracts has been reflected in earnings in these consolidated financial statements. The loss reflected an increase in the forward gas curves and has no impact on the operating cash flows or distributable cash for the quarter.

Unrealized gain on embedded derivative instruments

On the adoption of the new accounting pronouncements for financial instruments (CICA 3855), the Fund determined that the gas supply contract for the Cardinal facility contains embedded derivative features. These are required to be recorded at fair value in the consolidated balance sheet of the Fund with changes in fair value recognized in net income for the period. Unrealized gains recorded in net income amounted to \$1,896 during 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 interest on these loans is paid at the inception date of the respective transactions and is amortized over the term of the respective maturities. Interest costs of \$421 (2006 - \$363) were amortized during the quarter.

Cash flows from operating activities

Cash flows from operating activities were higher for the quarter ended March 31, 2007 by \$2,999 compared with the same period in 2006. The increase was primarily due to the increase in earnings in the period and changes in working capital.

Deferred charges

On April 18, 2007, MPT entered into a support agreement with Clean Power Income Fund ("CPIF"), under which MPT has agreed to make an offer (the "Offer") to acquire all of the outstanding units of CPIF. The Board of Trustees of CPIF has agreed to support MPT's offer upon the terms and conditions set out in the MPT support agreement. As a result, the Fund has determined that it is likely that MPT will be able to complete the transaction. As a result, all costs related to the transaction have been deferred and recorded as a current asset under deferred charges. Upon financial close, these costs will form part of the cost of the acquisition.

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. MPT 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 March 31, 2007 | Quarter Ended March 31, 2006 |
|---|---------------------------------|---------------------------------|
| Cash flows from operating activities | \$17,287 | \$14,288 |
| Maintenance of productive capacity: | | |
| Release from major maintenance reserve account | - | 1,562 |
| Allocation to major maintenance reserve account | (616) | (592) |
| Allocation to capital expenditure reserve account | (104) | (101) |
| | <u>16,567</u> | <u>15,157</u> |
| Other adjustments: | | |
| Distributions received from Leisureworld | 2,587 | 2,587 |
| Changes in working capital | (7,086) | (6,944) |
| | <u>12,068</u> | <u>10,800</u> |
| Distributable cash for the period | <u>\$12,068</u> | <u>\$10,800</u> |
| <i>Per Unit (\$)</i> | <u>\$0.402</u> | <u>\$0.359</u> |
| Distributions declared to Unitholders | <u>\$7,737</u> | <u>\$7,512</u> |
| <i>Per Unit (\$)</i> | <u>\$0.257</u> | <u>\$0.250</u> |
| Payout ratio | <u>64%</u> | <u>70%</u> |
| Diluted weighted average number of Units | <u>30,048,385</u> | <u>30,048,387</u> |

For the quarter ended March 31, 2007, distributable cash was \$12,068 (2006 - \$10,800). The Fund declared distributions to unitholders of \$7,737 (2006 - \$7,512). This represents a quarterly payout ratio of 64% (2006 - 70%). Payout ratio is defined as distributions declared as a proportion of distributable cash. MPT continues to calculate and measure distributable cash excluding changes in working capital. The OEFC, Cardinal's only customer, is billed once monthly. As there are only 12 payments each year, the timing of each payment has a significant impact on MPT's working capital. Monthly payments are received at month end and on the first business day following a month end, which could result in a situation where two bills are paid in the same month. Such circumstances could cause significant fluctuation in working capital, distributable cash and payment ratio that is not reflective of MPT's ongoing distributable cash or stability of operations.

Leisureworld Operations

The Fund's investment in Leisureworld is accounted for as an equity investment. 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 \$1,190 for the quarter ended March 31, 2007 (2006 - loss of \$927). Included in the Fund's pro rata portion of net loss was depreciation and amortization of \$2,395 (2006 - \$2,364), the amortization of a deferred gain of \$51 (2006 - \$51) and an impairment of property for sale of \$315 (2006 - Nil) for the quarter. Not included in the Fund's pro rata portion of net loss was construction funding of \$477 (2006 - \$428). Construction funding is a reimbursement of costs related to the cost of construction of Class A homes. The Fund's pro rata share of maintenance capital expenditures for the quarter was \$98 (2006 - \$14). During the quarter, Leisureworld paid \$2,587 (2006 - \$2,587) in cash distributions to the Fund.

Selected consolidated financial and operating information

| | Quarter Ended March 31, 2007 | Quarter Ended March 31, 2006 |
|---|---------------------------------|---------------------------------|
| Revenue | \$43,925 | \$40,643 |
| Operating and administration expenses | 38,157 | 35,072 |
| Income from operations | 5,768 | 5,571 |
| Interest, net | 2,391 | 2,376 |
| Amortization | 5,322 | 5,254 |
| Impairment loss on property held for sale | 700 | - |
| Net (loss) | \$(2,645) | \$(2,059) |
| | | |
| Total assets | \$507,030 | \$517,812 |
| Long-term debt | \$307,647 | \$310,000 |
| | | |
| Average total occupancy, (i) | 97.5% | 94.7% |
| Average preferred occupancy | 79.5% | 76.2% |

(i) Included in total occupancy is 100% of the Orillia facility for the first 90 days of operation as full funding is received during this initial period from the Ministry of Health and Long-Term Care ("MOHLTC"). Orillia achieved the 97% occupancy threshold on February 12, 2007, 88 days after opening.

Revenue

For the quarter ended March 31, 2007, Leisureworld generated revenue of \$43,925 compared with \$40,643 for the quarter ended March 31, 2006. This increase of \$3,282 or 8.1% was mainly due to increased occupancy at the Brampton Meadows, Brampton Woods, Norfinch and Vaughan LTC homes that were in the later stages of ramping up to full occupancy during 2006. LTC revenues also increased as government funding rates were 2.8% higher than in the first quarter of 2006. In addition, revenue increased by \$121 as more residents were provided with preferred accommodation in the newer homes, which attracts higher rates. PHCS's external revenue was \$428 higher than the quarter ended March 31, 2006 due to an increase in personal support contract revenues, including the provision of flow-through stabilization funding by the MOHLTC.

Operating and administrative expenses

Leisureworld's operating and administrative expenses for the quarter ended March 31, 2007 were \$38,157, which were \$3,085 or 8.8% higher than the quarter ended March 31, 2006, reflecting the higher occupancy and associated increases in staff and operating costs at the newer homes. Also contributing to higher operating and administrative expenses were increases in the government funding rates and an increase in head office expenses due to increased financial reporting costs and Bill 198 activities. PHCS's expenses were higher by \$227 or 8.1% over the prior year quarter due to additional costs incurred in providing education and training services to the LTC homes and higher wage costs for personal support workers provided by the stabilization funding from the MOHLTC.

Amortization

During the quarter ended March 31, 2007, amortization increased by \$68 or 1.3% over the quarter ended March 31, 2006 to \$5,322. The main components of the quarter's amortization charge relate to resident

relationships — \$3,000, professional nursing and personal support contracts — \$234, property, plant and equipment — \$2,035.

Financial expenses

Net interest expense amounted to \$2,391 during the quarter ended March 31, 2007, an increase of \$15 or 0.6% from the first quarter of 2006. Interest on the 2015 Notes expensed in the quarter was \$3,680. Interest income of \$1,289 was recognized in the quarter, \$1,073 of which related to construction funding. Net interest expense in the quarter ended March 31, 2006 was \$2,376, consisting of the interest on the 2015 Notes of \$3,752, net of interest income of \$1,376 including interest income on construction funding of \$1,029.

Net loss

Net loss for the quarter ended March 31, 2007 was \$2,645, compared with a net loss of \$2,059 in the quarter ended March 31, 2006. Increased operating income from higher occupancy, an increase in accommodation funding rates and increases in the preferred accommodation mix, was offset by the impairment loss on the property held for sale and higher net interest and amortization expenses. Leisureworld, as a partnership, is not subject to income taxes.

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 had positive working capital of \$23,089 as at March 31, 2007 (December 31, 2006 - \$19,151). As at March 31, 2007, cash on hand totalled \$24,258 (December 31, 2006 - \$12,142), of which \$17,283 (December 31, 2006 - \$5,868) was not designated for major maintenance, capital expenditure or general reserves.

The Fund has a \$15,000 revolving operating line of credit available (December 31, 2006 - \$15,000). As at March 31, 2007, there was no amount outstanding under this facility (2006 - Nil). As at March 31, 2007, long-term debt outstanding was \$35,000 (December 31, 2006 - \$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)

| | March 31, 2007 | December 31, 2006 |
|---------------------------------|----------------|-------------------|
| Major maintenance reserve | \$2,835 | \$2,219 |
| Capital expenditure reserve | 1,140 | 1,055 |
| General reserve | 3,000 | 3,000 |
| Total reserve accounts | 6,975 | 6,274 |
| Other cash and cash equivalents | 17,283 | 5,868 |
| Total cash and cash equivalents | \$24,258 | \$12,142 |

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 2006 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 | Mar 31, 2007 | Dec 31, 2006 | Sep 30, 2006 | Jun 30, 2006 | Mar 31, 2006 | Dec 31, 2005 | Sep 30, 2005 | Jun 30, 2005 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| (thousands of dollars) | | | | | | | | |
| Revenue | 28,969 | 25,622 | 20,356 | 16,278 | 27,684 | 24,620 | 20,689 | 19,698 |
| Net income (loss) | 7,358 | 4,026 | 2,252 | (1,473) | 3,606 | 1,697 | 1,656 | 800 |
| Cash flows from operating activities | 17,287 | 6,853 | (2,303) | 2,206 | 14,288 | (782) | 5,695 | 3,937 |
| Distributable cash | 12,068 | 10,003 | 6,947 | 6,308 | 10,800 | 7,786 | 6,292 | 4,271 |
| Distributions declared | 7,737 | 7,737 | 7,662 | 7,512 | 7,512 | 7,136 | 5,028 | 5,028 |
| (dollars) | | | | | | | | |
| Basic net income (loss) per Unit | 0.245 | 0.134 | 0.075 | (0.049) | 0.120 | 0.060 | 0.078 | 0.038 |
| Diluted net income (loss) per Unit | 0.245 | 0.134 | 0.075 | (0.049) | 0.120 | 0.058 | 0.078 | 0.038 |
| Cash flows from operating activities per Unit (Diluted) | 0.575 | 0.228 | (0.077) | 0.073 | 0.476 | (0.027) | 0.269 | 0.186 |
| Distributable cash per Unit (Diluted) | 0.402 | 0.333 | 0.231 | 0.210 | 0.359 | 0.264 | 0.295 | 0.202 |
| Distributions declared per Unit (Diluted) | 0.257 | 0.257 | 0.255 | 0.250 | 0.250 | 0.242 | 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 \$294 for the quarter ended March 31, 2007 (2006 - \$286); the incentive fee for exceeding the distributable cash threshold of \$0.95 per unit for the quarter was \$1,648 for the quarter ended March 31, 2007 (2006 - \$1,250); and cost reimbursement of \$644 (2006 - \$388) for the quarter ended March 31, 2007 of which \$148 has been recorded as a deferred bid cost. 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.

Contractual obligations and other commitments

There have been no significant changes in the Fund's obligations and commitments since March 20, 2007, 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, 2006 - \$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 Cardinal'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 March 31, 2007, 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% |

Borrowing costs, including interest, are paid at the inception of each BA loan. Prepaid interest is capitalized and amortized over the life of each respective loan. As at March 31, 2007, the unamortized portion of the capitalized borrowing costs totalled \$724 (December 31, 2006 - \$1,145) 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.

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. The contracts cover the sale of gas for the seven-month period from April to October for each of the remaining contracts in 2007 and 2008.

Disclosure controls and procedures

The Fund's Chief Executive Officer and Chief Financial Officer, on behalf of the Fund's Board of Trustees, are required by the provincial securities regulators to certify annually that they have designed, or caused to be designed, the Fund's disclosure controls and procedures, as defined in Multilateral Instrument 52-109, and that they have evaluated the effectiveness of these controls and procedures in the applicable period. Disclosure controls are those controls and other procedures that are designed to provide reasonable assurance that relevant information that the Fund is required to disclose is recorded, processed and reported within the timeframes specified by such securities regulators.

The Fund's disclosure policy was approved by the Board of Trustees and adopted by the Fund in December 2005. The Board of Trustees, which is responsible for oversight of this policy, also developed structured operating routines involving senior management of the Fund's operating entities to enforce the importance of disclosure controls and procedures. Accordingly, it is now written policy that information must be forwarded to the CEO and the CFO on a timely basis so they are able to make decisions regarding required external disclosures. This process, which management believes existed before, has now been documented in the Fund's written operating procedures and is effective.

The CEO and CFO have concluded that the Fund's disclosure controls and procedures were effective as of March 31, 2007 to ensure that information required to be disclosed in reports that the Fund files or submits under Canadian securities legislation is recorded, processed, summarized and reported within applicable time periods.

Changes in internal control over financial reporting

During the most recent interim period, there were no changes in the Fund's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

Risks and uncertainties

Cardinal, Leisureworld and the Fund 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 99% 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 21, 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.

Offer to acquire Clean Power Income Fund

On April 18, 2007, the Fund entered into a support agreement with Clean Power Income Fund under which the Fund has agreed to make an offer to acquire all of the outstanding units of CPIF. There is a risk that any offer made by the Fund may not occur or occur as planned or that the completion of the offer could be delayed. The costs or risks of integrating CPIF's business with the Fund could be greater than expected. The Fund may face risks related to the operation of CPIF's windpower facilities, waterpower generating stations or wood waste fired electricity-generating stations, and there can be no assurance that the long-term availability of such resources will remain unchanged. A portion of CPIF's business generates revenues in U.S. dollars, which any expose the Fund to foreign exchange-related risk. The Fund could also face risks associated with business, regulatory and economic conditions.

Critical accounting policies and estimates

Adoption of new accounting policies

As required by the Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2007, the Fund adopted CICA Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3865, Hedges. The prospective adoption of these new standards resulted in changes in the accounting and presentation for financial instruments and hedging relationships as well as the recognition of certain transition adjustments that have been recorded in opening cumulative earnings or opening accumulated other comprehensive income as described below. The standards are applied retroactively but presented prospectively. Accordingly, the comparative Interim Consolidated Financial Statements have not been restated. The principal changes in the accounting for financial instruments and derivatives due to the adoption of these accounting standards are described below.

Section 1530, Comprehensive Income and Section 3251, Equity

Section 1530 introduces a new concept of Comprehensive Income, which consists of Net Income and Other Comprehensive Income (“OCI”). OCI represents changes in Unitholders’ equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale and unrealized foreign currency translation gains. The Fund’s comprehensive income includes its proportionate share of Leisureworld’s other comprehensive income (“OCI”). OCI includes the effective portion of the change in fair value of designated cash flow hedges of Leisureworld less any amounts reclassified to interest and other expenses, net, in the period that the underlying hedged item is also recorded in interest and other expenses, net. Accumulated other comprehensive income (“AOCI”) is included on the consolidated statement of financial position as a separate component of unitholders’ equity.

Section 3855, Financial Instruments – Recognition and Measurement and Section 3861, Financial Instruments – Disclosure and Presentation

Financial Assets and Financial Liabilities

Under the new standards, financial assets and financial liabilities are initially recognized at fair value on initial recognition and their subsequent measurement is dependent on their classification. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Fund’s designation of such instruments. The standards require that all financial assets be classified either as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities. Loans and receivables and other liabilities are measured at amortized cost using the effective interest method. Available for sale (“AFS”) and held for trading (“HFT”) financial instruments are measured at their fair value with changes in fair value recognized through earnings (HFT) or OCI (AFS). The Fund has designated each of its significant categories of financial instruments outstanding as of January 1, 2007 as follows:

| | |
|--|------------------------|
| Cash and cash equivalents | Held-for-trading (HFT) |
| Accounts receivable | Loans and receivables |
| Accounts payable and accrued liabilities | Other liabilities |
| Long-term debt | Other liabilities |

Derivatives

Derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Except when designated as hedges, the change in fair value during the period is recognized in net income.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. Changes in fair value are recognized in net income. The Fund selected May 1, 2004 as the transition date for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. The Fund has determined that its gas purchase contract contains embedded derivatives requiring separation and measurement at fair value. The features requiring separation include mitigation options and electricity indexing features.

Transaction Costs

The Fund has elected to net transaction costs related to financial instruments classified as available-for-sale, held to maturity and loans and receivables against the related balance and amortize them over the expected life of the instrument using the effective interest method. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as held-for-trading are expensed.

Section 3865, Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

The Fund and its wholly-owned subsidiaries do not have any contracts that have been designated as hedges for accounting purposes as at March 31, 2007 and January 1, 2007.

Determination of fair value

As described above, the new standards require some financial instruments to be presented at fair value. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market data or transaction process. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

Impact of adopting new standard

The adoption of the new standards, applied prospectively, resulted in the following adjustment to the opening balance sheet at January 1, 2007:

| Balance Sheet Category | Increase/(Decrease) |
|---|---------------------|
| Investment in Leisureworld | 1,832 |
| Opening accumulated comprehensive income | (1,832) |
| Electricity supply and gas purchase contracts | (11,216) |
| Embedded derivative asset | 17,000 |
| Embedded derivative liability | (23,396) |
| Opening cumulative earnings | 17,612 |

The impact of the changes in the period ended March 31, 2007 includes an unrealized gain of \$3,200 on the embedded derivative asset and an unrealized loss of \$1,304 on the embedded derivative liability. These changes are reflected as in the Consolidated Statement of Income. Included in the Consolidated Statement of Unitholders' Equity is the Fund's share of Leisureworld's comprehensive loss for the period of \$51.

Use of 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.

Derivative contracts and embedded derivatives

As noted above, the Fund records certain derivative contracts and embedded derivatives at fair value. The determination of fair value involves estimates of many factors, including long-term views of forward energy prices in illiquid markets.

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.

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 five 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.

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 \$19,154 and \$17,744 for the quarter ended March 31, 2007 and 2006, respectively. Payout ratio would be 40% for the quarter ended March 31, 2007 (2006 – 42%).

Subsequent event

On April 18, 2007, MPT entered into a support agreement with Clean Power Income Fund ("CPIF"), under which MPT has agreed to make an offer (the "Offer") to acquire all of the outstanding units of CPIF. The Board of Trustees of CPIF has agreed to support MPT's offer upon the terms and conditions set out in the MPT support agreement. The consideration represents a total value of approximately \$6.39 per CPIF unit based on the Fund's closing price of \$11.11 on Friday, April 13, 2007, representing an overall transaction value of approximately \$226 million.

CPIF is an open-ended investment trust that has invested in 15 power generating facilities located in Quebec, Ontario, Alberta, British Columbia and four U.S. states with a total capacity of 303 MW. Three environmentally preferred technologies – windpower, waterpower and biomass – deliver electricity almost exclusively under long-term sales contracts and at minimal to zero fuel cost.

The acquisition is subject to customary closing conditions. The Fund will account for CPIF using the consolidation method of accounting.

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

| | March 31, 2007 | December 31, 2006 |
|--|------------------|-------------------|
| Current Assets | | |
| Cash and cash equivalents (note 5) | \$24,258 | \$12,142 |
| Accounts receivable | 9,767 | 18,021 |
| Inventory | 158 | 191 |
| Prepaid expenses and interest | 1,021 | 1,634 |
| Deferred charges | 1,405 | - |
| Total Current Assets | 36,609 | 31,988 |
| Investment in Leisureworld (note 6) | 75,596 | 77,592 |
| Property, plant and equipment (note 7) | 132,682 | 134,603 |
| Electricity supply and gas purchase contracts (note 7) | 23,152 | 35,186 |
| Embedded derivative asset | 20,200 | - |
| Goodwill | 18,023 | 18,023 |
| Total Assets | \$306,262 | \$297,392 |
| Current Liabilities | | |
| Trade payables and accrued expenses | \$9,848 | \$10,258 |
| Distributions payable | 2,579 | 2,579 |
| Gas swap contracts at fair value (note 15) | 1,093 | - |
| Total Current Liabilities | 13,520 | 12,837 |
| Long-term debt (note 9) | 35,000 | 35,000 |
| Embedded derivative liability | 24,700 | - |
| Gas swap contracts at fair value (note 15) | 1,186 | 1,507 |
| Liability for asset retirement (note 10) | 1,179 | 1,161 |
| Total Liabilities | 75,585 | 50,505 |
| Unitholders' Equity (notes 11 and 12) | 230,677 | 246,887 |
| Total Liabilities and Unitholders' Equity | \$306,262 | \$297,392 |

Commitments and contingencies (note 14)

Macquarie Power & Infrastructure Income Fund
Revised Consolidated Statement of Unitholders' Equity
For the Quarter Ended March 31, 2007
(Unaudited, in thousands of dollars)

| | Unitholders' Capital | Class B Exchangeable Units | Accumulated Other Comprehensive (loss) Income | Cumulative Earnings | Total Comprehensive Income | Cumulative Distributions | Total |
|--|-------------------------|----------------------------------|--|------------------------|----------------------------------|-----------------------------|-----------|
| Balance, December 31, 2006, as reported | \$253,476 | \$35,500 | - | \$24,017 | \$24,017 | \$(66,106) | \$246,887 |
| Opening transitional adjustment on adoption of new accounting standards: | | | | | | | |
| Equity share of other comprehensive income of Leisureworld (note 3) | - | - | 1,832 | - | 1,832 | - | 1,832 |
| Fair value of embedded derivatives (note 3) | - | - | - | (17,612) | (17,612) | - | (17,612) |
| | 253,476 | 35,500 | 1,832 | 6,405 | 8,237 | (66,106) | 231,107 |
| Net income for the quarter ended March 31, 2007 | - | - | - | 7,358 | 7,358 | - | 7,358 |
| Equity share of other comprehensive loss of Leisureworld | - | - | (51) | - | (51) | - | (51) |
| Distributions declared to Unitholders for the quarter ended March 31, 2007 | - | - | - | - | - | (7,737) | (7,737) |
| Balance, March 31, 2007 | \$253,476 | \$35,500 | \$1,781 | \$13,763 | \$15,544 | \$(73,843) | \$230,677 |

See accompanying Notes to the Revised Consolidated Financial Statements

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

| | Quarter ended March 31, 2007 | Quarter ended March 31, 2006 |
|---|---------------------------------|---------------------------------|
| Revenue | \$28,969 | \$27,684 |
| Costs and expenses | | |
| Operating costs | 15,753 | 17,268 |
| Administrative expenses | 2,811 | 2,856 |
| Depreciation and amortization | 2,760 | 3,128 |
| | <u>21,324</u> | <u>23,252</u> |
| | 7,645 | 4,432 |
| Unrealized (loss) gain on gas swap contracts (note 15) | (771) | 325 |
| Unrealized gain on embedded derivative instruments (note 3) | 1,896 | - |
| Net interest expense | (222) | (224) |
| Equity accounted loss from Leisureworld (note 6) | <u>(1,190)</u> | <u>(927)</u> |
| Net income | <u>\$7,358</u> | <u>\$3,606</u> |
| Weighted average number of trust units and Class B exchangeable units outstanding ("Unit") | <u>30,048,385</u> | <u>30,048,387</u> |
| Basic income per Unit | <u>\$0.245</u> | <u>\$0.120</u> |

See accompanying Notes to the Revised Consolidated Financial Statements

Macquarie Power & Infrastructure Income Fund
Revised Consolidated Statement of Cash Flow
(Unaudited, in thousands of dollars)

| | Quarter ended March 31, 2007 | Quarter ended March 31, 2006 |
|--|---------------------------------|---------------------------------|
| Cash flows from operating activities: | | |
| Net income | \$7,358 | \$3,606 |
| Add back: | | |
| Unrealized loss (gain) on gas swap contracts | 771 | (325) |
| Unrealized gain on embedded derivative instruments | (1,896) | - |
| Depreciation and amortization | 2,760 | 3,128 |
| Amortization of prepaid borrowing costs | 421 | 363 |
| Accretion of asset retirement liability | 18 | 8 |
| Equity accounted loss from Leisureworld | 1,190 | 927 |
| Non-cash changes in working capital | | |
| Decrease in accounts receivable | 8,254 | 8,227 |
| Decrease (increase) in inventory | 33 | (41) |
| Decrease in prepaid expenses | 193 | 269 |
| Increase in deferred charges | (1,405) | - |
| Decrease in trade payables and accrued expenses | (410) | (1,874) |
| Total cash flows from operating activities | 17,287 | 14,288 |
| Cash flows from investing activities: | | |
| Distributions received from Leisureworld | 2,587 | 2,587 |
| Investment in property, plant and equipment | (21) | (263) |
| Total cash flows from investing activities | 2,566 | 2,324 |
| Cash flows from financing activities: | | |
| Costs in relation to offerings | - | 16 |
| Distributions paid to Unitholders | (7,737) | (7,387) |
| Total cash flows from financing activities | (7,737) | (7,371) |
| Increase in cash and cash equivalents | 12,116 | 9,241 |
| Cash and cash equivalents, beginning of period | 12,142 | 11,738 |
| Cash and cash equivalents, end of period | \$24,258 | \$20,979 |
| Supplemental information: | | |
| Interest paid | - | - |

See accompanying Notes to the Revised 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" or the "Manager") is an indirect wholly-owned subsidiary of Macquarie Bank Limited, an Australian public company listed on the Australian Stock Exchange. MPML 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, 2006, except for, the accounting pronouncements described below which have been adopted effective January 1, 2007. 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, dated March 20, 2007, which is 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 Revised Consolidated Financial Statements
March 31, 2007 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.

Deferred charges

Deferred charges include bid costs. Bid costs are expensed as incurred, until such time as there is a high probability that a bid will be successful. At the time when success is deemed to be probable, bid costs are deferred until the closing of the transaction at which time they are capitalized to the cost of the investment or recovered from the investment.

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.

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.

Macquarie Power & Infrastructure Income Fund
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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 2007, neither entity will be subject to income taxes in 2007. 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 March 31, 2007, as this proposed legislation was not substantively 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 March 31, 2007 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. New accounting pronouncements

As required by the Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2007, the Fund adopted CICA Handbook; Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. The prospective adoption of these new standards resulted in changes in the accounting and presentation for financial instruments and hedging relationships as well as the recognition of certain transition adjustments that have been recorded in opening cumulative earnings or opening accumulated other comprehensive income as described below. The standards are applied retroactively but presented prospectively. Accordingly, the comparative Interim Consolidated Financial Statements have not been restated. The principal changes in the accounting for financial instruments and derivatives due to the adoption of these accounting standards are described below.

Section 1530, Comprehensive Income and Section 3251, Equity

Section 1530 introduces a new concept of Comprehensive Income, which consists of Net Income and Other Comprehensive Income ("OCI"). OCI represents changes in Unitholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale and unrealized foreign currency translation gains. The Fund's comprehensive income includes its proportionate share of Leisureworld's other comprehensive income ("OCI"). OCI includes the effective portion of the change in fair value of designated cash flow hedges of Leisureworld less any amounts reclassified to interest and other expenses, net, in the period that the underlying hedged item is also recorded in interest and other expenses, net. Accumulated other

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comprehensive income ("AOCI") is included on the consolidated statement of financial position as a separate component of unitholders' equity.

Section 3855, Financial Instruments – Recognition and Measurement and Section 3861, Financial Instruments – Disclosure and Presentation

Financial Assets and Financial Liabilities

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Fund's designation of such instruments. The standards require that all financial assets be classified either as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other liabilities. Loans and receivables and other liabilities are measured at amortized cost using the effective interest method. Available for sale and held for trading financial instruments are measured at their fair value with changes in fair value recognized through earnings (HFT) or OCI (AFS). The Fund has designated each of its significant categories of financial instruments outstanding as of January 1, 2007 as follows:

| | |
|--|------------------------|
| Cash and cash equivalents | Held-for-trading (HFT) |
| Accounts receivable | Loans and receivables |
| Accounts payable and accrued liabilities | Other liabilities |
| Long-term debt | Other liabilities |

Derivatives

Derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Except when designated as hedges, the change in fair value during the period is recognized in net income. At March 31, 2007 and December 31, 2006, the Fund's derivatives include its gas swap contracts (see note 15).

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. The Fund selected May 1, 2004 as the transition date for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. The Fund has determined that its gas purchase contract contains embedded derivatives requiring separation and measurement at fair value. The features requiring separation include mitigation options and electricity indexing.

Transaction Costs

The Fund has elected to defer and amortize transaction costs related to financial instruments classified as available-for-sale, held to maturity and loans and receivables and amortize them over the expected life of the instrument using the effective interest method. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as held-for-trading are expensed.

Section 3865, Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

The Fund does not have any contracts that have been designated as hedges for accounting purposes as at March 31, 2007 and January 1, 2007.

Determination of fair value

As described above, the new standards require some financial instruments to be presented at fair value. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. When independent prices are not available, fair values are determined by using valuation techniques which refer to

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observable market data. These include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market data or transaction process. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

Impact of adopting new standard

The adoption of the new standards, applied retroactively but presented prospectively, resulted in the following adjustment to the opening balance sheet at January 1, 2007:

| Balance Sheet Category | Debit/(Credit) |
|---|----------------|
| Investment in Leisureworld | 1,832 |
| Opening accumulated comprehensive income | (1,832) |
| Electricity supply and gas purchase contracts | (11,216) |
| Embedded derivative asset | 17,000 |
| Embedded derivative liability | (23,396) |
| Opening cumulative earnings | 17,612 |

The impact of the changes in the period ended March 31, 2007 includes an unrealized gain of \$3,200 on the embedded derivative asset and an unrealized loss of \$1,304 on the embedded derivative liability. These changes are reflected as in the consolidated statement of income. Included in the consolidated statement of unitholders' equity is the Fund's share of Leisureworld's comprehensive loss for the period of \$51.

4. 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.

5. Cash and cash equivalents

Cash and cash equivalents comprise highly liquid investments with original maturities of less than 90 days. As at March 31, 2007 and December 31, 2006, cash and cash equivalents included the following:

| | March 31, 2007 | December 31, 2006 |
|---------------------------------|----------------|-------------------|
| Major maintenance reserve | \$2,835 | \$2,219 |
| Capital expenditure reserve | 1,140 | 1,055 |
| General reserve | 3,000 | 3,000 |
| Total reserve accounts | 6,975 | 6,274 |
| Other cash and cash equivalents | 17,283 | 5,868 |
| Total cash and cash equivalents | \$24,258 | \$12,142 |

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6. Investment in Leisureworld

The investment in Leisureworld comprises:

| | March 31, 2007 | December 31, 2006 |
|--|-----------------|-------------------|
| Opening balance | \$77,592 | \$90,643 |
| Equity accounted loss for the period | (1,190) | (2,701) |
| Equity share of other comprehensive income of Leisureworld | 1,781 | - |
| Distributions received in the period | (2,587) | (10,350) |
| Ending balance | <u>\$75,596</u> | <u>\$77,592</u> |

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

| Property, plant and equipment | | | | December 31, |
|--|------------------|-----------------------------|----------------------------------|------------------------|
| | Cost | Accumulated Depreciation | March 31, 2007 Net Book Value | 2006 Net Book Value |
| Opening balance | \$155,168 | \$(20,565) | \$134,603 | \$141,006 |
| Purchases of property, plant and equipment | 21 | - | 21 | 783 |
| Increase to asset retirement obligation | - | - | - | 555 |
| Depreciation | - | (1,942) | (1,942) | (7,741) |
| Ending balance | <u>\$155,189</u> | <u>\$(22,507)</u> | <u>\$132,682</u> | <u>\$134,603</u> |

Electricity supply and gas purchase contracts

| | Cost | Accumulated Amortization | Net Book Value |
|---|-----------------|-----------------------------|-----------------|
| Closing balance – December 31, 2006, as originally reported | \$48,000 | \$(12,814) | \$35,186 |
| Transitional adjustment | (15,300) | 4,084 | (11,216) |
| Opening balance - January 1, 2007 | 32,700 | (8,730) | 23,970 |
| Amortization | - | (818) | (818) |
| Ending balance - March 31, 2007 | <u>\$32,700</u> | <u>\$(9,548)</u> | <u>\$23,152</u> |

8. 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 March 31, 2007, there is no amount outstanding under this facility.

9. Long-term debt

The term debt facility is a term loan for an amount of \$35,000 (December 31, 2006 - \$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 Cardinal'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 March 31, 2007, 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, comprised of interest and BA stamping fees, are paid at the inception of each BA loan. Interest is capitalized and amortized over the life of each respective loan. As at March 31, 2007, the unamortized portion of the capitalized borrowing costs totaled \$724 (December 31, 2006 - \$1,145) and is included as an asset in the consolidated statement of financial position. Included in net interest expense on the consolidated statement of income is interest expense on long-term debt of \$421 (2006 - \$363).

10. 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.

11. 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;

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- (b) the average of the highest and lowest prices of units on the date on which the units were tendered for redemption; or
- (c) the average of the last bid and ask prices on the date on which the units were tendered for redemption.

The total amount payable in cash by the Fund in respect of such units and all other units tendered for redemption in the same calendar month shall not exceed \$50 (provided that such limitation may be waived at the discretion of the trustees of the Fund). In total, 26,798,995 units were outstanding as at March 31, 2007 (December 31, 2006 - 26,798,995).

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.

12. Distributions to Unitholders

Distributions to Unitholders are paid one month in arrears. Prior to the April 2007 distribution payment, distributions were paid on the last business day of each month. Beginning with the April 2007 distribution payment, in order to facilitate a distribution reinvestment plan introduced in the quarter, distributions will be paid on the first business day following the 14th day of each month. The following distributions have been declared to Unitholders including Class B exchangeable units for the quarter ended, March 31, 2007:

| <u>Period of distribution</u> | <u>Date of payment</u> | <u>Amount declared</u> | <u>Amount declared (per unit)*</u> |
|-------------------------------|------------------------|------------------------|------------------------------------|
| January 1 to 31, 2007 | February 28, 2007 | \$2,579 | \$0.08583 |
| February 1 to 28, 2007 | March 30, 2007 | 2,579 | 0.08583 |
| March 1 to 31, 2007 | April 16, 2007 | 2,579 | 0.08583 |
| Quarter ended March 31, 2007 | | <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.

13. 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 \$268 in respect of the quarter ended March 31, 2007 (2006 - \$260) for these services.

Pursuant to a 20-year administration agreement, MPML provides the Fund and the Trust with certain administrative and support services. The Fund incurred administrative fees of \$26 for the quarter ended March 31, 2007 (2006 - \$26) for these 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. An incentive fee of \$1,648 payable to MPML was recorded for the quarter ended March 31, 2007 (2006 - \$1,250) for exceeding the distributable cash per unit target of \$0.95.

MPML is entitled to be reimbursed for all reasonable costs and expenses incurred in carrying out such services as approved by the independent trustees. The Fund recorded cost reimbursements payable to MPML of \$644 for the quarter ended March 31, 2007 (2006 - \$388), of which \$148 has been recorded as a deferred charge.

14. 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.

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 effectively require Cardinal to make variable payments to the counterparty based on 436,814 MMBtu of gas at the market rate of natural gas in exchange for receiving fixed payments based on 436,814 MMBtu of gas at a fixed price per MMBtu for 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 March 31, 2007, the contracts cover the period from April 1, 2007 to October 31, 2007 and from April 1, 2008 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.

15. Financial instruments

Financial instruments consist primarily of temporary cash investments, accounts receivable, current liabilities and gas swap contracts.

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's gas swap contracts fix the revenue derived from the sale of excess gas and resulted in an unrealized loss of \$771 for the quarter ended March 31, 2007 (2006 – unrealized gain of \$325). These contracts do not meet the effectiveness criteria for hedge accounting and accordingly, the fair value of these contracts has been reflected in these consolidated financial statements. As at March 31, 2007, the estimated liability of the Fund is \$2,279 (2006 – liability of \$1,507). These contracts mitigate exposure to natural gas price fluctuations from sales of excess natural gas volumes in 2007 and 2008.

16. Economic dependence

For the quarter, approximately 99.1% (Q1 2006 – 99.0%) of the Fund's revenue was derived from the sale of electricity to OEFC. Approximately 95.4% (March 31, 2006 – 96.4%) of the accounts receivable balance was due from OEFC relating to electricity sales.

For the quarter, approximately 89.1% (Q1 2006 - 82.8%) 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 49.0% (March 31, 2006 – 52.5%) of the trade payables and accrued expenses was payable to Husky relating to gas purchases.

17. Subsequent events

On April 18, 2007, MPT entered into a support agreement with Clean Power Income Fund ("CPIF"), under which MPT has agreed to make an offer (the "Offer") to acquire all of the outstanding units of CPIF. The consideration represents a total value of approximately \$6.39 per CPIF unit based on the Fund's closing price of \$11.11 on Friday, April 13, 2007, representing an overall transaction value of approximately \$226 million. The Board of Trustees of CPIF has agreed to support MPT's offer upon the terms and conditions set out in the MPT support agreement.

CPIF is an open-ended investment trust that has invested in 15 power generating facilities located in Quebec, Ontario, Alberta, British Columbia and four U.S. states with a total capacity of 303 MW. Three environmentally preferred technologies – windpower, waterpower and biomass – deliver electricity almost exclusively under long-term sales contracts and at minimal to zero fuel cost.

The acquisition is subject to customary closing conditions. The Fund will account for CPIF using the consolidation method of accounting.

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 20, 2007.

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