# MACQUARIE POWER & INFRASTRUCTURE INCOME FUND
FINANCIAL REPORT

FOR THE QUARTER ENDED
JUNE 30, 2007

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Macquarie Power & Infrastructure Income Fund (the “Fund” or “MPT”) 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 (“the Manager”) and is an indirect wholly owned subsidiary of Macquarie Bank Limited, incorporated in Australia.

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

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

# MACQUARIE POWER & INFRASTRUCTURE INCOME FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE QUARTER ENDED
JUNE 30, 2007

This report for Macquarie Power & Infrastructure Income Fund summarizes the financial results for the quarter ended June 30, 2007. This discussion and analysis dated August 8, 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 consolidated financial statements and related notes contained in this report, as well as the Fund's Annual Information Form, annual reports and quarterly reports and other public releases of the Fund, 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. On June 27, 2007, the Fund completed the acquisition of Clean

Power Income Fund ("CPIF") and Clean Power Operating Trust ("CPOT") and its wind, hydro and biomass power generation assets and investments, which are included in the consolidated operations of the Fund.

The following discussion and analysis compares the actual results of the Fund for the quarter ended June 30, 2007 with the results for the quarter ended June 30, 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, operates and has investments in power infrastructure assets, including gas cogeneration, wind, hydro and biomass power generating facilities, and has an investment in social infrastructure through its 45% interest in Leisureworld.

### Power Infrastructure

The Fund's power assets are diversified by fuel source and geography, and have a weighted average remaining Power Purchase Agreement ("PPA") term of approximately 12 years.

| Asset | Size | Location | Utility | Expiry of PPA |
|---|---|---|---|---|
| Gas Cogeneration | | | | |
| Cardinal | 156 MW | Ontario | Ontario Electricity Financial Corporation ("OEFC") | 2014 |
| Wind | | | | |
| Erie Shores Wind Farm | 99 MW | Ontario | Ontario Power Authority | 2026 |
| Big Spring* | 34 MW | Texas | TXU Corp. | 2024 |
| Peetz Table* | 30 MW | Colorado | Public Service Company of Colorado | 2016 |
| Foote Creek II* | 2 MW | Wyoming | Bonneville Power Administration | 2024 |
| Foote Creek III* | 25 MW | Wyoming | Public Service Company of Colorado | 2014 |
| Foote Creek IV* | 17 MW | Wyoming | Bonneville Power Administration | 2020 |
| Chandler* | 2 MW | Minnesota | Great River Energy | 2014 |
| Hydro | | | | |
| Sechelt | 16 MW | British Columbia | BC Hydro | 2017 |
| Hluey Lakes | 3 MW | British Columbia | BC Hydro | 2020 |
| Wawatay | 14 MW | Ontario | OEFC | 2042 |
| Dryden** | 3 MW | Ontario | OEFC | 2020 |
| Biomass | | | | |
| Whitecourt | 28 MW | Alberta | TransAlta Utilities Corp. | 2014 |
| Chapais*** | 31 MW | Quebec | Hydro Quebec | 2015, with option to extend to 2020 under certain conditions |

*The Fund's investment in this facility is in the form of a subordinated loan to Caithness Western Wind Holdings LLC ("U.S. Wind Loan").
**Comprised of the Wainwright, Eagle River and McKenzie Falls water hydro facilities.
***The Fund's investment in Chapais consists of a 31.3% equity interest, a 24.8% interest in Tranche A and B debt and a 50% interest in Tranche C debt.

### Social Infrastructure

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 purchasing services to Leisureworld's LTC homes.

The table below summarizes the long-term care, retirement and independent living homes by region in the portfolio.

| Name of Home | Location | Class of Home | Number of Beds |
|---|---|---|---|
| **LTC Homes & Greater Toronto Area (GTA)** | | | |
| Brampton Meadows | Brampton | A | 160 |
| Brampton Woods | Brampton | A | 160 |
| Ellesmere | Scarborough | A | 224 |
| Etobicoke | Etobicoke | A | 160 |
| Lawrence | Toronto | A | 224 |
| Norfinch | North York | A | 160 |
| O'Connor Gate | Toronto | A | 158 |
| O'Connor Court | Toronto | A | 160 |
| Richmond Hill | Richmond Hill | A | 160 |
| Scarborough | Scarborough | B | 299 |
| St. George | Toronto | C | 238 |
| Vaughan | Vaughan | A | 224 |
| **LTC Homes in South Central Ontario** | | | |
| Barrie | Barrie | C | 57 |
| Brantford | | | |
| Original | Brantford | C | 90 |
| Expansion | Brantford | A | 32 |
| Creedan Valley | Creemore | C | 95 |
| Elmira | Elmira (Kitchener) | A | 96 |
| Orillia | Orillia | A | 160 |
| **LTC Homes in Northern Ontario** | | | |
| Muskoka | Gravenhurst | A | 182 |
| North Bay | North Bay | C | 148 |
| **Retirement/Independent Living Homes** | | | |
| Muskoka | Gravenhurst | N/A | 29 |
| Midland Gardens | Scarborough | N/A | 53 |

## ACQUISITION OF CLEAN POWER INCOME FUND

On June 27, 2007, the Fund acquired CPIF in a transaction valued at approximately $215 million, adding wind, hydro and biomass power generating facilities, totalling 303 MW of installed capacity, to the portfolio.

On June 23, 2007, 25,931,644 trust units of CPIF ("CPIF units"), representing 72.3% of CPIF's issued and outstanding units, were taken up under the Fund's offer to purchase (the "Offer", dated May 18, 2007). On June 27, 2007, following the payment by the Fund for these units, the Fund completed a subsequent acquisition transaction as described in its take-over bid circular dated May 18, 2007 (the "Circular"). Pursuant to the subsequent acquisition transaction, all but one of the 35,847,828 issued and outstanding CPIF units were redeemed. The remaining issued and outstanding CPIF unit is held by the Fund.

For each CPIF unit, the holder thereof ("CPIF Unitholders") received 0.5581 of a MPT trust unit ("MPT units") and one contingency value receipt ("CVR") as described in the Circular. In total, the Fund issued 20,006,674 trust units and 35,847,827 CVRs in exchange for CPIF units.

The Fund's issued and outstanding units now total 50,055,009, including 3,249,490 Class B exchangeable units.

### Contingency Value Receipts

Each CVR entitles the holder, subject to certain conditions, to a payment of up to approximately $0.19; provided that if refunds are received from Commonwealth Edison Co., the maximum amount payable in respect of each CVR will increase. The CVRs represent the right to receive an amount equal to 80% of the amount of the US$7.593 million reserve fund that was established by CPIF in connection with its sale of Gas Recovery Systems, LLC in 2006 and any refunds received from Commonwealth Edison Co., after reduction for certain claims and costs and after specified adjustments.

### Treatment of CPIF Unitholders Resident in Foreign Jurisdictions

Unitholders of CPIF resident in jurisdictions outside of Canada were not entitled to receive MPT units or CVRs in connection with the Offer or the subsequent acquisition transaction. A total of 3,499,049 MPT units otherwise payable to CPIF Unitholders resident in foreign jurisdictions were sold on July 11, 2007 at an average price of $10.47 on the Toronto Stock Exchange through a registered broker. On July 17, 2007, a payment in cash in an amount equal to each such unitholder's pro rata interest in the net proceeds of the sale, after commissions, expenses and any applicable withholding taxes was made to each such person.

In addition, the CVRs otherwise distributable to former CPIF Unitholders resident in jurisdictions outside of Canada were issued to an escrow agent, where the CVRs will be held until payment, if any, on the CVRs is made. At that time, each such former CPIF Unitholder will be forwarded a payment in cash in an amount equal to such former CPIF Unitholder's pro rata portion of the payment amount, if any, net of all costs related to such arrangements and any applicable withholding taxes.

### Convertible Debentures

With the acquisition of CPIF, the Fund assumed CPIF's aggregate principal amount of $55,000 6.75% convertible unsecured subordinated debentures (the "Debentures") due on December 31, 2010. The Debentures are convertible into MPT units at the option of the holder at a conversion price of $18.28 per unit. Interest is paid semi-annually in arrears on June 30 and December 31 and computed on the basis of a 365-day year. The Debentures began trading on the Toronto Stock Exchange on July 4, 2007 under the symbol MPT.DB.

Upon the acquisition of CPIF and pursuant to the terms of the outstanding 6.75% convertible unsecured subordinated debentures, each debenture holder had the option to exercise a put right within 30 days of a change of control notice requiring the Fund to purchase all or part of such holder's debentures at a price equal to 101% of the principal amount. On August 2, 2007, the Fund purchased $15,803 principal amount of debentures which were put by the debentureholders for a total of $16,057, including accrued interest.

## SUMMARY OF WIND, HYDRO AND BIOMASS OPERATING PERFORMANCE

While the Fund's consolidated second quarter results include only four days of contribution from the newly acquired assets, operational data for the three-month period ended June 30, 2007 is presented below.

### Wind

During the quarter, the Erie Shores Wind Farm operated at an availability of 97.3% and achieved a capacity factor of 23.7%. Erie Shores' production was 51,301 MWh for the quarter.

The Fund receives semi-annual interest payments each March and September on its subordinated wind loan receivable related to its debt investment in the six U.S. wind facilities. Receipt of these interest payments is not anticipated to be affected by any expected variances in production. In the second quarter, total production from the six wind facilities decreased to 91% of production for the same period last year due to lower wind speeds at Foote Creek III, Foote Creek IV and Big Spring. Total production for the six U.S. wind facilities was 61,065 MWh compared with 67,439 MWh last year.

### Hydro

The Fund's four hydro facilities operated at a weighted average availability of 99.4% (2006 – 99.1%) during the quarter. Total production was 55,095 MWh compared with 60,383 MWh in the second quarter of 2006, primarily reflecting continued low water flows at Dryden caused by the extremely dry conditions that have affected production since 2006. Precipitation levels at Wawatay began to recover during the quarter but remained below average long-term levels. Production at Sechelt decreased by 4% from the same quarter in 2006.

### Biomass

During the quarter, Whitecourt operated at an availability of 94.5% (2006 – 95.3%) and achieved a capacity factor of 94.0% (2006 – 95.3%), reflecting an unplanned two-day outage due to tube leak repairs and the refurbishment of the induced draft fan, which was offset slightly by a shorter planned maintenance shutdown of three days in 2007 instead of four days last year. Production was 47,813 MWh compared with 49,883 MWh in the same period last year, which reflects the lower availability and slightly lower capacity.

Chapais operated at an availability of 92.8% (2006 – 84.7%), primarily reflecting a shortened spring maintenance shutdown from 10 days in 2006 to five and a half days in 2007 as well as fewer unplanned outages. Production was 53,607 MWh for the quarter compared with 49,895 MWh last year.

## SUMMARY OF FINANCIAL RESULTS

The Fund delivered strong performance for the quarter ended June 30, 2007. Distributable cash was $7,331 ($0.237 per unit) for the quarter compared with $6,308 ($0.210 per unit) for the quarter ended June 30, 2006. 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 payout ratio for the quarter ended June 30, 2007 was 129% (2006 – 119%). The higher payout ratio reflects the Fund's payment of distributions on MPT units issued in connection with the Fund's acquisition of CPIF which were outstanding on the distribution record date of June 29, 2007.

Following the acquisition of CPIF, the Fund's financial position remains strong with positive working capital of $32,996, fully funded reserves and an uncommitted cash balance of $22,836 as at June 30, 2007. Total assets are currently $803,896 with a conservative debt to equity ratio of 0.7 to 1, significantly below the ratio permitted with the Fund's credit facility.

Revenue for the quarter was $21,587 compared with $16,278 in the same period last year and included a contribution of $442 from the newly acquired CPIF assets. Cardinal's revenue increased by $4,867, reflecting higher power prices, which were impacted by a 2.9% increase in the OEFC's direct customer rate ("DCR"), compared with 2006 as well as less scheduled maintenance time. Plant availability was 95.7% (2006 – 77.4%) and capacity was 93.7% (2006 – 75.0%). The newly acquired assets contributed $442 to second quarter revenue.

Leisureworld distributed $2,587 for the quarter ended June 30, 2007. Leisureworld's revenue grew by 9.3% and income from operations grew by 5.9% from the same quarter in 2006, reflecting improved occupancy levels, optimization of preferred bed mix and increased government funding rates.

Leisureworld's average total occupancy for the quarter ended June 30, 2007 was 98.1% (2006 – 95.6%) reflecting increased occupancy at the Brampton Meadows, Brampton Woods, Norfinch and Vaughan homes. Preferred bed average total occupancy for all homes was 81.8% for the quarter (2006 – 78.3%).

## OUTLOOK

Management anticipates continuing strong performance in the second half of 2007, based on the growth and stability inherent in Leisureworld and Cardinal and expected contributions from the newly acquired wind, hydro and biomass assets.

With its annual maintenance program completed, Cardinal is expected to experience increased cash flow for the balance of the year as a result of higher electricity rates compared with 2006. This will be partially offset by higher gas transportation costs. Cardinal's maintenance and capital expenditure requirements are fully funded by established reserve accounts.

Leisureworld is expected to continue to perform strongly in the second half of 2007 as occupancy continues to improve and as it continues to execute its strategy to optimize preferred accommodation and provide high quality care and services to residents. For 2007, management expects that 18 of the 19 LTC homes will achieve the 97% annual occupancy threshold that is required for full funding. The remaining home may be eligible for funding at its actual occupancy rate plus 3% through a special program for homes located in regions with excess beds resulting from the government's 1998 initiative to increase the supply of beds in the province. In addition, on July 3, 2007, Leisureworld completed its previously announced sale of Spencer House, which was closed at the time the new home in Orillia opened, realizing one-time net proceeds of $3.0 million.

Leisureworld also expects to benefit from continuing increases in government funding in line with inflation. On April 1, 2007, government funding per resident per day for nursing and personal care increased by 4.5% to $73.69 while programs and support services funding increased by 4.4% to $7.12. On July 1, 2007, government funding per resident per day for accommodation increased by 1.6% to $45.94 while funding for food increased by 2.0% to $5.57. On July 30, 2007, the Ministry of Health and Long-Term Care (MOHLTC) announced a further increase in the daily food allowance to $7.00 per resident effective September 1, 2007. In addition, on July 31, 2007, the MOHLTC announced a 10-year plan to redevelop 35,000 Class B and C

long-term care beds, commencing in 2008. This funding will enable Leisureworld to further enhance the quality and comfort of accommodation available to residents.

With the acquisition of CPIF, the Fund has significantly diversified its portfolio by asset type, fuel source and geography, which is expected to contribute to the stability of the Fund's cash flow. On an annualized basis, management expects gas cogeneration to account for approximately 49% of the Fund's distributable cash, wind to account for approximately 17%, hydro, approximately 11% and biomass, approximately 8%, with Leisureworld representing the balance of approximately 15%. Operationally, the newly acquired assets performed well during the quarter and the Fund expects the acquisition to be accretive to distributions per unit in the first year of combined operations.

MPT anticipates maintaining a payout ratio of 90% to 95% in 2007, which provides for stability of distributions to unitholders with the potential for growth. 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.

Management believes that the Fund continues to have significant flexibility and capacity for continuing growth. Concurrent with the acquisition of CPIF, the Fund established a $75-million revolving credit facility to support further acquisitions. The Fund has delivered value for unitholders since inception, reflecting the high quality and stability of its assets as well as the success of its operating strategies. The fundamentals of the Fund's business are strong and management is confident in the Fund's long-term growth prospects, including growth through acquisitions.

## Impact of New Tax Legislation

On June 22, 2007, Bill C-52, which included the federal government's proposed tax regime for flow-through entities, including publicly-listed Canadian trusts and partnerships, became law. As a result, effective January 1, 2011, the Fund will 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 the Fund'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 should be no real impact to the net distributions amount for most taxable investors.

During the transition period to 2011, the new tax regime permits income funds 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 calendar years 2008 to 2010, the safe harbour amount will be 20% of that benchmark, allowing cumulative aggregate growth of up to 100% over the four-year transition period. 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 has stated that income funds will be permitted to convert into corporations without any tax consequences to investors.

The impact of this new tax legislation resulted in a future income tax asset and liability of $8,244 and $72,463, respectively, and a future income tax expense of $43,999 for the quarter.

Selected Consolidated Financial and Operating Information of the Fund

| Unaudited<br>(in thousands of dollars unless otherwise noted) | Quarter Ended<br>June 30, 2007 | Quarter Ended<br>June 30, 2006 | Six months Ended<br>June 30, 2007 | Six months Ended<br>June 30, 2006 |
|---|---|---|---|---|
| Revenue | $21,587 | $16,336 | $50,556 | $42,869 |
| DCR adjustment in respect of other periods | - | (58) | - | 1,093 |
| | 21,587 | 16,278 | 50,556 | 43,962 |
| Income before the following: | 2,384 | (1,284) | 10,029 | 3,148 |
| Unrealized gain on swap contracts | 1,154 | 808 | 382 | 1,133 |
| Unrealized gain on embedded derivative instruments | 9,917 | - | 11,813 | - |
| Net interest (expense) | (304) | (201) | (526) | (425) |
| Foreign exchange loss | (72) | - | (72) | - |
| Equity accounted loss from long-term investments | (742) | (796) | (1,932) | (1,723) |
| Net income before tax | 12,337 | (1,473) | 19,694 | 2,133 |
| Future income tax | (43,999) | - | (43,999) | - |
| Net income (loss) | $(31,662) | $(1,473) | $(24,305) | $2,133 |
| Basic and diluted income (loss) per Unit | $(1.024) | $(0.049) | $(0.797) | $0.071 |
| Cash flows from operating activities | $7,249 | $2,206 | $24,536 | $16,494 |
| Distributable cash (i) | $7,331 | $6,308 | $19,399 | $17,109 |
| Per Unit | $0.237 | $0.210 | $0.636 | $0.569 |
| Distributions declared to Unitholders | $9,454 | $7,512 | $17,191 | $15,024 |
| Per Unit (iii) | $0.257 | $0.250 | $0.514 | $0.500 |
| Payout ratio (ii) | 129% | 119% | 89% | 88% |
| Weighted average number of trust units and class B exchangeable units outstanding (Units) | 30,927,799 | 30,048,387 | 30,490,521 | 30,048,387 |
| Sale of electricity (000s MWh) | 304 | 243 | 649 | 586 |
| Sale of steam (MM lbs) | 166 | 168 | 341 | 355 |
| Total assets | $803,896 | $303,933 | $803,896 | $303,933 |
| Total long-term liabilities | $369,704 | $38,020 | $369,704 | $38,020 |

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

Revenue for the quarter was $21,587 compared with $16,336 in the same period last year, reflecting higher power prices, which were impacted by a 2.9% increase in the DCR rate and a 25% increase in the production of electricity due to less scheduled maintenance time. The variance of $5,251 includes $442 in revenue from the newly acquired assets. Cardinal had availability of 95.7% (2006 – 77.4%) and capacity of 93.7% (2006 – 75%). During the quarter, there were 92.7 hours (2006 – 505.1 hours) of outages and no curtailment hours (2006 – Nil). 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 losses from long-term investments, unrealized gains (losses) on swap contracts, and on embedded derivatives in gas purchase contracts for the quarter ended June 30, 2007 was $2,384 compared with a loss of $1,284 for the same quarter in 2006, reflecting higher revenue partially offset by an increase in operating costs of $1,559. Operating costs for the quarter were higher in 2007 due primarily to increased gas requirements, offset by a reduction in scheduled maintenance costs. Administration expenses were higher by $290 primarily due to a smaller reduction in the incentive fee in the quarter of $5 compared with a reduction of $309 for the same period last year. A higher cost reimbursement in 2007 was more than offset by lower other administrative expenses as the Manager has supplied more professional legal and accounting resources to the Fund which is less expensive than engaging external professionals.

| Unaudited<br>(in thousands of dollars unless otherwise noted) | Quarter Ended<br>June 30, 2007 | Quarter Ended<br>June 30, 2006 | Six months Ended<br>June 30, 2007 | Six months Ended<br>June 30, 2006 |
|---|---|---|---|---|
| Management and administrative fees | $300 | $289 | $594 | $575 |
| Cost reimbursement | 537 | 294 | 1,181 | 705 |
| Incentive fee | (5) | (309) | 1,643 | 941 |
| Other administrative expenses | 232 | 500 | 457 | 1,349 |
| | $1,064 | $774 | $3,875 | $3,570 |

## Unrealized (Gain) Loss on 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 gas swap contracts resulted in an unrealized gain of $1,271 for the quarter ended June 30, 2007 (Q2 2006 - unrealized gain of $808).

The Fund has an interest rate swap contract to mitigate the refinancing risk associated with the Erie Shores project debt. Under the contract, the Fund will pay a fixed rate of 5.5% for a period of five years following the maturity of the five-year loan. In return, the Fund will be paid a floating rate equal to the then current three-month Bankers' Acceptance ("BA") rate. Any changes in the fair value of this contract are reported in the consolidated statement of operations. An unrealized loss of $117 on this interest rate swap contract has been recorded in the consolidated statement of operations for the quarter.

| | Quarter ended<br>June 30, 2007 | Quarter ended<br>June 30, 2006 | Year ended<br>June 30, 2007 | Year ended<br>June 30, 2006 |
|---|---|---|---|---|
| Unrealized gain on gas swap contracts | $1,271 | $808 | $499 | $1,133 |
| Unrealized loss on interest rate swap contract | $(117) | - | $(117) | - |
| Total unrealized gain on swap contracts | $1,154 | $808 | $382 | $1,133 |

These swap 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.

## 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 statement of financial position of the Fund with changes in fair value recognized in net income for the period. Unrealized gains recorded in net income amounted to $9,917 during the quarter.

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 within the contract. The fair value of these embedded derivatives requires the Manager to make estimates and assumptions that affect the reported amounts of these embedded derivatives. The major assumptions that impact the value of the reported asset and liability include forecasts to 2015 for gas prices and volatility, foreign exchange, the OEFC's DCR, gas volumes and sales, fixed and variable gas

transportation costs. Changes in one or a combination of these estimates can have a significant impact on the fair value of the embedded derivative given the volume of gas and length of contract involved. During the quarter, the Manager adjusted certain of its estimation assumptions to a basis that it deemed more accurate and reliable. The Manager has chosen estimates that it deems appropriate in the circumstances and may adjust its estimates as new information becomes available, in particular where there is an absence of reliable observable market data. Actual results could differ from the estimates and the differences could be significant.

## Net Interest Expense

Net interest expense consists of interest income earned on loans receivable and cash balances, offset by interest expense incurred in the quarter.

The Fund charges interest on its U.S. Wind Loan and loans receivable from Chapais. These loans bear interest at rates ranging from 4.91% to 11.5% and have maturity terms ranging from December 2015 to September 2024.

The Fund's long-term debt consists of: a $35,000 term loan for Cardinal that consists of a series of BAs; two $75,000 unsecured senior credit facilities for CPOT bearing interest at prime, of which $56,600 has been advanced; and a $117,320 credit agreement for the Erie Shores Wind Farm project bearing interests that range from 5.05% to 5.96%. Total interest expense for the quarter was $576.

## Foreign Exchange Loss

Represents the change related to the change in U.S. dollar exchange rate on the translation of U.S. wind loans.

## Future Income Tax

As a result of Bill C-52 becoming law on June 22, 2007, future income tax assets and liabilities have been recognized on temporary differences between the accounting and tax bases of existing assets and liabilities expected to reverse after 2010, resulting in a future income tax expense of $43,999 recorded in the quarter ended June 30, 2007. A future income tax liability of $20,221 was recorded in the preliminary CPIF acquisition purchase price allocation.

## Cash Flows from Operating Activities

Cash flows from operating activities were higher for the quarter ended June 30, 2007 by $5,043 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.

## 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 that is reported in the Fund's consolidated statement of cash flows. Cash flows from operating activities are adjusted for changes in the reserve accounts and distributions received from Leisureworld. In addition, the impact of changes in non-cash working capital is excluded (the movements in trade-related current assets and liabilities) as 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<br>(in thousands of dollars unless otherwise noted) | Quarter Ended June 30, 2007 | Quarter Ended June 30, 2006 | Six months Ended June 30, 2007 | Six months Ended June 30, 2006 |
|---|---|---|---|---|
| Cash flows from operating activities | $7,249 | $2,206 | $24,536 | $16,494 |
| Maintenance of productive capacity: | | | | |
| Release from major maintenance reserve account | 431 | 2,758 | 431 | 4,320 |
| Allocation to major maintenance reserve account | (616) | (592) | (1,232) | (1,184) |
| Allocation to capital expenditure reserve account | (105) | (101) | (209) | (202) |
| | 6,959 | 4,271 | 23,526 | 19,428 |
| Other adjustments: | | | | |
| Distributions received from Leisureworld | 2,587 | 2,587 | 5,174 | 5,174 |
| Changes in working capital | (2,215) | (550) | (9,301) | (7,493) |
| Distributable cash for the period | $7,331 | $6,308 | $19,399 | $17,109 |
| Per Unit | $0.237 | $0.210 | $0.636 | $0.569 |
| Distributions declared to Unitholders | $9,454 | $7,512 | $17,191 | $15,024 |
| Per Unit | $0.257 | $0.250 | $0.564 | $0.500 |
| Payout ratio | 129% | 119% | 89% | 88% |
| Diluted weighted average number of Units | 30,927,799 | 30,048,387 | 30,490,521 | 30,048,387 |

For the quarter ended June 30, 2007, distributable cash was $7,331 (2006 - $6,308). The Fund declared distributions to unitholders of $9,454 (2006 - $7,512). This represents a quarterly payout ratio of 129% (2006 - 119%). The payout ratio for the quarter ended June 30, 2007 reflects an increase in the number of units outstanding as a result of the acquisition of CPIF. The new Unitholders were unitholders of record on June 30, 2007 and received a distribution payment for the month of June. Due to the timing of the transaction four days before quarter end, the newly acquired assets did not make a significant contribution to the Fund's second quarter cash flows. As a result of these factors, the payout ratio for the second quarter of 2007 increased to 129% from 106% and for the year to date to 89% from 80%. 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 $739 for the quarter ended June 30, 2007 (2006 – loss of $796). Included in the Fund's pro rata portion of net loss was depreciation and amortization of $2,399 (2006 - $2,368), the amortization of a deferred gain of $51 (2006 - $51). Not included in the Fund's pro rata portion of net loss was construction funding of $477 (2006 - $429). 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 $135 (2006 - $35). During the quarter, Leisureworld paid $2,587 (2006 - $2,587) in cash distributions to the Fund.

## Selected consolidated financial and operating information

| Unaudited (in thousands of dollars unless otherwise noted) | Quarter Ended June 30, 2007 | Quarter Ended June 30, 2006 | Six Months Ended June 30, 2007 | Six Months Ended June 30, 2006 |
|---|---|---|---|---|
| | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| Revenue | $45,278 | $41,437 | $89,203 | $81,924 |
| Operating and administration expenses | 39,150 | 35,648 | 77,307 | 70,563 |
| Income from operations | 6,128 | 5,789 | 11,896 | 11,361 |
| Interest, net | 2,441 | 2,295 | 4,832 | 4,672 |
| Amortization | 5,330 | 5,262 | 10,652 | 10,516 |
| Impairment loss on property held for sale | - | - | 700 | - |
| Net (loss) | $(1,643) | $(1,768) | $(4,288) | $(3,827) |
| Funds pro rata share of net loss | $(739) | $(796) | $(1,930) | $(1,723) |
| Cash flow provided by operating activities | $740 | $(4,038) | $2,432 | $1,813 |
| Distributions paid to partners | $5,750 | $5,750 | $11,500 | $11,500 |
| Total assets | $495,661 | $532,903 | $495,661 | $532,903 |
| Long-term debt | $307,705 | $310,000 | $307,705 | $310,000 |
| Average total occupancy, (i) | 98.1% | 95.6% | 98.2% | 95.2% |
| Average preferred occupancy | 81.8% | 78.3% | 80.7% | 77.3% |

(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 June 30, 2007, LSCLP generated revenue of $45,278 compared with $41,437 for the quarter ended June 30, 2006. This increase of $3,841 or 9.3% 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 3.4% higher than in the second quarter of 2006. In addition, revenue increased by $99 as more residents were provided with preferred accommodation in the newer homes, which attracts higher rates. PHCS's external revenue was $253 higher than the quarter ended June 30, 2006 due to an increase in personal support contract revenue including the provision of flow-through stabilization funding by the MOHLTC.

During the six months ended June 30, 2007, LSCLP generated revenue of $89,203 compared with $81,924 for the prior year period. This increase of $7,279 or 8.9% was mainly due to increased occupancy at the newer homes mentioned above. LTC revenues also increased as government funding rates were 3.1% higher than in the six months ended June 30, 2006. In addition, preferred accommodation revenue increased by $220, and PHCS external revenue was $681 higher than the six months ended June 30, 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*

LSCLP's operating and administrative expenses for the quarter ended June 30, 2007 were $39,150, which was $3,502 or 9.8% higher than the quarter ended June 30, 2006, reflecting the increases in occupancy and associated increases in staff and operating costs at the newer homes. Increases in operating and administrative expenses were also driven by an increase in spending as a result of increased government funding and an increase in corporate office expenses related to increased corporate governance costs. PHCS's expenses decreased by $218 or 7.7% from the prior year quarter due to lower nursing and personal care hours provided to LTC homes. This was partially offset by additional costs incurred in providing education and training services to LTC homes and higher wage costs for personal support workers provided by the stabilization funding from the MOHLTC.

During the six months ended June 30, 2007, operating and administrative expenses were $77,307, which were $6,744 or 9.6% higher than in the prior year period, mainly due to increased occupancy and associated increases in staff and operating costs at the newer homes. Increases in operating and administrative expenses were also driven by an increase in spending as a result of increased government funding and an increase in corporate office expenses due to increased corporate governance costs. PHCS's expenses for

the six months ended June 30, 2007 were consistent with the expenses for the six months ended June 30, 2006, as decreases in bad debt expense and nursing and personal care wages were offset by additional costs incurred in providing education and training services to LTC homes and higher wage costs for personal support workers provided by the stabilization funding from the MOHLTC.

*Amortization*

During the quarter ended June 30, 2007, amortization increased by $68 or 1.3% over the quarter ended June 30, 2006 to $5,330. The increase relates primarily to property, plant and equipment balances at the new Orillia home. The main components of the quarter's amortization charge related to resident relationships - $3,000, professional nursing and personal support contracts - $234, and property, plant and equipment - $2,038.

During the six months ended June 30, 2007, amortization increased by $136 or 1.3% over the prior year period to $10,652. The increase relates primarily to property, plant and equipment balances at the new Orillia home. The main components of the period's amortization charge related to resident relationships - $6,000, professional nursing and personal support contracts - $468, and property, plant and equipment - $4,073.

*Financial expenses*

Net interest expense amounted to $2,441 during the quarter ended June 30, 2007, an increase of $146 or 6.4% from the second quarter of 2006. The increase was primarily due to decreased interest income on lower cash balances during the second quarter of 2007. This was partially offset by higher interest income on construction funding following the opening of the Orillia home. Net interest expense was reduced by interest capitalized on construction costs during the quarter ended June 30, 2006. Interest on the 2015 Notes expensed in the quarter was $3,721. Interest income of $1,280 was recognized in the quarter, $1,073 of which related to construction funding. Net interest expense in the quarter ended June 30, 2006 was $2,295, consisting of the interest on the 2015 Notes of $3,665, net of interest income of $1,370 including interest income on construction funding of $1,029.

In the six months ended June 30, 2007, net interest expense amounted to $4,832, an increase of $160 or 3.4% from the prior year period. The increase was primarily due to decreased interest income on lower cash balances during the second quarter of 2007. This was partially offset by higher interest income on construction funding following the opening of the Orillia home. Net interest expense was reduced by interest capitalized on construction costs during the quarter ended June 30, 2006. During the period, interest expense on the 2015 Notes was $7,400, and interest income of $2,568 was recognized of which $2,145 related to construction funding. Net interest expense in the six months ended June 30, 2006 was $4,672, consisting of the interest on the 2015 Notes of $7,417, net of interest income of $2,745 including interest income on construction funding of $2,058.

*Net loss*

Net loss for the quarter ended June 30, 2007 was $1,643 compared with a net loss of $1,768 in the quarter ended June 30, 2006. Increased operating income from higher occupancy, an increase in accommodation funding rates and increases in the preferred accommodation mix, were partly offset by higher net interest and amortization expenses. LSCLP, as a partnership, is not subject to income taxes.

Net loss for the six months ended June 30, 2007 was $4,288 compared with a net loss of $3,827 in the prior year period. Increased operating income from higher occupancy, an increase in the accommodation funding rates and increases in the preferred accommodation mix were offset by the impairment loss on the property held for sale and higher net interest and amortization expenses. LSCLP, 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 $32,996 as at June 30, 2007 (December 31, 2006 - $19,151). As at June 30, 2007, cash on hand totalled $40,270 (December 31, 2006 - $12,142), of which $22,836 (December 31, 2006 - $5,868) was not designated for major maintenance, capital expenditure or general reserves.

The Fund has a total of $17,533 operating line of credit available. This amount consists of a $15,000 operating line of credit for Cardinal, and three standby letters of credit totaling $2,533 for the Erie Shores Wind Farm Limited Partnership ("Erie Shores").

At maturity, the Cardinal debt 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.

As of June 27, 2007, CPOT has unsecured senior credit facilities in the amount of $150,000 comprised of a $75,000 three-year revolving loan and a $75,000 three-year non-revolving term loan. The Fund has guaranteed the indebtedness of CPOT under the credit facility. As at June 30, 2007, $56,600 was outstanding against this facility.

The Erie Shores' standby letters of credit are comprised of a $1,980 standby letter of credit in favour of the Ontario Power Authority under its PPA, a $550 standby letter of credit in favour of SunLife for Erie Shores' Operating and Maintenance Reserve Account under Erie Shores' project debt provisions and a $3 standby letter of credit guarantee in favour of the Independent Electricity System Operator.

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 the Fund for 2007.

| Unaudited<br>(in thousands of dollars unless otherwise noted) | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Major maintenance reserve | $10,020 | $2,219 |
| Capital expenditure reserve | 2,414 | 1,055 |
| General reserve | 5,000 | 3,000 |
| Total reserve accounts | 17,434 | 6,274 |
| Other cash and cash equivalents | 22,836 | 5,868 |
| Total cash and cash equivalents | $40,270 | $12,142 |

## SEASONALITY

Since Cardinal has a long-term PPA with the OEFC 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.

Electricity production generated by the Erie Shores Wind Farm fluctuates with the natural wind speed and density in the area of the project. During the autumn and winter periods, wind speed and density are generally greater than during the spring and summer periods.

A significant portion of electricity production generated by the Fund's hydro facilities fluctuates with the natural water flows of the respective watersheds. During the spring and autumn periods, water flows are generally greater than during the winter and summer periods.

Wawatay's and Dryden's PPAs with the OEFC have different pricing provisions for electricity produced, depending on the time of year. The OEFC pays higher rates for electricity during the months of October to March.

The PPA with Hydro Québec relating to the Chapais Énergie, Société en Commandite ("Chapais"), facility also has different pricing provisions for electricity produced, depending on the time of year. During the months of December to March, Hydro Quebec pays an additional capacity premium. This results in fluctuations in other investment income, but does not affect cash flows to the Fund.

The seasonality of wind speed and density, water flows, pricing provisions within the three PPAs with the OEFC, and the PPA with Hydro Québec may result in fluctuations in revenue and net income during the year.

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 2007 and 2006 Quarterly Financial Reports for an analysis of results of the financial performance of the Fund in prior quarters.

## SELECTED QUARTERLY INFORMATION

| Unaudited<br>For the quarters ended | Jun 30, 2007 | Mar 31, 2007 | Dec 31, 2006 | Sep 30, 2006 | Jun 30, 2006 | Mar 31, 2006 | Dec 31, 2005 | Sep 30, 2005 |
|---|---|---|---|---|---|---|---|---|
| (thousands of dollars) | | | | | | | | |
| Revenue | 21,587 | 28,969 | 25,622 | 20,356 | 16,278 | 27,684 | 24,620 | 20,689 |
| Net income (loss) | (31,662) | 7,358 | 4,026 | 2,252 | (1,473) | 3,606 | 1,697 | 1,656 |
| Cash flows from operating activities | 7,249 | 17,287 | 6,853 | (2,303) | 2,206 | 14,288 | (782) | 5,695 |
| Distributable cash | 7,331 | 12,068 | 10,003 | 6,947 | 6,308 | 10,800 | 7,786 | 6,292 |
| Distributions declared | 9,454 | 7,737 | 7,737 | 7,662 | 7,512 | 7,512 | 7,136 | 5,028 |
| (dollars) | | | | | | | | |
| Basic net income (loss) per Unit | (1.024) | 0.245 | 0.134 | 0.075 | (0.049) | 0.120 | 0.060 | 0.078 |
| Diluted net income (loss) per Unit | (1.024) | 0.245 | 0.134 | 0.075 | (0.049) | 0.120 | 0.058 | 0.078 |
| Cash flows from operating activities per Unit (Diluted) | 0.234 | 0.575 | 0.228 | (0.077) | 0.073 | 0.476 | (0.027) | 0.269 |
| Distributable cash per Unit (Diluted) | 0.237 | 0.402 | 0.333 | 0.231 | 0.210 | 0.359 | 0.264 | 0.295 |
| Distributions declared per Unit (Diluted) | 0.257 | 0.257 | 0.257 | 0.255 | 0.250 | 0.250 | 0.242 | 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 $300 (YTD - $594) for the quarter ended June 30, 2007 (Q2 2006 - $289; YTD 2006 - $575); a reduction in incentive fee of $5 for not exceeding the distributable cash threshold of $0.95 per unit for the quarter (Q2 2006 - reduction of $309); and cost reimbursement of $537 (YTD - $1,181) (Q2 2006 - $294; YTD 2006 - $705) for the quarter ended June 30, 2007 of which $264 (YTD - $411) has been capitalized in connection with the acquisition of CPIF. 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.

The Manager entered into a Management Agreement with CPOT on terms similar to the agreements with Cardinal and LTC Holding LP. The agreement outlines payments for management services, incentive fees and cost reimbursement. Annual management fees will be $650, escalated annually by Consumer Price Index.

During the quarter, the Fund paid advisory fees in the amount of $4,830 to an affiliate of Macquarie Bank Limited in connection with the acquisition of CPIF.

## CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

Due to the acquisition of CPIF, there have been 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 June 30, 2007.

### Long-Term Debt

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Cardinal term loan (i) | $35,000 | $35,000 |
| CPOT credit facility (ii) | 55,777 | - |
| Erie Shores project debt (iii) | 115,020 | - |
| | 205,797 | 35,000 |
| Less current portion | (2,699) | - |
| Long-term debt | $203,098 | $35,000 |

(i) Cardinal has a term loan in the 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. As at June 30, 2007, Cardinal's term loan was in the form of a series of instruments as follows:

| Type of instrument | Drawdown amount | Maturity | All-in rate |
|---|---|---|---|
| BA | $11,700 | August 28, 2007 | 5.02% |
| BA | $11,700 | December 14, 2007 | 4.83% |
| BA | $11,600 | June 13, 2008 | 4.95% |

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 June 30, 2007, the unamortized portion of the prepaid interest totaled $926 (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 operations is interest expense on long-term debt of $840 (2006 - $703).

During the quarter, the Fund renewed a BA of $11,700 at a rate of 4.95% per annum with a maturity date of June 13, 2008.

(ii) As of June 27, 2007, CPOT had unsecured senior credit facilities in the amount of $150,000 comprised of: (a) a $75,000 three-year revolving loan ("Revolver"); and (b) a $75,000 three-year non-revolving term loan ("Term Loan Facility") (collectively the "CPOT credit facility"). As at June 30, 2007, the carrying value for the CPOT credit facility consists of $56,600 that has been advanced from the Revolver, net unamortized financing costs of $823. The Fund has guaranteed the indebtedness of CPOT under the credit facility.

(iii) Upon the acquisition of CPIF, the Fund assumed an existing credit agreement with SunLife for $117,230 non-recourse project financing for the construction of the Erie Shores Wind Farm, consisting of: (a) a $70,000 fully amortizing loan bearing a fixed annual interest rate of 5.96% paid quarterly with a maturity date of April 1, 2026 ("Tranche A"); (b) a $7,230 fully amortizing loan bearing a fixed annual interest rate of 5.28% paid quarterly with a maturity date of April 1, 2016 ("Tranche B"); and (c) a $40,000 interest-only loan bearing a fixed annual interest rate of 5.05% paid quarterly with a maturity date of April 1, 2011 ("Tranche C"). This financing was borrowed by Erie Shores Wind Farm Limited Partnership and is secured by the Erie Shores Wind Farm only, with no recourse to the Fund's other assets. Carrying value as at June 30, 2007 is net of unamortized deferred financing costs of $2,210. The Fund has an unsecured guarantee in the amount of $10,000 to the lenders under the Tranche C loan to Erie Shores. This guarantee may be reduced from time to time by an amount equal to 75% of any releases from the escrow accounts established upon the disposition of GRS, in excess of a certain amount. At June 30, 2007, there has been no reduction in the guarantee amount.

## Capital Leases

On acquisition of CPIF, the Fund assumed a number of capital leases with terms ranging from four to six years, expiring between 2008 and 2013 and bearing nominal annual interest rates from 6.6% to 7.1%. For the four-day period ended June 30, 2007, the Fund recorded principal repayments of $3 and amortization on the lease obligations of $3. The carrying value as of June 30, 2007 is $852, of which $219 is classified as a short-term liability.

## 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 contract. 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. The policy requires 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 2005, 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 June 30, 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 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

The Fund and its assets face various risks and uncertainties that could have an adverse impact on their businesses, operating results and financial condition, which could adversely affect the Fund's 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 POWER INFRASTRUCTURE

## Operational Performance

The Fund's revenue is proportional to the amount of electrical energy generated by its assets. The facilities' ability to generate the maximum amount of electricity is an important factor in determining the cash available for distributions to unitholders.

The facilities are subject to risks related to premature wear or failure, due to defects in design, material or workmanship, longer than anticipated down times for maintenance and repair, and the availability or constancy of fuel or natural resources, as applicable. These risks are partially mitigated by the proven nature of the technologies employed at each facility, regular maintenance and the design of the each facility.

The supply of gas required by Cardinal, a gas cogeneration facility, is contracted under a gas purchase agreement that expires on May 1, 2015. Similarly, the biomass facilities have long-term agreements in place

with substantial forest product operations for the supply of wood waste. There can be no assurance that the long-term availability of such resources will remain unchanged.

The operational performance of the Fund's wind and hydro facilities is dependent upon the levels of wind and water flows available. The wind power facilities may be affected by abnormal weather conditions or changing wind patterns. Similarly, the hydro facilities may be significantly affected by hydrological conditions, such as low and high water flows within the watercourses on which the facilities are located.

## Power Purchase Agreements

Most of the electricity that is generated by the Fund's facilities is sold to large utilities or creditworthy customers under long-term PPAs, which provide a specified rate for a defined period of time. PPAs in certain jurisdictions are subject to approval by local, state, provincial or national utilities commissions or other regulatory authorities. If for any reason such customers become unable or unwilling to fulfill their contractual obligations under the relevant PPAs, the Fund's financial results and ability to pay distributions to its unitholders could be affected.

Although most electricity generated by the facilities is sold pursuant to long-term PPAs, certain excess power capacity of certain of the facilities may be sold in the open market. As a result, distributions to unitholders depend, in part, upon prices paid for energy sold in the open market.

In addition, as PPAs expire there can be no assurance that the facilities will be able to renegotiate or enter into a power supply contracts on terms that are commercially reasonable, if at all. If the facilities choose to bid the power they produce, there can be no assurance that the market price they will receive for the electricity so offered will exceed the marginal cost of operations.

## Fuel Costs, Supply and Transportation

Cardinal's 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. 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. 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.

The Fund's biomass facilities have long-term contracts with substantial forest products companies to provide a stable supply of wood waste. Any interruption in supply could affect the ability of the biomass facilities to operate.

The Fund's wind and hydro facilities have no fuel costs but rely on the availability and constancy of wind and water resources, which could vary due to abnormal weather conditions.

## Contract Performance

The Fund's revenue and distributable cash is highly dependent on the parties to the applicable agreements fulfilling their contractual obligations. An ability or failure by any such party to meet its contractual commitments could affect the Fund's ability to pay distributions to its unitholders.

## Default Under Credit Agreements

The Fund has credit agreements in place that contain a number of standard financial and other covenants.

Cardinal's credit agreement expires in 2011. Upon the acquisition of CPIF, the Fund assumed an existing credit agreement that had been established for non-recourse financing of the construction of Erie Shores Wind Farm. The Fund subsequently established a new credit agreement for CPOT which expires in 2010.

A failure by Cardinal, Erie Shores Wind Farm or CPOT to comply with their obligations in these credit agreements could result in a default, which, if not cured or waived, could result in the termination of

distributions by these facilities and permit acceleration of the relevant indebtedness. If the indebtedness under the credit agreements were to be accelerated, there could be no assurance that the assets of Cardinal, Erie Shores Wind Farm or CPOT would be sufficient to repay in full that indebtedness. There can be no assurance that Cardinal, Erie Shores Wind Farm or CPOT 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 these credit agreements or obtain additional financing on commercially reasonable terms, if at all. Cardinal's 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 Cardinal's Lease

The initial term of Cardinal's 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.

## Exchange Rates

A portion of the Fund's investments generate revenue in U.S. dollars. Changes in the value of the Canadian dollar relative to the U.S. dollar can, and will, impact the performance of the Fund in two ways — translational losses or gains, and transactional losses or gains. From period to period, the Fund must adjust the reported value of its foreign assets into Canadian dollars. This can result in translational foreign exchange losses or gains. These losses or gains are recorded on the income statement to reflect the corresponding adjustment to the book value of the assets from one reporting period to the next. While translational foreign exchange adjustments can have a significant impact on the Fund's reported net income, they have no impact on the actual cash flow generated by the Fund's operations. Because they do not affect cash flow, the Fund's translational foreign exchange risks have not been hedged.

A transactional exchange loss or gain occurs when U.S. dollar income from the Fund's U.S. investment is converted into Canadian dollars. This creates a transactional foreign exchange adjustment that can impact cash flow. Transactional risk may be hedged to reduce the impact of a significant change in the Canadian dollar equivalent of income denominated in U.S. dollars. However, hedging will only shield against changes in the relative value of the Canadian dollar and the U.S. dollar for the duration of the hedging contract. If there is a long-term shift in the foreign currency exchange rate or if the Fund enters into imperfect currency hedging arrangements, this may have a direct and permanent impact on the U.S. dollar-denominated cash flow generated by the U.S. wind facilities.

## Regulatory Regime and Permits

The performance of the Fund's facilities in part depends on a favourable regulatory climate. The regulatory regime in an applicable jurisdiction could be modified in a manner which adversely affects one or more of the facilities, including increases in taxes and permit fees. The failure to obtain all necessary approvals, licences or permits, including renewals or modifications could adversely affect the ability of the facilities to operate. The failure to operate the facilities in strict compliance with applicable regulations and standards may expose owners or operators of the facilities to claims, costs or possible enforcement actions. Any new law or regulation could require significant additional expenditures to achieve or maintain compliance. Hydro facilities are highly regulated as water rights are generally owned by governments that reserve the rights to control water levels. Biomass facilities are subject to government regulations, including environmental

regulations and/or approvals relating to the operations, biomass supply and wood ash disposal. Erie Shores Wind Farm and the U.S. wind facilities are highly regulated, including regulations and/or approvals relating to birds, mammals and other animals and to noise. Government regulations and incentives currently have a favourable impact on wind facilities in Canada and many states in the United States. Should the current governmental incentives be modified, Erie Shores Wind Farm and/or the U.S. wind facilities may be adversely affected.

## RISKS RELATED TO SOCIAL INFRASTRUCTURE

### 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 endeavours 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, received Royal Assent on June 4, 2007 although it is expected to take 12 to 18 months before it can be enacted into law due to the number of regulations that need to be drafted. The Long-Term Care Homes Act contains a number of new provisions that could impact 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 and that licences can be revoked in cases of non-compliance. Although many of its provisions are already in place at the Leisureworld homes, the Long-Term Care Homes Act 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

### 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, and the businesses of the assets, 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

The Fund's assets 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. None of the Fund's assets, to the Fund's or the Manager's knowledge, has been notified of any such civil or regulatory action in regards to their operations. However, it is not possible to predict with certainty what position a regulatory authority may take regarding matters of non-compliance with environmental, health and safety laws. Changes in such laws, or more aggressive enforcement of existing laws, could lead to material increases in unanticipated liabilities or expenditures for investigation, assessment, remediation or prevention, capital expenditures, restrictions or delays in the facilities' activities, the extent of which cannot be predicted.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

### 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 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.

*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 statement of financial position at January 1, 2007:

| Statement of Financial Position 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 |

For the quarter ended June 30, 2007, the Fund has an unrealized loss of $2,363 (YTD gain of $837) on the embedded derivative asset and an unrealized gain of $12,280 (YTD gain of $10,976) on the embedded derivative liability.

*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.

## 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 June 30, 2007 and January 1, 2007.

## 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.

## 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 2007 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.

The Fund has significant influence over Chapais Electrique Limitee ("Chapais") and accounts for this investment using the equity method. The results from the four-day period ended June 30, 2007 for Chapais have been included in these consolidated financial statements.

### Maintenance and Repairs

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

### Useful Life of the Capital Assets

Capital assets are amortized for accounting purposes over their estimated useful lives of three to 40 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. In July 2007, the Canadian Securities Administrators announced their amendments to National Policy 41-201 - Income Trusts and Other Indirect Offerings.

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.

# MACQUARIE POWER & INFRASTRUCTURE INCOME FUND
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**(Unaudited, in thousands of dollars)**

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents (note 5) | $40,270 | $12,142 |
| Accounts receivable | 13,233 | 18,021 |
| Inventory | 1,073 | 191 |
| Prepaid expenses and borrowing costs | 1,451 | 1,634 |
| Current portion of loans receivable (note 6) | 607 | - |
| Cash in escrow related to GRS (note 23) | 6,773 | - |
| | 63,407 | 31,988 |
| Loans receivable (note 6) | 26,070 | - |
| Long-term investments (note 7) | 74,586 | 77,592 |
| Capital assets (note 8) | 436,224 | 134,603 |
| Electricity supply and gas purchase contracts (note 8) | 78,796 | 35,186 |
| Embedded derivative asset (note 22) | 17,837 | - |
| Other assets (note 9) | 425 | - |
| Future income tax asset (note 15) | 8,244 | - |
| Goodwill | 98,307 | 18,023 |
| **Total Assets** | $803,896 | $297,392 |
| **Current Liabilities** | | |
| Accounts payables and accrued liabilities | $16,268 | $10,258 |
| Distributions payable | 4,296 | 2,579 |
| Current portion of long-term debt (note 11) | 2,699 | - |
| Current portion of capital lease obligations (note 12) | 219 | - |
| Swap contracts at fair value (note 22) | 156 | - |
| Accounts payable and accrued liabilities related to GRS (note 23) | 6,773 | - |
| | 30,411 | 12,837 |
| Long-term debt (note 11) | 203,098 | 35,000 |
| Convertible debentures (note 13) | 53,108 | - |
| Levelization amounts (note 14) | 18,374 | - |
| Capital lease obligations (note 12) | 633 | - |
| Future income tax liability (note 15) | 72,463 | - |
| Embedded derivative liability (note 22) | 12,420 | - |
| Swap contracts at fair value (note 22) | 1,122 | 1,507 |
| Liability for asset retirement (note 16) | 1,197 | 1,161 |
| Electricity supply and gas purchase contracts (note 8) | 7,289 | - |
| **Total Liabilities** | 400,115 | 50,505 |
| **Unitholders' Equity (notes 17 and 18)** | 403,781 | 246,887 |
| Total Liabilities and Unitholders' Equity | $803,896 | $297,392 |

Commitments and contingencies (note 21)

See accompanying Notes to the Consolidated Financial Statements.

# MACQUARIE POWER & INFRASTRUCTURE INCOME FUND

## CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY
## FOR THE QUARTER ENDED JUNE 30, 2007

**(Unaudited, in thousands of dollars)**

| | Unitholders' Capital | Class B Exchangeable Units | Accumulated Other Comprehensive (Loss) Income | Cumulative Earnings (Loss) | Total Comprehensive Income (Loss) | 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 7) | - | - | 1,832 | - | 1,832 | - | 1,832 |
| Fair value of embedded derivatives (note 4) | - | - | - | (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 (note 7) | - | - | (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 |
| Trust unit issuance (net of issuance costs of $400) | 214,272 | - | - | - | - | - | 214,272 |
| Trust unit redeemed | (1) | - | - | - | - | - | (1) |
| Net loss for the quarter ended June 30, 2007 | - | - | - | (31,662) | (31,662) | - | (31,662) |
| Equity share of other comprehensive loss of Leisureworld | - | - | (51) | - | (51) | - | (51) |
| Distributions declared to Unitholders for the quarter ended June 30, 2007 | - | - | - | - | - | (9,454) | (9,454) |
| **Balance, June 30, 2007** | $467,747 | $35,500 | $1,730 | $(17,899) | $(16,169) | $(83,297) | $403,781 |

See accompanying Notes to the Consolidated Financial Statements.

# MACQUARIE POWER & INFRASTRUCTURE INCOME FUND
## CONSOLIDATED STATEMENT OF OPERATIONS

**(Unaudited, in thousands of dollars)**

| | Quarter Ended June 30, 2007 | Quarter Ended June 30, 2006 | Six Months Ended June 30, 2007 | Six Months Ended June 30, 2006 |
|---|---|---|---|---|
| **Revenue** | $21,587 | $16,278 | $50,556 | $43,962 |
| | | | | |
| **Costs and expenses** | | | | |
| Operating costs | 15,215 | 13,656 | 30,968 | 30,984 |
| Administrative expenses | 1,064 | 774 | 3,875 | 3,570 |
| Depreciation and amortization | 2,924 | 3,132 | 5,684 | 6,260 |
| | 19,203 | 17,562 | 40,527 | 40,814 |
| | | | | |
| | 2,384 | (1,284) | 10,029 | 3,148 |
| | | | | |
| Unrealized gain on swap contracts (note 22) | 1,154 | 808 | 382 | 1,133 |
| Unrealized gain on embedded derivative instruments (note 22) | 9,917 | - | 11,813 | - |
| Foreign exchange loss | (72) | - | (72) | - |
| Net interest expense | (304) | (201) | (526) | (425) |
| Equity accounted loss from long-term investments (note 7) | (742) | (796) | (1,932) | (1,723) |
| Income (loss) before tax | 12,337 | (1,473) | 19,694 | 2,133 |
| Future income tax (note 15) | 43,999 | - | 43,999 | - |
| **Net income (loss)** | $(31,662) | $(1,473) | $(24,305) | $2,133 |
| | | | | |
| Weighted average number of trust units and Class B exchangeable units outstanding (“Unit”) | 30,927,799 | 30,048,387 | 30,490,521 | 30,048,387 |
| Basic and diluted income (loss) per Unit | $(1.024) | $(0.049) | $(0.797) | $0.071 |

See accompanying Notes to the Consolidated Financial Statements.

# MACQUARIE POWER & INFRASTRUCTURE INCOME FUND
## CONSOLIDATED STATEMENT OF CASH FLOWS

**(Unaudited, in thousands of dollars)**

| | Quarter Ended June 30, 2007 | Quarter Ended June 30, 2006 | Six Months Ended June 30, 2007 | Six Months Ended June 30, 2006 |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Net income (loss) | $(31,662) | $(1,473) | $(24,305) | $2,133 |
| Add back: | | | | |
| Depreciation and amortization | 2,924 | 3,132 | 5,684 | 6,260 |
| Unrealized gain on swap contracts | (1,154) | (808) | (382) | (1,133) |
| Unrealized gain on embedded derivative instruments | (9,917) | - | (11,813) | - |
| Foreign exchange loss | 72 | - | 72 | - |
| Future income taxes | 43,999 | - | 43,999 | - |
| Amortization of prepaid interest | 418 | 340 | 840 | 703 |
| Amortization of deferred financing costs | 12 | - | 12 | - |
| Accretion of asset retirement liability | 18 | 9 | 36 | 18 |
| Equity accounted loss from long-term investments | 742 | 796 | 1,932 | 1,723 |
| Non-cash changes in working capital | | | | - |
| Decrease in accounts receivable | 5,054 | 2,072 | 13,308 | 10,299 |
| Decrease (increase) in inventory | 1 | 23 | 34 | (18) |
| Increase in prepaid expenses | (199) | (598) | (8) | (330) |
| Increase in accrued interest on loans receivable | (34) | - | (34) | - |
| Increase in deferred charges | 1,405 | - | - | - |
| Decrease in accounts payables and accrued liabilities | (2,479) | (1,287) | (2,888) | (3,161) |
| Decrease in interest payable | (1,951) | - | (1,951) | - |
| **Total cash flows from operating activities** | 7,249 | 2,206 | 24,536 | 16,494 |
| Cash flows from investing activities: | | | | |
| Net cash acquired on acquisition | 14,133 | - | 14,133 | - |
| Transaction costs paid from acquisition | (13,233) | - | (13,233) | - |
| Distributions received from long-term investments | 2,587 | 2,587 | 5,174 | 5,174 |
| Investment in capital assets | (30) | (294) | (51) | (557) |
| **Total cash flows from investing activities** | 3,457 | 2,293 | 6,023 | 4,617 |
| Cash flows from financing activities: | | | | |
| Trust unit issuance costs | (400) | | (400) | |
| Proceeds from debt issuance | 55,775 | - | 55,775 | - |
| Debt repayment | (40,217) | - | (40,217) | - |
| Repayment of lease obligations | (6) | - | (6) | - |
| Repayment on levelization amounts | (19) | - | (19) | 16 |
| Distributions paid to former CPIF Unitholders | (2,090) | - | (2,090) | - |
| Distributions paid to Unitholders | (7,737) | (7,512) | (15,474) | (14,899) |
| **Total cash flows from financing activities** | 5,306 | (7,512) | (2,431) | (14,883) |
| **Increase (decrease) in cash and cash equivalents** | 16,012 | (3,013) | 28,128 | 6,228 |
| Cash and cash equivalents, beginning of period | 24,258 | 20,979 | 12,142 | 11,738 |
| **Cash and cash equivalents, end of period** | $40,270 | $17,966 | $40,270 | $17,966 |
| **Supplemental information:** | | | | |
| Interest paid | $2,705 | $776 | $2,705 | $776 |

See accompanying Notes to the Consolidated Financial Statements.

## 1. ORGANIZATION

Macquarie Power & Infrastructure Income Fund (the "Fund") is an unincorporated open-ended trust established on March 15, 2004, under the laws of the Province of Ontario. The Fund began its operations on April 30, 2004 and indirectly acquired 100% of the equity of Cardinal Power of Canada LP ("Cardinal"). Cardinal is a 156-megawatt, gas-fired combined cycle cogeneration plant located in Cardinal, Ontario. On October 18, 2005, the Fund acquired an indirect 45% interest in Leisureworld Senior Care LP ("Leisureworld"), a long-term care ("LTC") provider in Ontario. On June 27, 2007, the Fund acquired a 100% interest in Clean Power Income Fund ("CPIF"), an open-ended investment trust that had indirect investments in 15 power generating facilities employing technologies in wind, water and biomass. As of June 30, 2007, the Fund indirectly owns these investments through a 100% interest in Clean Power Operating Trust ("CPOT").

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, MPT LTC Holding LP ("LTC Holding, LP"), and CPOT in accordance with management agreements.

## 2. ACQUISITION

On June 27, 2007, the Fund acquired all the issued and outstanding trust units of CPIF through a unit-for-unit exchange whereby the Fund issued 0.5581 trust units in exchange for each unit of CPIF. The Fund has designated April 18, 2007 as the effective date in determining the value of the consideration given for accounting purposes. This is the date on which the support agreement between the Fund and CPIF was agreed and executed. Direct and incremental costs in the amount of $16,367 were incurred by the Fund in connection with the acquisition and have been capitalized as part of the cost of the transaction. The Fund has accounted for the transaction using the purchase method, with earnings from CPIF operations for the four-day period ended June 30, 2007 included in the consolidated financial statements. The purchase price has been preliminarily allocated to net assets acquired as follows:

| Net asset acquired | |
|---|---|
| Cash | $14,133 |
| Cash in escrow related to GRS | 6,796 |
| Accounts receivable and other | 8,487 |
| Inventory | 915 |
| Prepaid expenses | 650 |
| Loans receivable | 26,748 |
| Other long-tem investments | 2,370 |
| Capital assets | 305,591 |
| Power purchase agreements | 56,500 |
| Other assets | 425 |
| Goodwill | 80,284 |
| | |
| Accounts payable and accrued liabilities | (9,803) |
| Accounts payable and accrued liabilities related to GRS | (6,796) |
| Convertible debentures | (53,103) |
| Long-term debt | (155,233) |
| Levelization amounts | (18,393) |
| Future income tax | (20,221) |
| Capital lease obligations | (858) |
| Interest rate swap contract | (153) |
| Power purchase agreements | (7,300) |
| | $231,039 |
| **Consideration** | |
| Issuance of units (20,006,674 at $10.73 per unit) | $214,672 |
| Acquisition costs | 16,367 |
| | $231,039 |

Goodwill in the amount of $80,284 has been recognized as the difference between the preliminary estimate of fair value of assets and liabilities acquired and the consideration. The purchase price allocation is based on the best information available as at the reporting date and may be subject to adjustments prior to year end as more information is obtained.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Basis of Presentation

These unaudited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for consolidated 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 were adopted effective January 1, 2007. These unaudited 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 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 consolidated financial statements also include the assets and liabilities of Clean Power Operating Trust ("CPOT") as well as its operating results for the four-day period ended June 30, 2007. The Fund accounts for its investment in CPOT using the consolidation method of accounting.

The Fund, through its wholly owned subsidiaries, LTC GP and LTC Holding LP, uses the equity method to account for its interest in Leisureworld and Chapais Electrique Limitee ("Chapais").

All intercompany balances and transactions have been eliminated upon consolidation.

### Revenue Recognition

Revenue derived from the sale of electricity, power and steam is recognized when delivered to the customer and priced in accordance with the provisions of the applicable power and steam sales agreements. Certain Power Purchase Agreements ("PPA") provide 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. Revenue derived from power sales of Whitecourt Power LP to the Power Pool of Alberta is recorded at the average power pool rate for the month in which the electrical power is delivered.

### Use of Estimates

The financial information contained in these 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. Actual results could differ from the estimates and the differences could be significant.

### Loans Receivable

Interest bearing financial assets, including the loan receivable from Caithness Western Wind Holdings, LLC, the "U.S. Wind Loan", intended to be held to maturity, are carried at amortized cost. Interest on the U.S. Wind Loan receivable is recognized on an effective yield basis using the effective interest method. Transaction costs arising from the acquisition of the U.S. Wind Loan receivable are deferred and amortized using the effective interest method over the expected life of the U.S. Wind Loan receivable.

### 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.

The Fund has significant influence over Chapais and accounts for this investment using the equity method. The results from the four-day period ended June 30, 2007 for Chapais have been included in these consolidated financial statements.

## Capital Assets

Capital assets have been recognized at cost of acquisition and are included in the consolidated statement of financial position. Depreciation is computed using the straight-line method over estimated useful lives of the assets as follows:

| | |
|---|---|
| Property, plant and equipment | 20 to 40 years |
| Mobile equipment and vehicles | 5 years |
| Equipment and furniture | 3 to 8 years |

Direct costs incurred related to the construction of assets and betterments that materially extend the life of the assets are capitalized.

## Maintenance and Repairs

Routine maintenance, repairs and major overhaul costs are charged to the consolidated statement of operations 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 fair value of the contracts originally acquired is amortized over their useful lives 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 its operating plants. These obligations are initially measured at fair value, which is the discounted future cost of the liability. The liability accretes until the date of expected settlement of the retirement obligations.

## Exchangeable Securities

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

### Income Taxes

Under the terms of the Income Tax Act (Canada) (the “Tax Act”), Cardinal and LTC Holding LP, as partnerships, are not subject to income taxes. Their income is allocated to and included in computing the income of its partners, who are Cardinal GP, LTC GP and the Trust. Under the terms of the Income 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.

Through the acquisition of CPIF, the Fund indirectly acquired a number of incorporated entities, including Whitecourt Power Corp., Clean Power Income Fund (Alberta) Inc., PEET Canadian Holdings Inc., PEET U.S. Holdings Inc., Erie Shores Wind Farm General Partner Inc., 2073991 Ontario Inc. and CPOT Holdings Corp., that are subject to corporate income taxes as computed under the Tax Act or U.S. Internal Revenue Code, as applicable, and are accounted for in accordance with the CICA Handbook Section 3465.

With the exception of the entities listed above, neither the Fund nor the Trust will be subject to income taxes in 2007. Accordingly, no provision for current 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 legislation that was passed on June 22, 2007, the Fund has adopted the liability method of tax allocation, whereby future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities expected to reverse after 2011 using the substantively enacted tax rates.

### 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 of its power generating investments as at June 30, 2007 and should continue to consolidate.

### Basic and Diluted Income Per Unit

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

## 4. 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 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 the 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 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 the consolidated statement of operations. At June 30, 2007 and December 31, 2006, the Fund's derivatives include its gas swap contracts (see note 22). At June 30, 2007 the Fund's derivatives also include an interest rate swap assumed from the CPIF acquisition.

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 Cardinal's 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 June 30, 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 retroactively but presented prospectively, resulted in the following adjustment to the opening statement of financial position at January 1, 2007:

| Statement of financial position 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 |

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise highly liquid investments with original maturities of less than 90 days. As at June 30, 2007 and December 31, 2006, cash and cash equivalents included the following:

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Major maintenance reserve | $10,020 | $2,219 |
| Capital expenditure reserve | 2,414 | 1,055 |
| General reserve | 5,000 | 3,000 |
| Total reserve accounts | 17,434 | 6,274 |
| Other cash and cash equivalents | 22,836 | 5,868 |
| Total cash and cash equivalents | $40,270 | $12,142 |

## 6. LOANS RECEIVABLE

As a result of the acquisition of CPIF, the Fund recorded at fair value loans receivable in the amount of $26,677 for the period ended June 30, 2007, consisting of the following:

| | June 30, 2007 |
|---|---|
| Chapais loans receivable | |
| Tranche A (i) | $7,986 |
| Tranche B (ii) | 562 |
| Tranche C (iii) | - |
| | 8,548 |
| U.S. Wind Loan (iv) | 18,129 |
| | 26,677 |
| Less: current portion | (607) |
| Total long-term loans receivable | $26,070 |

The following are the key terms of each Chapais loan tranche:

(i) The Tranche A loan bears interest at the monthly equivalent rate of 10.789%. Chapais makes monthly-blended interest and principal payments of $120. Such payments are due until December 1, 2015, the maturity date. Interest and principal payments are made in arrears on the first day of the following month.

(ii) The Tranche B loan, with a maturity date of December 1, 2015, bears interest at the semi-annual equivalent rate of 4.910% and interest payments are made on January 31 and July 31, to the extent cash is available, except that the final interest payment will be made on December 1, 2015 for the period from July 31, 2015 to November 30, 2015.

(iii) The Tranche C loan bears zero interest and no principal payments are made until Tranches A and B principal are fully paid off. Any outstanding principal on Tranche C is payable on the maturity date (December 1, 2015).

(iv) The U.S. Wind Loan is a subordinated loan which matures September 30, 2024 and bears interest at 11.5%. The loan is supported by cash flows generated from six windpower facilities, located in Wyoming, Texas, Colorado and Minnesota, owned by Caithness Western Wind Holdings, LLC. The U.S. Wind Loan has no right of pre-payment. Payments are interest only until September 2021. From March 31, 2022, the principal of the U.S. Wind Loan will be amortized over the balance of its term in accordance with an amortization schedule set out in the U.S. Wind Loan agreement. In addition, the Fund has the ability, at the maturity of the senior debt on the six windpower facilities, to convert its subordinated debt facility into 35% of the equity of the project portfolio based on the fair value of the operations at that time.

Upon the acquisition of CPIF, the Fund recorded the loans receivable at fair value, which was below book value based on the preliminary purchase price allocation. As at June 30, 2007, the principal amount outstanding under the Chapais loans receivable was $14,169 and under the U.S. Wind Loan was US $17,850.

Included in accounts receivable is accrued interest on the loans receivable with respect to the U.S. Wind Loan and Chapais facilities in the amount of $547 and $72, respectively.

## 7. LONG-TERM INVESTMENTS

Long-term investments consist of the Fund's investments in Leisureworld and Chapais. The changes in these investments are as follows:

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| **Leisureworld** | | |
| Opening balance – January 1 | $77,592 | $90,643 |
| Equity accounted loss for the period | (1,930) | (2,701) |
| Equity share of other comprehensive income of Leisureworld (including transitional adjustments of $1,832) | 1,730 | - |
| Distributions received in the period | (5,174) | (10,350) |
| Ending balance | 72,218 | 77,592 |
| **Chapais** | | |
| CPIF acquisition | 2,370 | - |
| Equity accounted loss for the period | (2) | - |
| Ending balance | 2,368 | - |
| Total | $74,586 | $77,592 |

## 8. CAPITAL ASSETS AND ELECTRICITY SUPPLY AND GAS PURCHASE CONTRACTS

| | Cost | Accumulated Depreciation | June 30, 2007 Net Book Value | December 31, 2006 Net Book Value |
|---|---|---|---|---|
| **Capital assets** | | | | |
| Opening balance – April 1, 2007 | $155,189 | $(22,507) | $132,682 | $141,006 |
| CPIF acquisition | 305,591 | - | 305,591 | - |
| Purchases | 30 | - | 30 | 783 |
| Increase to asset retirement obligation | - | - | - | 555 |
| Depreciation | - | (2,079) | (2,079) | (7,741) |
| Ending balance | $460,810 | $(24,586) | $436,224 | $134,603 |

| Electricity supply and gas purchase contracts | Cost | Accumulated Amortization | June 30, 2007 Net Book Value | December 31, 2006 Net Book Value |
|---|---|---|---|---|
| Opening balance – April 1, 2007 | $32,700 | $(9,548) | $23,152 | $39,986 |
| CPIF acquisition | 56,500 | - | 56,500 | - |
| Amortization | - | (856) | (856) | (4,800) |
| Ending balance | $89,200 | $(10,404) | $78,796 | $35,186 |

| Electricity supply and gas purchase contracts | Cost | Accumulated Amortization | June 30, 2007 Net Book Value | December 31, 2006 Net Book Value |
|---|---|---|---|---|
| CPIF acquisition | ($7,300) | $- | ($7,300) | - |
| Amortization | - | 11 | 11 | - |
| Ending balance | ($7,300) | $11 | ($7,289) | - |

## 9. OTHER ASSETS

This amount relates to advances paid as per a net profit interest agreement entered into by CPOT and the Ojibway of Pic River First Nation ("Pic River FN") relating to the Wawatay facility prior to the acquisition. Under the terms of the agreement, the Pic River FN is entitled to 10% of net profits from the Wawatay facility each year. The Pic River FN is paid in advance at $25 per year. As at June 30, 2007, the Fund and the previous owners have advanced an aggregate of $425.

## 10. BANK CREDIT FACILITY

As of June 30, 2007, the Fund has a total of $17,533 operating line of credit available. This amount consists of a $15,000 operating line of credit for Cardinal, and three standby letters of credit totaling $2,533 for the Erie Shores Wind Farm Limited Partnership ("Erie Shores").

At maturity, the Cardinal 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.

The Erie Shores standby letters of credit are comprised of a $1,980 standby letter of credit in favour of the Ontario Power Authority under its PPA, a $550 standby letter of credit in favour of SunLife for Erie Shores' Operating and Maintenance Reserve Account under Erie Shores' project debt provisions and a $3 standby letter of credit guarantee in favour of the Independent Electricity System Operator.

As at June 30, 2007, there is no amount outstanding under any of these credit facilities.

## 11. LONG-TERM DEBT

| | June 30, 2007 | December 31, 2006 |
|---|---|---|
| Cardinal term loan (i) | $35,000 | $35,000 |
| CPOT credit facility (ii) | 55,777 | - |
| Erie Shores project debt (iii) | 115,020 | - |
| | 205,797 | 35,000 |
| Less current portion | (2,699) | - |
| Long-term debt | $203,098 | $35,000 |

(i) Cardinal has a term loan in the 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 June 30, 2007, Cardinal's term loan was in the form of a series of instruments as follows:

| Type of instrument | Drawdown amount | Maturity | All-in rate |
|---|---|---|---|
| BA | $11,700 | August 28, 2007 | 5.02% |
| BA | $11,700 | December 14, 2007 | 4.83% |
| BA | $11,600 | June 13, 2008 | 4.95% |

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 June 30, 2007, the unamortized portion of the prepaid interest totaled $926 (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 operations is interest expense on long-term debt of $840 (Q2 2006 - $703).

During the quarter, the Fund renewed a BA of $11,700 at a rate of 4.95% per annum with a maturity date of June 13, 2008.

(ii) As of June 27, 2007, CPOT had unsecured senior credit facilities in the amount of $150,000 comprised of: (a) a $75,000 three-year revolving loan ("Revolver"); and (b) a $75,000 three-year non-revolving term loan ("Term Loan Facility") (collectively the "CPOT credit facility"). Under the credit facilities, CPOT is subject to certain financial and non-financial covenants, including limits on the ratio of debt to consolidated EBITDA and a minimum interest coverage ratio. Interest charged on any credit advances is based on the bank's prime rate or BAs plus an applicable margin based on the ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization and unrealized gains and losses of a predefined group of the Fund's assets. As at June 30, 2007, the carrying value for the CPOT credit facility consists of $56,600 that has been advanced from the Revolver, net of unamortized financing costs of $823. The Fund has guaranteed the indebtedness of CPOT under the credit facility.

The credit facility is provided for in definitive loan and security documentation, between CPOT and TD Securities, which contains customary representations, warranties and covenants (including financial covenants and restrictions on incurring additional indebtedness).

(iii) Upon the acquisition of CPIF, the Fund assumed an existing credit agreement for $117,230 non-recourse project financing for the construction of the Erie Shores Wind Farm, consisting of: (a) a $70,000 fully amortizing loan bearing a fixed annual interest rate of 5.96% paid quarterly with a maturity date of April 1, 2026 ("Tranche A"); (b) a $7,230 fully amortizing loan bearing a fixed annual interest rate of 5.28% paid quarterly with a maturity date of April 1, 2016 ("Tranche B"); and (c) a $40,000 interest only loan bearing a fixed annual interest rate of 5.05% paid quarterly with a maturity date of April 1, 2011 ("Tranche C"). This financing was borrowed by Erie Shores Wind Farm Limited Partnership and is secured by the Erie Shores Wind Farm only, with no recourse to the Fund's other assets. The carrying value as at June 30, 2007 is net of unamortized deferred financing costs of $2,210. As at June 30, 2007, the Fund has an unsecured guarantee in the amount of $10,000 to the lenders under the Tranche C. This guarantee may be reduced from time to time by an amount equal to 75% of any releases from the escrow accounts established upon the disposition of GRS (see Note 23), in excess of a certain amount. At June 30, 2007, there has been no reduction in the guarantee amount.

## 12. CAPITAL LEASE

On acquisition of CPIF, the Fund assumed a number of capital leases with terms ranging from four to six years, expiring between 2008 and 2013 and bearing nominal annual interest rates from 6.6% to 7.1%. For

the four-day period ended June 30, 2007, the Fund recorded principal repayment of $3 and amortization on the lease obligation of $3. The carrying value as of June 30, 2007 is $852, of which $219 is classified as short-term liability.

## 13. CONVERTIBLE DEBENTURES

As a result of the completion of the acquisition of CPIF, the outstanding 6.75% convertible unsecured subordinated debentures due December 31, 2010 that were issued by CPIF have become obligations of the Fund. The convertible debentures are convertible into trust units of the Fund at the option of the holder at a conversion price of $18.28 per trust unit. Interest is paid semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2004 and computed on the basis of a 365-day year. For the four-day period ended June 30, 2007, the Fund accrued interest on the convertible debentures in the amount of $41. The carrying value is net of unamortized deferred financing costs of $1,613.

## 14. LEVELIZATION AMOUNTS

Through the acquisition of CPIF, the Fund assumed a levelization liability that relates to guaranteed and variable payments received from the OEFC in excess of the pre-agreed base rate as set out under the Wawatay and Dryden water facilities' PPAs.

In accordance with the PPA relating to the Wawatay facility, the power purchaser, OEFC, makes guaranteed monthly cash payments over the period to July 2012. In addition, the PPA requires OEFC to make variable cash payments based on actual electricity production. In accordance with the PPA relating to Dryden, the guaranteed monthly cash payments made by OEFC ended in October 2005. As there was still a balance outstanding under the Levelization amount, payments will be made based on actual generation up to 100% of the target generation per the PPA at a variable rate. To the extent that the variable cash payments are less than the revenue recorded, based on the established rate disclosed in the Dryden PPA (the "Base Rate"), the Fund will record a reduction in the Levelization amount. After the Levelization amount is eliminated, payments under the Dryden PPA will be based on actual generation at the Base Rate.

The Fund and the previous owners of Wawatay and Dryden have recorded a liability ("Levelization amount") to the extent that the sum of the guaranteed payments and the variable cash payments received from OEFC, with respect to each of the PPAs, exceeded the revenue recorded by CPOT and the previous owners, based on the relative Base Rate. To the extent that revenue recorded by CPOT exceeds the sum of the guaranteed payments and the variable cash payments received from OEFC, the Levelization amounts will be reduced.

The Levelization amounts recorded on the consolidated statement of financial position include interest accrued at a variable rate, which currently approximates 7.47% per annum. Included in the Levelization amounts, as at June 30, 2007, is accumulated accrued interest of $7,960. As at June 30, 2007, the levelization amounts associated with the Wawatay and the Dryden facilities are $17,797 and $577, respectively.

Repayment of the Levelization amounts and accrued interest is made through reduced cash payments from OEFC based on lower rates for the purchase of power below the Base Rate discussed above, once the guaranteed payments described above cease. Once the Levelization amounts are eliminated, cash payments will be based on the base rates set out in the respective PPAs and will equal the revenue recorded.

## 15. FUTURE INCOME TAX

On October 31, 2006, the Canadian federal government announced tax proposals pertaining to taxation of distributions paid by income trusts and changes to the personal tax treatment of trust distributions that will be applicable starting in 2011. Currently, the Fund does not pay income tax as long as distributions to Unitholders exceed the amount of the Fund's income that would otherwise be taxable. The new legislation results in a two-tiered tax structure similar to that of corporations whereby the taxable portion of distributions will be subject to income tax payable by the Fund at a rate of 31.5%, while taxable Canadian Unitholders will receive the favourable tax treatment on distributions currently applicable to qualifying dividends.

As of June 30, 2007, the government's proposal has been passed into law. Future income tax assets and liabilities have been recognized on temporary differences between the accounting and tax bases of existing assets and liabilities as follows:

| Future income tax assets | June 30, 2007 |
|---|---|
| Loss carryforwards | $16,004 |
| Unrealized foreign exchange differences on loans receivable | 1,671 |
| Debt retirement | 3,042 |
| Levelization amounts | 4,856 |
| Deferred gains | 314 |
| Total | 25,887 |
| Less: valuation allowance | (17,643) |
| Future income tax assets | $8,244 |

| Future income tax liabilities | June 30, 2007 |
|---|---|
| Capital assets | $50,375 |
| Loan premium and deferred financing costs | 990 |
| Intangibles | 19,625 |
| Financial instruments | 1,389 |
| Other | 84 |
| Future income tax liabilities | $72,463 |

## 16. 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. 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 expected present value of the retirement obligations is $1,197. 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. An assessment of this liability performed as of June 30, 2007 confirmed that the estimates used and obligation recorded continue to be appropriate and reasonable.

## 17. UNITS ISSUED BY THE FUND

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

(i) 90% of the daily weighted average price per unit during the period of the last ten days; and

(ii) an amount equal to either:

  (a) the closing price of the units on the date on which the units were tendered for redemption;

  (b) the average of the highest and lowest prices of units on the date on which the units were tendered for redemption; or

  (c) the average of the last bid and ask prices on the date on which the units were tendered for redemption.

The total amount payable in cash by the Fund in respect of such units and all other units tendered for redemption in the same calendar month shall not exceed $50 (provided that such limitation may be waived at the discretion of the trustees of the Fund). During the quarter, 50 units were redeemed by Unitholders in accord with the conditions set out above. On June 26, 2007, the Fund issued an additional 20,006,674 units

as consideration for the acquisition of CPIF. In total, 46,805,619 units were outstanding as at June 30, 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.

## 18. 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 are 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 June 30, 2007:

| Period of distribution | Date of payment | Amount declared | Amount declared (per unit)* |
|---|---|---|---|
| April 1 to 30, 2007 | May 15, 2007 | $2,579 | $0.08583 |
| May 1 to 31, 2007 | June 15, 2007 | 2,579 | 0.08583 |
| June 1 to 30, 2007 | July 16, 2007 | 4,296 | 0.08583 |
| Quarter ended June 30, 2007 | | $9,454 | $0.25749 |

* 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.

## 19. SEGMENTED INFORMATION

The Fund has two reportable industry segments, power infrastructure and social infrastructure, and operates in two geographical segments: Canada and the U.S. Income from the U.S. is limited to interest earned on the U.S. Wind Loan.

The social infrastructure segment includes the Fund's 45% indirect ownership of Leisureworld. The Fund's investment in Leisureworld is accounted for using the equity method and is included in these consolidated financial statements in "Equity accounted loss from long-term investments", with further detail of the investment included in Note 7. The carrying value of the investment in Leisureworld at June 30, 2007 was $72,218.

The power infrastructure segment consists of the Fund's investment in Cardinal and the power infrastructure assets acquired from CPIF. Over 95% of the Fund's revenue and income from operations was from Cardinal for the quarter and year-to-date ended June 30, 2007 as only results for the four-day period ended June 30, 2007 are included in these consolidated financial statements from the newly acquired CPIF assets. The balance of total assets of $731,678 on the Statement of Financial Position relates to the power infrastructure segment and Fund assets.

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

## 20. RELATED PARTY TRANSACTIONS

MPML provides management services to Cardinal, LTC Holding LP, the Fund, the Trust and CPOT under management agreements that expire on April 30, 2024. The Fund incurred management fees of $274 in respect of the quarter ended June 30, 2007 (YTD - $541) (Q2 2006 - $263; YTD 2006 – $523) 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 June 30, 2007 (YTD - $53) (Q2 2006 – $26; YTD 2006 – $52) 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. A reduction of incentive fee of $5 (Q2 2006 - $309) was recorded for the quarter ended June 30, 2007 as distributable cash did not exceed the annual threshold of $0.95 per unit.

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 $537 for the quarter ended June 30, 2007 (YTD - $1,181) (Q2 2006 – $294; YTD 2006 - $705), of which $264 (YTD - $411) has been capitalized in connection with the acquisition of CPIF.

During the quarter, the Fund paid advisory fees in the amount of $4,830 to an affiliate of Macquarie Bank Limited in connection with the acquisition of CPIF.

## 21. COMMITMENTS AND CONTINGENCIES

### Electricity Supply Contracts

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. Rates for power sales at other facilities are generally fixed through long-term PPAs and include escalation clauses.

### 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 June 30, 2007, the contracts cover the period from July 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. All other lease commitments have been disclosed in Note 12.

## Operations and Management Agreements

The Fund, through CPOT, has an Operations and Management agreement with Regional Power Inc. ("Regional") to operate and maintain the waterpower generating facilities. The agreement has an initial ten-year term that expires on November 30, 2011 (the "Initial Term"), and is automatically renewable for two additional five-year terms (each a "Renewal Term") unless at the end of the Initial Term or the first Renewal Term, as the case may be, Regional provides CPOT with written notice to the contrary 180 days prior to the expiry of the Initial Term or the first Renewal Term, respectively, subject to certain performance targets being met. Regional is to be paid a monthly management fee of $38, subject to annual adjustments for changes in the Consumer Price Index. Commencing in 2002 and for the Initial Term, if actual operating cash flows from the waterpower generating facilities exceed a predetermined reference cash flow in any year, Regional will also be entitled to incentive fees of 50% of any excess, to a maximum of $50. If actual operating cash flows from the waterpower generating facilities are less than the predetermined reference cash flow in any year, Regional will pay CPOT 50% of the shortfall, to a maximum of $25. An amount equal to 50% of any additional shortfall, up to a maximum amount of $25 will be set off against any future incentive fees.

The Fund, indirectly through CPOT, has an Operations and Management Agreement with Probyn Whitecourt Management Inc. ("PWMI") to operate and maintain the Whitecourt biomass facility. The agreement has an initial ten-year term that expires on November 30, 2011 (the "Initial Term"), and is automatically renewable for two additional five-year terms (each a "Renewal Term") unless at the end of the Initial Term of the first Renewal Term, as the case may be, PWMI provides the Fund with written notice to the contrary 180 days prior to the expiry of the Initial Term or the first Renewal Term, respectively, subject to certain performance targets being met. PWMI receives a monthly management fee of $33, subject to annual adjustments for changes to the Consumer Price Index. Commencing in 2002 and for the Initial Term, PWMI's contract specifies annual incentives and penalties, to a maximum of 50% of any excess or shortfall in the Whitecourt facility's actual operating cash flow, compared with a predetermined reference cash flow for the year. The penalty clause sets the maximum annual cash payment to the Fund at $100, with any remaining penalty carried forward against future years' performances.

The Fund indirectly has a management agreement with Probyn Power Services Inc. to operate and maintain the Chapais biomass facility until November 30, 2011. Payments in respect of this agreement totalled $3 for the four-day period ended June 30, 2007. The Fund's respective interest in these amounts was $1.

The Fund indirectly has a management service contract with Stapletonprice.com Limited to operate and maintain the Erie Shores Wind Farm. The contract expires on August 31, 2007 and stipulates that Stapletonprice.com receives a monthly management fee of $39.

## Wood Waste Supply Agreement

In the ordinary course of business, the Whitecourt biomass facility has entered into long-term agreements to ensure an adequate supply of wood waste. The agreements expire in 2014.

## Water Power Lease Agreement

The Fund is indirectly a party to water power lease agreements with the Provinces of Ontario and British Columbia in respect of lands, lands under water and water rights necessary for the operation of its waterpower generating facilities. The payments with respect to these agreements vary based on actual power production. The terms of the waterpower lease agreements for Sechelt, Hluey Lakes, Wawatay and Dryden extend to 2025, 2030, 2042 and 2023, respectively.

## Guarantees

As at June 30, 2007, the Fund has an unsecured guarantee in the amount of $10,000 to the lenders under the Tranche C loan to Erie Shores discussed in Note 11 (iii). This guarantee may be reduced from time to time by an amount equal to 75% of any releases from the escrow accounts established upon the disposition of GRS (see Note 23), in excess of a certain amount. At June 30, 2007, there has been no reduction in the guarantee amount.

From the date of CPOT's investment in GRS on October 31, 2002, it provided three guarantees relating to the former investment in GRS. Two of these were in favour of a municipality, guaranteeing GRS's obligations under the relevant PPAs with the municipality. The other guarantee was in favour of a lessor of one of the

sites upon which one of GRS's projects operated, guaranteeing GRS's obligations under the relevant lease. The municipality and the lessor both have policies of not relieving guarantors from their guarantees for periods in which they were invested in the underlying projects. CPOT has received indemnification from Fortistar Renewables Group LLC ("Fortistar") for the period commencing on the sale of GRS to Fortistar on September 15, 2006. No claims have been made on these guarantees.

## 22. FINANCIAL INSTRUMENTS

Financial instruments consist primarily of temporary cash investments, accounts receivable, loans receivable, current and long-term liabilities, gas swap and interest rate swap contracts and embedded derivatives.

The Fund invests its cash balances in financial instruments of highly rated financial institutions and government securities.

A substantial portion of the Fund's trade receivables are from the OEFC and the associated credit risks are deemed to be limited. The Fund's loans receivable are measured at amortized cost using the effective interest method with a fair value that approximates its carrying value as the coupon rate on the loan approximates the market rate at inception.

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 convertible debentures, including capitalized transaction costs, and levelization amounts are recorded at amortized cost using the effective interest method.

The swap contracts of $1,278 on the statement of financial position include gas swap contracts and an interest rate swap contract entered into by the Fund.

The Fund's gas swap contracts effectively fix the revenue derived from the sales of excess gas and resulted in an unrealized gain of $1,271 for the quarter ended June 30, 2007 (Q2 2006 - unrealized gain of $808). 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 June 30, 2007, the estimated liability to the Fund is $1,008 (December 31, 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.

The Fund's interest rate swap contract mitigates the refinancing risk associated with the Erie Shores project debt. Under the contract, the Fund will pay a fixed rate of 5.5% for a period of five years following the maturity of the five-year loan. In return, the Fund will be paid a floating rate equal to the then current three-month Bankers' Acceptance rate. Any changes in the fair value of this contract are reported in the consolidated statement of operations. As of June 30, 2007, the estimated liability to the Fund is $270. An unrealized loss of $117 on this interest rate swap contract has been recorded in the consolidated statement of operations for the quarter.

| | Quarter ended June 30, 2007 | Quarter ended June 30, 2006 | Year ended June 30, 2007 | Year ended June 30, 2006 |
|---|---|---|---|---|
| Unrealized gain on gas swap contracts | $1,271 | $808 | $499 | $1,133 |
| Unrealized loss on interest rate swap contract | $(117) | - | $(117) | - |
| Total unrealized gain on swap contracts | $1,154 | $808 | $382 | $1,133 |

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 within the contract. The fair value of these embedded derivatives requires the Manager to make estimates and assumptions that affect the reported amounts of these embedded derivatives. The major assumptions that impact the value of the reported asset and liability include forecasts to 2015 for gas prices and volatility, foreign exchange, OEFC's direct customer rate ("DCR"), gas volumes and sales, fixed and variable gas transportation costs. Changes in one or a combination of these estimates can have a significant impact on the fair value of the embedded derivative given the volume of gas and length of contract involved. During the quarter, the Manager adjusted certain of its estimation assumptions to a basis that it deemed more accurate and reliable. The Manager has chosen estimates that it deems appropriate in the

circumstances and may adjust its estimates as new information becomes available, in particular where there is an absence of reliable observable market data. Actual results could differ from the estimates and the differences could be significant.

As at June 30, 2007, the embedded derivative asset and liability that have been recorded at fair value are $17,837 and $12,420, respectively. Total unrealized gain on the embedded derivatives of $9,917 for the quarter consists of an unrealized loss on the embedded derivative asset of $2,363 offset by an unrealized gain on the embedded derivative liability of $12,280.

## 23. DISCONTINUED OPERATIONS

On September 15, 2006, CPIF completed the sale of its investment in GRS. Pursuant to the purchase and sale agreement, US $7,593 of the proceeds was deposited into an escrow account for ongoing legacy issues regarding GRS operations. The only significant issue outstanding at this time relates to a dispute surrounding the methodology used by one of GRS's customers, Commonwealth Edison Company, to calculate the rate under the PPA. The amount that remains in escrow represents the maximum exposure to the Fund relating to this issue and has been accrued at June 30, 2007. These escrowed funds, or a portion thereof, will be payable if certain conditions are met. In addition, should the dispute be resolved fully in the favour of GRS, the Fund may be entitled to the refund of additional amounts that were paid prior to closing, totalling US $2,300, less certain royalties. The Fund has not recognized any of the escrowed amounts or the potential refund of amounts previously paid as a gain at June 30, 2007 because realization by the Fund has not been reasonably assured. Upon the acquisition of CPIF, Unitholders of CPIF received one contingency value receipt ("CVR") for each CPIF unit. Each CVR entitles the holder, subject to certain conditions, to a payment of up to approximately $0.19; provided that if refunds are received from Commonwealth Edison Co., the maximum amount payable under the CVR will increase. The CVRs represent the right to receive an amount equal to 80% of: the amount of the US $7,593 escrowed funds that were set aside by CPIF in connection with its sale of GRS in 2006 and any refunds received from Commonwealth Edison Co., after reduction for certain claims and costs and after specified adjustments.

## 24. ECONOMIC DEPENDENCE

For the quarter, approximately 97.0% (Q2 2006 - 97.6%) of the Fund's revenue was derived from the sale of electricity to the OEFC. Approximately 57.5% (June 30, 2006 - 94.0%) of the accounts receivable balance was due from the OEFC relating to electricity sales.

For the quarter, approximately 79.3% (Q2 2006 - 68.3%) 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 27.8% (June 30, 2006 - 53.2%) of the trade payables and accrued expenses are payable to Husky relating to gas purchases.

## 25. SUBSEQUENT EVENTS

Upon the acquisition of CPIF and pursuant to the terms of the outstanding 6.75% convertible unsecured subordinated debentures (Note 13), each debenture holder had the option to exercise a put right within 30 days of a change of control notice requiring the Fund to purchase all or part of such holder's debentures at a price equal to 101% of the principal amount. On August 2, 2007, the Fund purchased $15,803 principal amount of debentures which were put by the debenture holders for a total of $16,057, including accrued interest.

## 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

Computershare Investor Services Inc.
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### FOR INVESTOR AND INVESTMENT ANALYST INQUIRIES, PLEASE CONTACT:

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

### FOR INVESTOR OR MEDIA INQUIRIES, PLEASE CONTACT:

Sarah Borg-Olivier, Investor Relations, (416) 607 5009

### EXCHANGE LISTING:

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

### WEBSITE:

www.macquarie.com/mpt