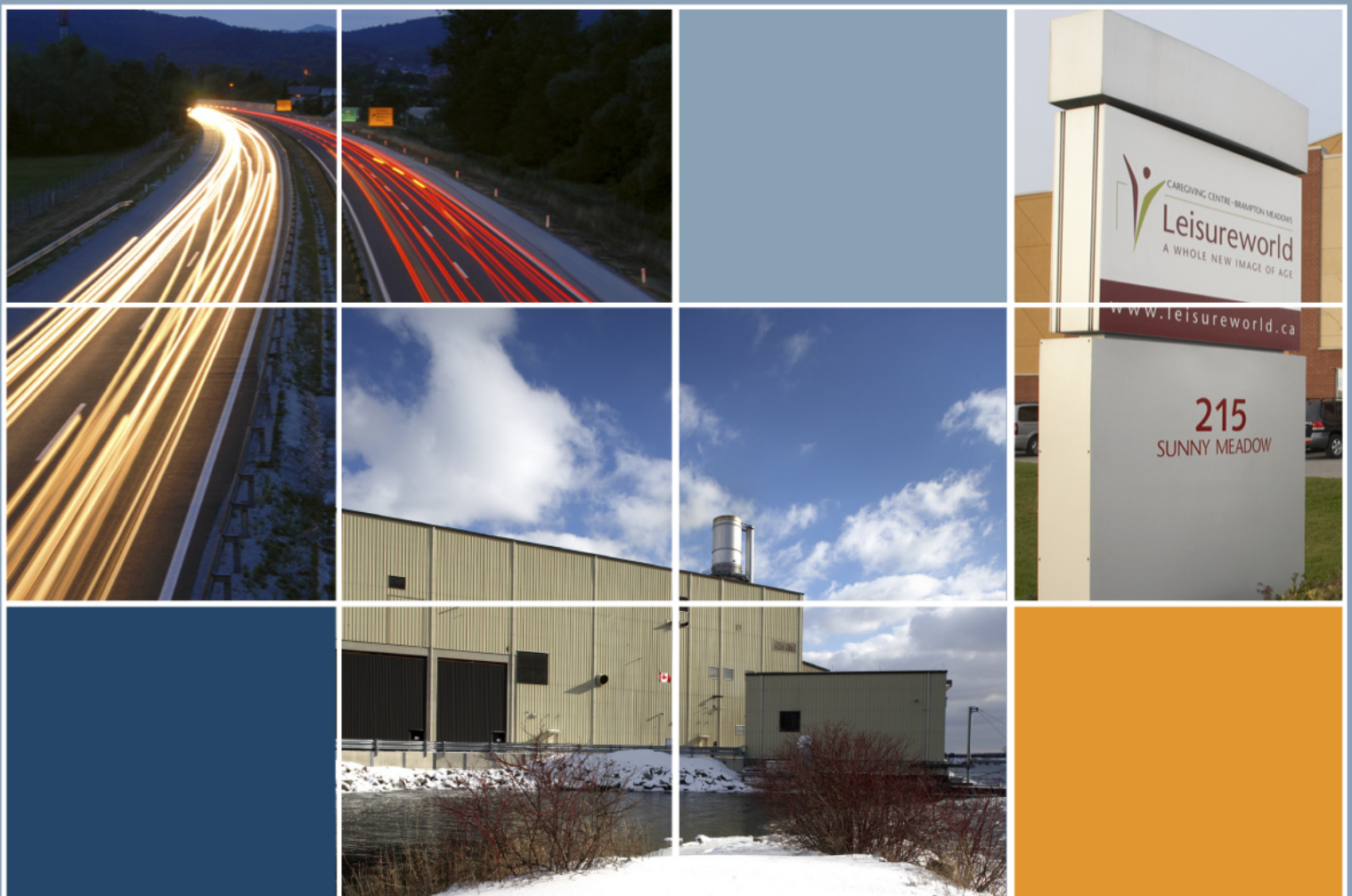




**MACQUARIE POWER & INFRASTRUCTURE INCOME FUND**  
FINANCIAL REPORT

FOR THE QUARTER AND NINE MONTHS ENDED  
SEPTEMBER 30, 2008



Macquarie Power & Infrastructure Income Fund ("MPT" or the "Fund") is not a trust company and is not registered under applicable legislation governing trust companies, as it does not carry on or intend to carry on the business of a trust company. The units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that act or any other legislation.

Macquarie Power Management Ltd. ("MPML" or the "Manager") is the Manager of the Fund and is an indirect, wholly-owned subsidiary of Macquarie Group Limited, an Australian public company listed on the Australian Stock Exchange.

Investments in the Fund are not deposits with or other liabilities of Macquarie Group Limited, the Manager or of any member company of the Macquarie group (Macquarie Group Limited and its subsidiaries and affiliates) and are subject to investment risk, including loss of income and equity invested or delays in redemption. None of Macquarie Group Limited, the Manager or any other member company of the Macquarie group guarantees the performance of the Fund, distributions from the Fund or the redemption or repayment of capital from the Fund.

This quarterly report is not an offer or invitation for subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in the Fund, the investor or prospective investor should consider whether such investment is appropriate to their particular needs, objectives and financial circumstances and consult an investment advisor if necessary.

MPML, as the manager of the Fund, is entitled to certain fees for so acting (see "Related Party Transactions"). Macquarie Group Limited and its related companies, together with their officers and directors, may hold units in the Fund from time to time.

# MACQUARIE POWER & INFRASTRUCTURE INCOME FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE QUARTER AND NINE MONTHS ENDED  
SEPTEMBER 30, 2008

This report for Macquarie Power & Infrastructure Income Fund (the "Fund") summarizes the consolidated operating results and cash flows for the quarter and nine-months ended September 30, 2008 and the Fund's financial position as at that date. This discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements of the Fund and accompanying notes as at and for the periods ended September 30, 2008, as well as the Fund's management's discussion and analysis included in the Fund's annual report for the year ended December 31, 2007. Additional information about the Fund, including its Annual Information Form dated March 21, 2008, quarterly reports and other public releases, is available at [www.sedar.com](http://www.sedar.com).

The information contained in this report reflects all material events up to November 11, 2008, the date on which the report was approved by the Fund's Board of Trustees.

### NON-GAAP MEASURES

While 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 as defined by GAAP. For instance, the Fund measures distributable cash, payout ratio and contribution margin to assess the financial performance of the Fund's operations. Please see distributable cash and payout ratio and contribution margin for additional information and a comparison of these non-GAAP figures with the most comparable GAAP measures.

### CAUTION REGARDING FORWARD-LOOKING INFORMATION

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 does not undertake to update any forward-looking information that may be made from time to time by or on its behalf, except as required under applicable securities legislation. The forward-looking information contained in this report is presented for the purposes of assisting investors and analysts in understanding our financial position as at and for the periods ended at the dates presented and our stated priorities and objectives may not be appropriate for other purposes. The Fund cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made.

## TO THE UNITHOLDERS OF MACQUARIE POWER & INFRASTRUCTURE INCOME FUND:

Macquarie Power & Infrastructure Income Fund is continuing to perform strongly and is on track to achieve our targeted payout ratio of approximately 100% for fiscal 2008, which provides for the stability of distributions.

Infrastructure assets are not typically subject to market and economic fluctuations, which is important in today's environment. This resilience reflects the essential nature, inelastic demand and predictable cash flow that characterize the Fund's power and social infrastructure assets.

Notably, all of our power assets operate under long-term contracts with creditworthy customers, which is a key driver of MPT's cash flow predictability. Similarly, Leisureworld Senior Care LP ("Leisureworld") operates within a regulated environment. A minimum of 60% of Leisureworld's revenue is derived from the Ontario Ministry of Health and Long-Term Care ("MOHLTC") according to a clearly defined funding formula. Additionally, the supply of long-term care beds is determined and controlled by the MOHLTC. This helps ensure high and stable occupancy, which is the primary cash flow driver for Leisureworld. Furthermore, MPT's portfolio is well diversified by asset type and geography.

Combined, these factors help to ensure stability of the Fund's cash flow throughout the economic cycle.

### Financial Review

Revenue for the quarter was \$31.5 million compared with \$30.4 million in the third quarter of 2007. The increase primarily reflected improved wind speed and availability at Erie Shores Wind Farm ("Erie Shores"), increased water flows at the hydro power facilities as well as higher power prices at the Cardinal cogeneration facility ("Cardinal") attributable to the continuing impact of electricity rate increases under Cardinal's Power Purchase Agreement ("PPA"), which was offset by lower production at Cardinal as the facility increased gas mitigation to capitalize on a favourable spot market price for gas. Revenue for the nine-month period ended September 30, 2008 was \$108.7 million compared with \$81.0 million in the same period last year.

Distributable cash was \$9.8 million (\$0.197 per unit) compared with \$9.0 million (\$0.180 per unit) in 2007, reflecting stable growth in revenue and lower administrative expenses partially offset by higher gas transportation costs at Cardinal. The increase in gas transportation costs was mitigated by the curtailment of Cardinal's production in order to sell gas at a favourable spot market price. Declared distributions to unitholders were \$13.1 million (\$0.262 per unit) compared with \$12.9 million (\$0.257 per unit) in 2007. This represented a payout ratio of 133% for the quarter, compared with 143% in the third quarter of last year. For the first nine months of 2008, the Fund achieved a payout ratio of 105% compared with 106% in the same period last year. This payout ratio reflects the increase in distributions to unitholders in 2008 of \$0.02 per unit on an annualized basis.

At quarter end, the Fund had positive working capital of \$52.3 million and cash and short-term investments on hand of \$53.2 million of which \$17.0 million was designated to general, major maintenance and capital expenditure reserve accounts.

It is also important to note that the Fund is conservatively leveraged relative to the low risk profile of our assets, with a debt to capitalization ratio at quarter end of 42.8%. In addition, the Fund has no refinancing requirements for 2008 or 2009 and is comfortably within the various debt covenants to which it must adhere.

### Operational Review

Total power production for the quarter increased 0.8% to 479,348 MWh compared with 475,586 MWh in the same period last year.

Cardinal produced 297,301 MWh of electricity (Q3 2007 – 306,448 MWh). The facility achieved availability of 100% (Q3 2007 – 99.1%), which reflected zero outages (Q3 2007 – 17.9 hours). Cardinal curtailed production for 448 hours (Q3 2007 – nil) to capitalize on the favourable spot market price for gas, resulting in a capacity factor of 95.4% (Q3 2007 – 97.2%).

Erie Shores performed in line with expectations with production of 34,679 MWh (Q3 2007 – 28,002 MWh), reflecting strong winds during the period. The facility achieved availability of 94.8% (Q3 2007 – 91.3%) and a capacity factor of 16.0% (Q3 2007 – 12.8%).

The Fund's hydro power facilities achieved a 1.3% increase in production to 36,680 MWh (Q3 2007 – 36,200 MWh). All of the hydro power facilities experienced increased water flows, which were partially offset



by a decrease in production at the Wawatay facility, where 276.7 outage hours (Q3 2007 - nil) were required for annual electrical and civil inspections as well as maintenance work, and by lower production at the Hluey Lakes facility due to an outage of 60 hours (Q3 2007 - 1 hour) required for repair work. Overall, the hydro power facilities had a weighted average availability of 93.6% (Q3 2007 - 95.1%) for the quarter and a capacity factor of 46.8% (Q3 2007 - 45.9%).

The Whitecourt biomass facility ("Whitecourt") operated at 100% availability (Q3 2007 - 96.8%) and achieved a capacity factor of 99.8% (Q3 2007 - 96.5%). Total production at Whitecourt was 53,301 MWh (Q3 2007 - 49,921 MWh).

The Chapais biomass facility ("Chapais"), in which the Fund holds a minority preferred equity and debt interest, experienced availability of 96.5% (Q3 2007 - 98.4%). Production at Chapais was 57,387 MWh (Q3 2007 - 55,015 MWh) as the facility was operated at an increased capacity factor to achieve the maximum annual production target provided for in the facility's PPA for each 12-month period ended November 30.

Leisureworld achieved a 43.2% increase in revenue and a 3.9% increase in income from operations, reflecting the contribution of the seven homes acquired on January 31, 2008, greater use of private accommodation across its portfolio, and increased government funding. Average total occupancy for the quarter was 98.7% (Q3 2007 - 98.4%). The average occupancy of private rooms was 93.3% (Q3 2007 - 87.3%).

## Outlook

Our outlook for the remainder of 2008 is positive as we enter the seasonally strong performing fourth quarter.

Cardinal will continue to benefit from higher electricity rates under its PPA, which contains higher rates during the months of October to March. Moreover, the facility can generate more electricity during the winter months when the gas turbine attains its peak output as a result of lower ambient temperatures. Higher electricity rates will be offset by higher gas transportation costs. Cardinal is continuing to work with its peers through the Association of Power Producers of Ontario to communicate its views on the impact of higher gas transportation costs and to reinforce the need for toll stabilization. It is currently expected that transportation tolls in 2009 will be consistent with or below the average 2008 rate.

Erie Shores is performing in line with the Fund's forecast and is expected to deliver annual production of approximately 245,600 MWh, subject to wind speed and density, which are typically greatest during the fall and winter months. Plant availability of 97% is guaranteed until July 2010 by GE, the turbine supplier, and Erie Shores is entitled to direct revenue reimbursement if that threshold is not met.

At the hydro power facilities, water flows are typically strongest during the spring and autumn months. The impact of fluctuating water flows on revenue is mitigated by the geographic diversification of the hydro assets across the Arctic, Atlantic and Pacific watersheds. Additionally, the PPAs at Wawatay and Dryden provide for higher electricity rates during the months of October to March. We expect the hydro power facilities to generate long-term average production of 166,360 MWh per year, which represents actual historical production at each of the plants. This long-term average includes the impact of outages required for mechanical, electrical and civil inspections at the plants, which are typically scheduled during seasonally low periods.

Whitecourt continues to operate reliably, reflecting the stability of its fuel supply and strong maintenance program. We expect production in the fourth quarter of the year to be consistent with the facility's historical performance.

Leisureworld continues to advance the regulatory process for the acquisition of the Good Samaritan Seniors Complex with the MOHLTC and remains focused on providing a high quality of care, accommodation and services to residents, which contributes to the continuing high occupancy across its 26 long-term care homes.

MPT's strategy to enhance long-term value for unitholders includes growing our portfolio through acquisitions that meet our investment and return criteria. These opportunities could include: power generation, particularly in the renewable energy sector; electricity transmission and distribution; additional long-term care homes; and other essential infrastructure assets such as water distribution, schools, hospitals and roads, including through public-private partnerships ("P3s") where a robust pipeline of opportunities is coming to market.

Approximately 50% of Canada's infrastructure will reach the end of its serviceable life by 2027, which is creating an urgent need for investment and renewal and a financial burden that governments can no longer carry alone. MPT has the knowledge and track record to capitalize on opportunities as well as a substantial financial capacity for growth.

While capital market conditions continue to be challenging, it is worth reiterating that infrastructure assets are largely protected from the economic cycle due to stable demand for the essential service they provide and the cash flow predictability afforded by the regulatory or contractual framework in which they operate. For these reasons, infrastructure assets are an important diversification tool within an investment portfolio.

Our business is solid and we have a favourable outlook for the balance of the year and 2009. As noted above, for fiscal 2008 we expect to achieve a payout ratio of approximately 100%. The return of capital portion of distributions is expected to be approximately 60% for the 2008 fiscal year, based on current operations and barring any significant external shocks.

In closing, we invite investors to visit the Fund's website regularly at [www.macquarie.com/mpt](http://www.macquarie.com/mpt) to access recent presentations and other information about our assets. Our annual Investor Day event will be held on November 20, 2008 and will be webcast with accompanying slides on our website. For more information, please email us at [mpt@macquarie.com](mailto:mpt@macquarie.com).

We are committed to building a significant, diversified portfolio of infrastructure assets and to creating exceptional long-term value for unitholders. We appreciate your support in that endeavour.

Sincerely,

A handwritten signature in black ink, appearing to read 'G. Smith', with a stylized flourish at the end.

Gregory J. Smith  
President and Chief Executive Officer

## CONSOLIDATION AND COMPARISON OF OPERATING RESULTS

MPT is an unincorporated, open-ended limited purpose trust established by a declaration of trust dated March 15, 2004 as amended and restated on 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 Senior Care LP ("Leisureworld"), a provider of long-term care ("LTC").

This Management's Discussion and Analysis ("MD&A") is designed to provide readers with an informed discussion of the activities and operating results of the Fund and its principal subsidiaries: Macquarie Power & Infrastructure Income Trust (the "Trust"), Cardinal Power Inc. ("Cardinal GP"), Cardinal Power of Canada, LP ("Cardinal"), MPT LTC Holding Ltd. ("LTC GP"), MPT LTC Holding LP ("LTC Holding LP") and Clean Power Operating Trust ("CPOT"). LTC Holding LP has an indirect 45% interest in Leisureworld and CPOT has an indirect 31.3% interest in one of the two classes of preferred shares of Chapais Électrique Limitée ("Chapais") and is also a lender to Chapais Énergie, Société en Commandite ("CHESEC"), the owner of the Chapais facility. The Fund accounts for its Leisureworld and Chapais investments using the equity method.

The following discussion and analysis compares the actual results of the Fund for the quarter and nine months ended September 30, 2008 with the results as at and for the quarter and nine months ended September 30, 2007. Results of Clean Power Income Fund ("CPIF") have been included in the comparative figures from the date of acquisition of June 27, 2007. All amounts have been expressed in thousands of Canadian dollars unless otherwise stated.

### Selected Consolidated Financial and Operating Information of the Fund

(In thousands of dollars, except for trust units and per trust unit amounts)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenue	31,542	30,432	108,688	80,988
Income before the following:	4,050	4,379	17,871	14,408
Unrealized gain (loss) on swap contracts	4,896	345	(102)	727
Unrealized gain (loss) on embedded derivative instruments	(5,197)	(5,467)	6,028	6,346
Gain on sale of capital assets	-	-	10	-
Net interest expense	(3,152)	(3,325)	(9,719)	(3,851)
Foreign exchange loss	(10)	(1,239)	(12)	(1,311)
Equity accounted income (loss) from long-term investments	172	(202)	458	(2,134)
Income (loss) before income taxes	759	(5,509)	14,534	14,185
Current income tax recovery (expense)	-	(4)	10	(4)
Future income tax recovery (expense)	3,052	566	(4,518)	(43,433)
Net income (loss)	3,811	(4,947)	10,026	(29,252)
Basic and diluted net income (loss) per Unit	0.076	(0.099)	0.201	(0.787)
Cash flows from operating activities	8,549	(2,567)	40,680	21,969
Distributable cash <sup>(i)</sup>	9,839	8,991	37,538	28,390
Per Unit	0.197	0.180	0.751	0.764
Distributions declared to Unitholders	13,114	12,882	39,348	30,073
Per Unit <sup>(ii)</sup>	0.262	0.257	0.787	0.771
Payout ratio <sup>(iii)</sup>	133%	143%	105%	106%
Basic and diluted weighted average number of trust units and Class B exchangeable units outstanding ("Units")	49,968	50,052	49,969	37,156
Total assets	787,962	779,766	787,962	779,766
Total long-term liabilities	386,532	369,142	386,532	369,142
Sale of electricity (MWh) <sup>(iv)</sup>	479,348	475,586	1,538,870	1,124,306
Sale of steam (M lbs)	165,151	169,949	532,632	510,873
Average total occupancy	98.7%	98.4%	98.3%	98.3%
Average private occupancy	93.3%	87.3%	92.5%	84.8%

<sup>(i)</sup> See "Distributable Cash and Payout Ratio" for a reconciliation of distributable cash to cash flows from operating activities for the quarter. Distributable cash is not a recognized measure under generally accepted accounting principles ("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.

<sup>(ii)</sup> All unitholders were paid distributions equivalent to the amount shown.

<sup>(iii)</sup> 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.

<sup>(iv)</sup> The sale of electricity for the quarter and nine months ended September 30, 2007 exclude production of Caithness Western Wind Holdings LLC ("Caithness"), in which the Fund held an investment in subordinated debt, the "U.S. Wind Loan", of 48,733 MWh. Caithness fully repaid the U.S. Wind Loan in December 2007.

## Revenue

Revenue for the quarter ended September 30, 2008 was \$31,542 compared with \$30,432 in the same period last year. The \$1,110 increase mainly reflected improved wind speed and availability at Erie Shores, increased water flows at the hydro facilities as well as higher power prices at Cardinal under the PPA as a result of a 2.6% increase in the Direct Customer Rate ("DCR"), offset by lower production at Cardinal due to curtailment. Total power generation for the quarter increased by 0.8% from 475,586 MWh in the same period last year to 479,348 MWh.

## Income before the following

Income before unrealized gains and losses on swap contracts and embedded derivatives, gain on sale of capital assets, net interest expense, foreign exchange, income or loss from equity accounted investments and income taxes for the quarter ended September 30, 2008 was \$329 lower than the same period last year. The decrease was mainly attributable to higher depreciation compared with the same period last year due to the finalized purchase price allocation for the CPIF acquisition at year end, which resulted in higher depreciable assets. Operating expenses were higher due to increased gas transportation costs at Cardinal, which were offset by higher revenue and lower administrative expenses in the quarter. Administrative expenses were lower than in the same period last year, primarily due to higher legal and transition costs last year in connection with the acquisition of the CPIF assets. This was offset by higher management fees and a lower reduction in the incentive fee in the quarter.

(In thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Management fees	445	435	1,320	977
Administrative fees	27	27	81	79
Cost reimbursement <sup>(i)</sup>	540	682	1,774	1,863
Incentive fees	(675)	(966)	645	677
Other administrative expenses	474	1,132	2,967	1,589
Administrative expenses	811	1,310	6,787	5,185

<sup>(i)</sup>In addition to the cost reimbursement included in administrative expenses, \$334 and \$731 of cost reimbursement for the quarter and nine months ended September 30, 2008, respectively, were capitalized as deferred charges and capital assets. 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.

## Unrealized Gain (Loss) on Swap Contracts

The fair values of the Fund's swap contracts have been recorded on the consolidated statement of financial position for the quarter ended September 30, 2008. Since these swap contracts are not designated for hedge accounting, the movement in the fair value of these contracts has been reflected in the consolidated statement of operations for the quarter and nine months ended September 30, 2008 as follows:

(In thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Unrealized gain on gas swap contracts	4,824	603	97	1,102
Unrealized gain (loss) on interest rate swap contracts	72	(258)	(199)	(375)
Total unrealized gain (loss) on swap contracts	4,896	345	(102)	727

## Unrealized Gain (Loss) on Embedded Derivative Instruments

As at September 30, 2008, the embedded derivative asset and liability recorded at fair value were \$18,717 and \$8,629, respectively. The movement in the fair value of these embedded derivatives has been reflected in the consolidated statement of operations for the quarter and nine months ended September 30, 2008 as follows:

(In thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Unrealized gain (loss) on embedded derivative asset	(9,231)	(3,077)	999	(2,240)
Unrealized gain (loss) on embedded derivative liability	4,034	(2,390)	5,029	8,586
Total unrealized gain (loss) on embedded derivative instruments	(5,197)	(5,467)	6,028	6,346



### Net Interest Expense

Net interest expense for the quarter was \$173 lower than the same period last year primarily due to lower interest expense on the Fund's convertible debentures and floating rate debt. Interest expense on the convertible debentures is lower than the same period last year due to a \$15,803 repurchase of debentures in Q3 2007. Interest expense on floating rate debt is also lower, despite higher borrowings, as a result of lower prevailing interest rates compared with the same period last year. This was partially offset by repayment of the U.S. Wind Loan investment in the fourth quarter of 2007, thereby reducing a source of interest income.

### Equity Accounted Income (Loss) from Long-term Investments

The Fund has an indirect 45% interest in Leisureworld and an indirect 31.3% interest in one of the two classes of preferred shares of Chapais, which are accounted for using the equity method. Included in the consolidated statement of operations for the quarter ended September 30, 2008 is the equity accounted income of \$172 (Q3 2007 - loss of \$102) from Leisureworld and the equity accounted income of \$nil (Q3 2007 - loss of \$100) from Chapais.

### Income Taxes

As a result of amendments to the Canadian Income Tax Act which became law on June 22, 2007, future income tax assets and liabilities have been recognized on the consolidated statement of financial position based on temporary differences between the accounting and tax bases of existing assets and liabilities that are expected to reverse after 2010. For the quarter ended September 30, 2008, the Fund recorded a future income tax recovery of \$3,052 (Q3 2007 - recovery of \$566) in the consolidated statement of operations in respect of these assets and liabilities.

### Cash Flows from Operating Activities

Cash flows from operating activities for the quarter increased by \$11,116 from the same period last year. The increase was primarily due to changes in working capital, an increase in earnings before non-cash expense items for the reasons described above, and lower interest expense.

### Distributable Cash and Payout Ratio

Distributable cash and payout ratio are not recognized performance measures under GAAP. The Fund 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, and adjusted for changes in the reserve accounts, non-discretionary receipts and payments and distributions received from Leisureworld. In addition, the impact of changes in working capital is excluded (the movements in trade-related current assets and liabilities, excluding cash) 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. Payout ratio is defined as distributions declared as a proportion of distributable cash.

For the quarter ended September 30, 2008, distributions to unitholders exceeded distributable cash. The Fund makes monthly distributions at a constant amount per unit during the year. Given seasonal fluctuations in the business, it is possible for monthly distributions to exceed distributable cash from time to time. In such a situation, the variance is funded from the Fund's existing cash resources. On an annual basis, the Fund expects distributable cash to exceed distributions paid to unitholders.

In any given period, the amount of distributions declared may exceed the net earnings of the Fund as a result of non-cash charges, most significantly, amortization and non-cash movements in future income taxes and embedded derivative balances. Except for allocations to capital expenditures and major maintenance reserve accounts, the Fund does not retain additional amounts for these non-cash balances as movements in these balances do not require periodic investments to maintain existing levels of activity. The amount of distributions declared may also exceed cash flow from operations in any given period as a result of distributions received from Leisureworld, which are excluded from the calculation of cash flow from operations.

(In thousands of dollars, except for trust units and per trust unit amounts)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Cash flows from operating activities	8,549	(2,567)	40,680	21,969
Maintenance of productive capacity:				
Release from major maintenance reserve account	15	-	2,940	431
Allocation to major maintenance reserve account	(556)	(747)	(1,669)	(1,979)
Allocation to capital expenditure reserve account	(213)	(255)	(638)	(464)
	7,795	(3,569)	41,313	19,957
Other adjustments:				
Scheduled repayment of debt	(554)	(660)	(1,986)	(660)
Scheduled receipt of loans receivable	162	146	474	146
Distributions received from Leisureworld	2,588	2,588	7,763	7,762
Changes in working capital	(152)	10,486	(10,026)	1,185
Distributable cash for the period <sup>(i)</sup>	9,839	8,991	37,538	28,390
Per Unit	0.197	0.180	0.751	0.764
Distributions declared to Unitholders	13,114	12,882	39,348	30,073
Per Unit <sup>(ii)</sup>	0.262	0.257	0.787	0.771
Payout ratio <sup>(iii)</sup>	133%	143%	105%	106%
Basic and diluted weighted average number of units outstanding	49,968	50,052	49,969	37,156

<sup>(i)</sup> 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.

<sup>(ii)</sup> All unitholders were paid distributions equivalent to the amount shown.

<sup>(iii)</sup> 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.

For the quarter ended September 30, 2008, distributable cash was \$9,839 (Q3 2007 - \$8,991). The Fund declared distributions to unitholders of \$13,114 (Q3 2007 - \$12,882). This represented a payout ratio of 133% compared with 143% in the same period last year, reflecting higher cash flows generated from the assets as a result of improved wind speed at Erie Shores, increased water flows at the hydro power facilities and higher power prices at Cardinal. This was partially offset by higher distributions declared in the quarter compared with the same period last year due to an increase in distributions to unitholders of \$0.02 per unit on an annualized basis starting January 1, 2008. The quarterly payout ratio of more than 100% reflects the seasonal nature of the Fund's business. The Fund anticipates achieving a full year payout ratio of approximately 100%.

## HIGHLIGHTS BY OPERATING SEGMENT

The discussion and analysis of the Fund's summarized results is organized by its two operating segments: power infrastructure and social infrastructure.

(In thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008			Quarter ended September 30, 2007		
	Power	Social	Total	Power	Social	Total
Revenue	31,542	-	31,542	30,432	-	30,432
Operating expenses	19,476	-	19,476	18,248	-	18,248
Contribution margin <sup>(i)</sup>	12,066	-	12,066	12,184	-	12,184
Interest income on loans receivable <sup>(ii)</sup>	196	-	196	750	-	750
The Fund's pro rata share of equity accounted income (loss)	-	172	172	(100)	(102)	(202)
Depreciation and amortization on capital assets	5,244	-	5,244	5,045	-	5,045
Sale of electricity (MWh) <sup>(iii)</sup>	479,348	-	479,348	475,586	-	475,586
Sale of steam (M lbs)	165,151	-	165,151	169,949	-	169,949
Average total occupancy	-	98.7%	98.7%	-	98.4%	98.4%
Average private occupancy	-	93.3%	93.3%	-	87.3%	87.3%

<sup>(i)</sup> Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, contribution margin may not be comparable to similar measures presented by other issuers.

<sup>(ii)</sup> The Fund's interest income consists of interest earned on Chapais loans for the period. This amount is included in net interest expense on the consolidated statement of operations.

<sup>(iii)</sup> The sale of electricity for the quarter ended September 30, 2007 excludes production of the U.S. Wind Loan of 48,733 MWh. Caithness fully repaid the U.S. Wind Loan in December 2007.

(In thousands of dollars unless otherwise noted)	Nine months ended September 30, 2008			Nine months ended September 30, 2007		
	Power	Social	Total	Power	Social	Total
Revenue	108,688	-	108,688	80,988	-	80,988
Operating expenses	62,417	-	62,417	49,216	-	49,216
Contribution margin <sup>(i)</sup>	46,271	-	46,271	31,772	-	31,772
Interest income on loans receivable <sup>(ii)</sup>	601	-	601	781	-	781
The Fund's pro rata share of equity accounted income (loss)	156	302	458	(102)	(2,032)	(2,134)
Depreciation and amortization on capital assets	15,750	-	15,750	9,065	-	9,065
Sale of electricity (MWh) <sup>(iii)</sup>	1,538,870	-	1,538,870	1,124,306	-	1,124,306
Sale of steam (M lbs)	532,632	-	532,632	510,873	-	510,873
Average total occupancy	-	98.3%	98.3%	-	98.3%	98.3%
Average private occupancy	-	92.5%	92.5%	-	84.8%	84.8%

<sup>(i)</sup> Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, contribution margin may not be comparable to similar measures presented by other issuers.

<sup>(ii)</sup> The Fund's interest income consists of interest earned on Chapais loans for the period. This amount is included in net interest expense on the consolidated statement of operations.

<sup>(iii)</sup> The sale of electricity for the nine months ended September 30, 2007 excludes production of the U.S. Wind Loan of 48,733 MWh. Caithness fully repaid the U.S. Wind Loan in December 2007.

## Power Infrastructure

The power infrastructure segment includes gas cogeneration, wind, hydro and biomass power generation assets. The Fund's power assets are diversified by fuel source and have a weighted average remaining PPA term of approximately 11 years.

Asset/Facility	Percentage Ownership	Location	Installed Capacity (MW)	Utility/Electricity Purchaser	Expiry of PPA	Fuel Supply Contract Expiry
<b>Gas Cogeneration</b>						
Cardinal	100%	ON	156 MW	Ontario Electricity Financial Corporation ("OEFC")	2014	2015
<b>Wind</b>						
Erie Shores	100% <sup>(i)</sup>	ON	99 MW	Ontario Power Authority ("OPA")	2026	n/a
<b>Hydro</b>						
Sechelt	100%	BC	16 MW	BC Hydro	2017	n/a
Hluey Lakes	100%	BC	3 MW	BC Hydro	2020	n/a
Wawatay	100%	ON	14 MW	OEFC	2042	n/a
Dryden <sup>(ii)</sup>	100%	ON	3 MW	OEFC	2020	n/a
<b>Biomass</b>						
Whitecourt	100%	AB	28 MW	TransAlta Utilities Corp. ("TransAlta")	2014	2014
Chapais	(iii)	QC	31 MW	Hydro Quebec	2015, with option to extend to 2020 under certain conditions	2015, with option to extend to 2020 under certain conditions

<sup>(i)</sup> One of the wind turbines is owned by a local landowner. Erie Shores Wind Farm maintains operational and managerial control of this wind turbine.

<sup>(ii)</sup> Comprised of the Wainwright, Eagle River and McKenzie Falls hydro power stations.

<sup>(iii)</sup> The Fund has a 31.3% interest in one of the two classes of preferred shares of Chapais and holds a 24.8% interest in Tranche A and B debt and a 50% interest in Tranche C debt all issued by CHESEC.

## Gas Cogeneration Power Operations:

(In thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenue	21,657	21,508	72,238	71,623
Operating expenses	15,405	14,348	47,770	45,133
Contribution margin <sup>(i)</sup>	6,252	7,160	24,468	26,490

Depreciation and amortization on capital assets	1,966	1,944	5,872	5,829
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Sale of electricity (MWh)	297,301	306,448	929,272	955,284
Sale of steam (M lbs)	165,151	169,949	532,632	510,873

<sup>(i)</sup> Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, contribution margin may not be comparable to similar measures presented by other issuers.

Cardinal's revenue for the quarter was \$149 higher from the same period last year, reflecting a 2.6% increase in the DCR rate offset by lower production as a result of curtailment in the quarter (a period of time during which the plant produces electricity but not at full capacity). During the quarter, the plant achieved 100% availability (Q3 2007 – 99.1%) with no outage hours (Q3 2007 – 17.9 hours). Curtailment hours totalled 448 for the quarter (Q3 2007 – nil). Cardinal curtails production from time to time to capitalize on a favourable spot market price for gas. As a result, the plant achieved a capacity factor of 95.4% compared with 97.2% in the same period last year. Revenue from the sale of steam was \$248 (Q3 2007 – \$262), reflecting a reduction in Canada Starch Operating Company's ("CASCO"), Cardinal's sole steam customer, steam requirements due to an outage at the CASCO plant. Operating expenses were higher from the same period last year due to increased gas transportation charges, which were only partially offset by gas mitigation.

## Wind Power Operations:

(In thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenue	3,418	2,697	16,589	2,849
Operating expenses	1,296	1,377	4,038	1,439
Contribution margin <sup>(i)</sup>	2,122	1,320	12,551	1,410

Depreciation and amortization on capital assets	2,065	1,791	6,195	1,871
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Interest income on loans receivable <sup>(ii)</sup>	-	537	-	559
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Sale of electricity (MWh) <sup>(iii)</sup>	34,679	28,002	170,588	168,025
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<sup>(i)</sup> Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, contribution margin may not be comparable to similar measures presented by other issuers.

<sup>(ii)</sup> Interest income on loans receivable for the quarter and nine months ended September 30, 2008 consists of interest income on the U.S. Wind Loan, which was fully repaid in the December 2007. The sale of electricity for both the quarter and nine months ended September 30, 2007 exclude production of the U.S. Wind Loan of 48,733 MWh and 203,895 MWh respectively.

<sup>(iii)</sup> Included in the sale of electricity for the nine months ended September 30, 2007 are operating results of the assets acquired on June 27, 2007 for the full period indicated. These results are provided solely for comparison purposes and do not change the results as reported by the Fund.

During the quarter, Erie Shores operated at 94.8% availability (Q3 2007 – 91.3%) with approximately half a day of outage for annual maintenance. Erie Shores achieved a capacity factor of 16.0% (Q3 2007 – 12.8%). Production of 34,679 MWh (Q3 2007 – 28,002 MWh) for the quarter was approximately 24% above the same period last year due to improved wind speeds and availability. Increased production resulted in a 27% increase in revenue for the quarter.

## Hydro Power Operations:

(In thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenue	2,737	2,689	9,638	2,830
Operating expenses	880	893	2,626	917
Contribution margin <sup>(i)</sup>	1,857	1,796	7,012	1,913

Depreciation and amortization on capital assets	562	647	1,688	674
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<sup>(i)</sup> Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, contribution margin may not be comparable to similar measures presented by other issuers.

Sale of electricity (MWh) Asset/Facility	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Sechelt	16,553	13,157	59,351	69,854
Bluey Lakes	1,185	1,217	4,832	4,880
Wawatay	12,762	16,275	44,032	38,446
Dryden	6,180	5,551	17,813	8,207
Total sale of electricity (MWh) <sup>®</sup>	36,680	36,200	126,028	121,387

<sup>®</sup> Included in the sale of electricity for the nine months ended September 30, 2007 are operating results of the assets acquired on June 27, 2007 for the full period indicated. These results are provided solely for comparison purposes and do not change the results as reported by the Fund.

Overall production at the hydro facilities was approximately 1.3% higher than in the same period last year due to increased water flows at all facilities, offset by outages at Wawatay. Production at Wawatay decreased from the same period last year, reflecting 276.7 outage hours required for annual electrical and civil inspections as well as for maintenance work to repair a transformer (Q3 2007 – nil). Production at Bluey Lakes also decreased from the same period last year due to an outage of 60 hours required to replace a station transformer (Q3 2007 – 1 hour). The hydro power facilities operated at a weighted average availability of 93.6% for the quarter (Q3 2007 – 95.1%) and achieved a capacity factor of 46.8% (Q3 2007 – 45.9%).

### Biomass Power Operations:

(In thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008			Quarter ended September 30, 2007		
	Whitecourt	Chapais	Total Biomass	Whitecourt	Chapais	Total Biomass
Revenue	3,730	-	3,730	3,538	-	3,538
Operating expenses	1,895	-	1,895	1,630	-	1,630
Contribution margin <sup>®</sup>	1,835	-	1,835	1,908	-	1,908

Depreciation and amortization on capital assets	651	-	651	663	-	663
The Fund's pro rata share of equity accounted loss	-	-	-	-	(100)	(100)

Interest income on loans receivable	-	196	196	-	213	213
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<sup>®</sup> Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, contribution margin may not be comparable to similar measures presented by other issuers.

(In thousands of dollars unless otherwise noted)	Nine months ended September 30, 2008			Nine months ended September 30, 2007		
	Whitecourt	Chapais	Total Biomass	Whitecourt	Chapais	Total Biomass
Revenue	10,223	-	10,223	3,686	-	3,686
Operating expenses	7,983	-	7,983	1,727	-	1,727
Contribution margin <sup>®</sup>	2,240	-	2,240	1,959	-	1,959

Depreciation and amortization on capital assets	1,995	-	1,995	691	-	691
The Fund's pro rata share of equity accounted income (loss)	-	156	156	-	(102)	(102)

Interest income on loans receivable	-	601	601	-	222	222
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<sup>®</sup> Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, contribution margin may not be comparable to similar measures presented by other issuers.

Sale of electricity (MWh) Asset/Facility	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Whitecourt	53,301	49,921	144,351	144,493
Chapais	57,387	55,015	168,631	168,808
Total sale of electricity (MWh) <sup>®</sup>	110,688	104,936	312,982	313,301

<sup>®</sup> Included in the sale of electricity for the nine months ended September 30, 2007 are operating results of the assets acquired on June 27, 2007 for the full period indicated. These results are provided solely for comparison purposes and do not change the results as reported by the Fund.

### Whitecourt

During the quarter, the Whitecourt facility operated at 100% availability (Q3 2007 – 96.8%) and achieved a capacity factor of 99.8% (Q3 2007 – 96.5%). Improved availability resulted in a 7% increase in production from the same period last year. Whitecourt's revenue for the quarter was approximately 5% higher than in the same period last year, slightly offset by a lower average Alberta Power Pool price of \$80.5 per MWh for the quarter (Q3 2007 - \$90 MWh). During the quarter, power pool pricing affected approximately 14% (Q3 2007 – 12%) of Whitecourt production that is not contracted under a long-term PPA.



## Chapais

The Chapais facility operated at 96.5% availability (Q3 2007 – 98.4%), reflecting 77 hours (Q3 2007 – 36 hours) of total outages. The plant achieved a capacity factor of 92.8% for the quarter (Q3 2007 – 89.0%). The Chapais PPA is subject to a maximum annual production provision for each 12-month period ending November 30. Should the facility exceed this maximum production amount, the PPA rate paid on any excess production is significantly reduced. Therefore, the facility is operated throughout the year so that the total production for each 12-month period ending November 30 approximates the maximum provision in the PPA. Due to the higher outage hours during the quarter compared with the same period last year, the facility operated at an increased capacity to achieve the annual production target, thus resulting in a 4% increase in production for the quarter.

## Social Infrastructure

Leisureworld owns and operates 26 LTC homes (4,314 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.

Leisureworld is currently the third largest provider of long-term care in Ontario, with a market share of approximately 5.6%. The composition of Leisureworld’s LTC portfolio as at September 30, 2008 by structural classification was as follows:

Beds by Class (i)	Number of Beds	Percentage of portfolio
A <sup>(i)</sup>	2,260	52.4%
B	299	6.9%
C	1,755	40.7%
Total	4,314	100%

<sup>(i)</sup> Class A homes meet or exceed 1998 design standards.

Class B homes exceed 1972 standards but do not meet 1998 design standards.

Class C homes meet 1972 standards.

<sup>(ii)</sup> All of Leisureworld’s Class A homes are designated new homes and qualify for capital funding of \$10.35 per day, per bed.

The Fund’s investment in Leisureworld is accounted for as an equity investment. As such, the Fund records its pro rata share of any income or loss for the period.

(In thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenue	64,195	44,816	182,035	134,019
Operating expenses	56,256	37,175	159,878	114,482
Net income (loss)	381	(228)	671	(4,516)
The Fund’s pro rata share of equity accounted income (loss)	172	(102)	302	(2,032)
Distributions paid to the Fund	2,588	2,588	7,763	7,762
Average total occupancy	98.7%	98.4%	98.3%	98.3%
Average private occupancy	93.3%	87.3%	92.5%	84.8%

For the quarter ended September 30, 2008, Leisureworld generated revenue of \$64,195 compared with \$44,816 in the same period last year. This \$19,379 increase was primarily due to the acquisition of seven new homes in January 2008. The remainder of the increase was due to increased occupancy and increases in private accommodation and government funding rates, which were 3.4% higher than the same period last year. Operating expenses for the quarter were also higher, reflecting the acquisition of the seven new homes and the increases in occupancy and government funding, which led to associated increases in staff and operating costs.

Net income for the quarter ended September 30, 2008 was \$381 compared with a net loss of \$228 in the same period last year. The increase reflects the contribution from the seven new homes, improved occupancy, increases in accommodation funding rates, increases in private accommodation revenue and lower amortization charges.

## Contribution Margin

Contribution margin is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Contribution margin can be defined as revenue net of direct operating expenses. Contribution margin provides useful information that may assist investors in assessing the operational performance of the Fund's underlying assets and their contribution to the Fund's financial results. The following provides a reconciliation of contribution margin from income before taxes for the quarter and nine months ended September 30, 2008.

(In thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Income (loss) before income taxes	759	(5,509)	14,534	14,185
Unrealized loss (gain) on swap contracts	(4,896)	(345)	102	(727)
Unrealized loss (gain) on embedded derivative instruments	5,197	5,467	(6,028)	(6,346)
Gain on sale of capital assets	-	-	(10)	-
Foreign exchange loss	10	1,239	12	1,311
Net interest expense	3,152	3,325	9,719	3,851
Equity accounted loss (income) from long-term investments	(172)	202	(458)	2,134
	4,050	4,379	17,871	14,408
Add back:				
Administrative expenses	811	1,310	6,787	5,185
Depreciation and amortization	7,205	6,495	21,613	12,179
Contribution margin	12,066	12,184	46,271	31,772

## LIQUIDITY AND FINANCIAL RESOURCES

The Fund expects to meet all of its operating obligations in 2008 and to make distributions to unitholders from cash flows generated from operating activities and from distributions received from Leisureworld. The Fund had positive working capital of \$52,305 as at September 30, 2008 (December 31, 2007 - \$30,393). As at September 30, 2008, cash and short-term investments totalled \$53,185 (December 31, 2007 - \$21,934), of which \$36,211 (December 31, 2007 - \$3,306) was not designated for major maintenance, capital expenditure or general reserves.

(In thousands of dollars unless otherwise noted)	September 30, 2008	December 31, 2007
Major maintenance reserve	9,695	10,966
Capital expenditure reserve	2,279	2,662
General reserve	5,000	5,000
Total reserve accounts	16,974	18,628
Other cash and short-term investments	36,211	3,306
Total cash and short-term investments	53,185	21,934

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 for 2008. As at September 30, 2008, the following funds were available under existing credit facilities:

(In thousands of dollars unless otherwise noted)	Credit Limits	Amounts Authorized or Drawn	Available
Cardinal Credit Facility <sup>a)</sup>	50,000	36,983	13,017
CPOT Credit Facility <sup>a)</sup>	150,000	85,550	64,450

<sup>a)</sup> Included in the amounts authorized or drawn under the Cardinal credit facility are two letters of credit totalling \$1,983 for Erie Shores.

<sup>a)</sup> Included in the amounts authorized or drawn under the CPOT credit facility are a letter of credit for \$550 and a \$10,000 unsecured guarantee provided to the lenders under the Tranche C loan for Erie Shores.

## RELATED PARTY TRANSACTIONS

Under the terms of the various administration and management Agreements for each of the Fund, the Trust, Cardinal, LTC Holding LP and CPOT, the Fund makes payments to the Manager for administrative and management services, incentive fees and cost reimbursement.

The following table summarizes total amounts recorded with respect to services provided by MPML:

	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Management fees	445	435	1,320	977
Administrative fees	27	27	81	79
Incentive fees	(675)	(966)	645	677
Cost reimbursement <sup>(i)</sup>	874	682	2,505	1,863

<sup>(i)</sup> \$334 and \$731 of cost reimbursement for the quarter and nine months ended September 30, 2008, were capitalized in deferred charges and capital assets. 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 Fund has gas swap agreements with an affiliate of Macquarie Group Limited (“MGL”) to hedge against fluctuations in the price of excess gas sold under the gas mitigation clause of Cardinal’s gas purchase contract for the seven-month period from April to October for each of the years from 2009 to 2011. The gas swap contracts require Cardinal to pay variable payments to MGL 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 Fund’s related party transaction policy requires that these transactions be carried out under normal arm’s length commercial terms.

## SUPPLEMENTAL QUARTERLY INFORMATION

### Selected Consolidated Financial and Operating Information of the Fund

(In thousands of dollars, except for trust units and per trust unit amounts)								
For the quarters ended	Sept 30, 2008	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sept 30, 2007	Jun 30, 2007	Mar 31, 2007	Dec 31, 2006
Revenue	31,542	33,483	43,663	41,823	30,432	21,587	28,969	25,622
Net income (loss)	3,811	826	5,389	34,677	(4,947)	(31,662)	7,358	4,026
Cash flows from operating activities	8,549	17,240	14,891	7,694	(2,567)	7,249	17,287	6,853
Distributable cash <sup>(i)</sup>	9,839	11,201	16,498	20,394	8,991	7,331	12,068	10,003
Distributions declared to Unitholders	13,114	13,117	13,117	12,869	12,882	9,454	7,737	7,737
Basic and diluted net income (loss) per Unit	0.076	0.017	0.108	0.694	(0.099)	(1.024)	0.245	0.134
Cash flows from operating activities per Unit	0.171	0.345	0.298	0.154	0.051	0.234	0.575	0.228
Distributable cash per Unit	0.197	0.224	0.330	0.408	0.180	0.237	0.402	0.333
Distributions declared per Unit <sup>(ii)</sup>	0.262	0.262	0.262	0.257	0.257	0.257	0.257	0.257

<sup>(i)</sup> 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.

<sup>(ii)</sup> For the quarter ended September 30, 2008, all unitholders were paid distributions of \$0.0875 per unit per month.

Revenue for the nine months ended September 30, 2008 was \$108,688 compared with \$80,988 in the same period last year. The \$27,700 increase reflected a full nine-month period of operating results from the wind, hydro and biomass power assets acquired on June 27, 2007 and higher power prices from continued increases in the DCR, offset by lower production at the Cardinal facility due to curtailment. Total power generation for the nine months ended September 30, 2008 increased by 36.9% to 1,538,870 MWh from 1,124,306 MWh in the same period last year.

Contribution margin for the nine months ended September 30, 2008 was \$14,499 higher than in the same period last year. The increase mainly reflected the operating results from the assets acquired in June 2007 and an increase in gas mitigation at the Cardinal facility. This increase was offset by higher gas transportation charges at Cardinal. Administrative expenses also increased, primarily due to increased business development activities, higher management and cost reimbursement fees, audit and tax fees and other regulatory compliance costs.

For the nine months ended September 30, 2008, distributable cash was \$37,538 (YTD 2007 - \$28,390). The Fund declared distributions to unitholders of \$39,348 (YTD 2007 - \$30,073). This represents a payout ratio of 105% (YTD 2007- 106%), which reflected higher cash flows generated from the new assets compared with the same period last year. The increase in distributions declared was due to a greater number of units outstanding for the nine months ended September 30, 2008 as a result of the CPIF acquisition as well as an increase in distributions to unitholders of \$0.02 per unit on an annualized basis starting January 1, 2008.

## CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

The following describes the significant contractual obligations and commitments of the Fund as at September 30, 2008:

### Long-term Debt

	Effective Interest Rate	Maturing	September 30, 2008	December 31, 2007
Cardinal term loan	3.82% - 5.18% <sup>(i)</sup>	May 16, 2011	35,000	35,000
CPOT credit facility	3.74% - 3.90% <sup>(ii)</sup>	June 26, 2010	75,000	50,000
Erie Shores project debt				
Tranche A	5.96%	April 1, 2026	67,414	68,988
Tranche B	5.28%	April 1, 2016	6,418	6,912
Tranche C	5.05%	April 1, 2011	40,000	40,000
			113,832	115,900
			223,832	200,900
Less: Deferred financing fees CPOT credit facility			(508)	(700)
Total debt, net of deferred financing fees			223,324	200,200
Less: Current portion of long-term debt			(2,900)	(2,778)
Total long-term debt			220,424	197,422

<sup>(i)</sup> Advances under the Cardinal credit facility are made in the form of a series of three-month BAs. Interest paid is based on the then current BA rate plus a stamping fee based on Cardinal's ratio of consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization and unrealized gains and losses. The Fund has interest rate swap contracts in place on a notional amount of \$35,000 to mitigate its interest rate risk on this facility until maturity.

<sup>(ii)</sup> Advances under the CPOT credit facility are made in the form of a series of one and three-month BAs. Interest paid is based on the then current BA rate plus a stamping fee based on CPOT's ratio of consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization and unrealized gains and losses and a minimum interest coverage ratio. The Fund has interest rate swap contracts in place on a notional amount of \$50,000 to mitigate some of its interest rate risk on this facility until maturity.

The following table summarizes total payments required under each of the Fund's facilities in the next five years:

Year of Repayment	Cardinal Term Loan	CPOT Credit Facility	Erie Shores Project Debt	Total
2008	-	-	710	710
2009	-	-	2,942	2,942
2010	-	75,000	3,117	78,117
2011	35,000	-	43,302	78,302
2012	-	-	3,497	3,497
Thereafter	-	-	60,264	60,264
	35,000	75,000	113,832	223,832

### Swap Contracts

CPOT has an interest rate swap contract on a notional amount of \$20,000 to mitigate some of the refinancing risk associated with the Erie Shores project debt. Under the contract, CPOT will pay a fixed rate of 5.63% for a period of five years from December 1, 2011 to December 1, 2016. In return, CPOT will be paid a floating rate equal to the then current three-month BA rate.

During the quarter, the Fund entered into five new interest rate swap contracts on a notional amount of \$85,000 to mitigate its interest rate risk on the Cardinal and CPOT credit facilities until maturity. Under each agreement, the Fund will pay a fixed rate in return for a floating rate equal to the then current three-month BA rate. The terms of the agreements are as follows:

Credit Facility	Maturity	Notional Amount	Fixed rate
Cardinal term loan	May 16, 2011	11,700	3.39%
	May 16, 2011	11,600	3.39%
	May 16, 2011	11,700	3.41%
CPOT term loan	June 26, 2010	10,000	3.04%
	June 28, 2010	40,000	3.07%

Cardinal has gas swap contracts for the seven-month period from April to October in the years 2008 to 2011. These contracts require Cardinal to make variable payments to the counterparties 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.

None of the swap contracts above have been designated for hedge accounting.

### Electricity Supply Contracts

The Fund has PPAs expiring between 2014 and 2042 to sell substantially all electricity produced at its facilities, less the amount of electricity consumed in the operation of the facilities, to creditworthy customers including government agencies. Rates of power sales are fixed in the PPAs and most include escalation clauses.

### Gas Purchase Contract

Cardinal has a long-term purchase agreement for natural gas that expires on May 1, 2015. The minimum commitment for natural gas under the agreement is 9,289,104 MMBtu per year through to expiration in 2015 which is equivalent to 80% of the contract maximum.

### Leases

Cardinal leases a portion of the site on which the Facility is located from CASCO. Under the lease, Cardinal pays nominal rent. The lease expires on January 31, 2015 but can be extended by mutual agreement or by two years at the option of Cardinal.

CPOT has hydro power lease agreements with the Provinces of Ontario and British Columbia with respect to lands, lands under water and water rights necessary for the operation of its hydro facilities. The payments with respect to these agreements vary based on actual power production. The terms of the hydro power lease agreements extend between 2023 and 2042.

Erie Shores has an easement agreement with each landowner for a term of 20 years with an option to renew for a further 20 years. Under the agreements, Erie Shores is obligated to compensate each landowner an amount equal to the greater of \$5 per turbine per year; and the sum of \$1.5 per turbine per year and 2% of Erie Shores' annual gross revenue from electricity sales attributable to all of the turbines sited upon the easement lands during the calendar year.

The Fund has a number of capital leases with terms ranging from four to nine years, expiring between 2010 and 2012 and bearing interest rates from 6.6% to 7.0%. The following table summarizes total principal and interest payments on the Fund's capital leases for the next five years:

Year	Annual Payment	Interest	Principal
2008	55	10	45
2009	221	32	189
2010	140	22	118
2011	133	13	120
2012	133	5	128
Total	682	82	600

### Operations, Management and Maintenance Agreements

CPOT has an Operations and Management agreement with Regional Power Inc. ("Regional") to operate and maintain the hydro facilities, expiring on November 30, 2011 with automatic renewal terms. Regional is to be paid a monthly management fee and an annual incentive fee.

Whitecourt has an Operations and Management Agreement with Probyn Whitecourt Management Inc. ("PWMI") to operate and maintain the Whitecourt biomass facility, expiring on November 30, 2011 with automatic renewal terms. PWMI receives a monthly management fee and an annual incentive fee.

Chapais has a management agreement with Probyn Power Services Inc. ("PPSI") expiring on November 30, 2011 to operate and maintain the Chapais biomass facility. PPSI receives a monthly management fee.

Under a fixed-price service and maintenance agreement that expires on July 25, 2010, General Electric Canada provides operating and management services to Erie Shores. Under a separate agreement, General Electric Company agreed to provide the project with a four-year revenue reimbursement and performance warranty commencing July 26, 2006.

### Wood Waste Supply Agreement

The Whitecourt biomass facility has entered into a long-term agreement to ensure an adequate supply of wood waste. The agreement expires in 2014.



## Guarantees

As at September 30, 2008, the Fund had 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 CPIF's disposition of Gas Recovery Systems, LLC ("GRS") prior to the acquisition by the Fund, in excess of a certain amount. At September 30, 2008, there had been no reduction in the guarantee amount.

The Fund also provides three guarantees relating to CPIF's former investment in GRS. As at September 30, 2008, no claims have been made on these guarantees.

## CLIMATE CHANGE AND THE ENVIRONMENT

The Fund's assets are subject to a complex and increasingly stringent environmental, health and safety regime, which includes environmental laws, regulations and guidelines at the federal, provincial and local levels. As the Fund's electricity generation business emits carbon dioxide ("CO<sub>2</sub>"), it must also comply with emerging federal and provincial requirements, including programs to offset emissions. The Fund complies, in all material respects, with current federal, provincial and local environmental legislation and guidelines.

## Federal Requirements

On March 10, 2008, the Canadian federal government released a broad framework for the regulation of greenhouse gas emissions and air pollution entitled Turning the Corner, Taking Action to Fight Climate Change, in which it established the structure of greenhouse gas ("GHG") targets and compliance mechanisms for the years 2010 to 2020. The federal government has indicated that draft regulations will be available by the fall of 2008 for finalization in mid-2009 and implementation on January 1, 2010.

The proposed federal framework calls for an 18% reduction in GHG emission intensity for existing facilities, increasing by 2% per year until 2020, at which point a 20% absolute reduction will be required. Some other elements of the plan include:

- the ability for electricity companies to comply based on their corporate emissions intensity rather than on a plant-by-plant basis;
- the favourable treatment of cogeneration facilities such that only modest reductions are required;
- the establishment of a technology fund designed to allow companies investing in transformative technologies to use those funds for compliance purposes. Firms can comply with the plan by investing \$15.00/tonne into the fund from 2010 to 2012, \$20.00/tonne in 2013 and increasing by the rate of nominal GDP growth in each subsequent year;
- the ability of firms to obtain offset credits for compliance purposes; and
- the intent to establish a Clean Electricity Task Force to determine where additional reductions from the sector can be found.

The approach outlined in the framework is designed to provide an incentive for high-efficiency cogeneration. This is achieved by treating the baseline for cogeneration as equal to the emission levels if the electricity and heat were produced separately. For the heat component, the baseline will be equivalent to a stand-alone conventional boiler at 80% efficiency. Existing facilities would face a target in 2010 of 18% below this baseline, with 2% continuous improvement thereafter. For the electricity component, the baseline intensity would be that of natural gas combined cycle generation, or 0.418 tonne/MWh, with no further reduction requirement. All current equipment at Cardinal is designed to produce emissions below these applicable standards.

As part of this framework, on June 29, 2008 the federal government subsequently released its Credit for Early Action Program, which is designed to recognize and provide a limited number of carbon credits to certain facilities that took steps to reduce their greenhouse gas emissions between 1992 and 2006 and that will likely find themselves subject to mandatory greenhouse gas reductions. Credits will be available for reductions of CO<sub>2</sub>, methane ("CH<sub>4</sub>") and nitrous oxide ("NO<sub>x</sub>"), among other gases. The Fund has determined that no projects carried out at its facilities during this period of time are eligible to earn credits under the Credit for Early Action Program.

Numerous design details of the federal framework are yet to be released and the coordination of this approach with provincial plans has not yet been negotiated. As a result, at this time the Fund cannot

estimate the full impact of this framework on its operations. The Fund's exposure to evolving GHG regulations is mitigated by various clean technology initiatives and a growing portfolio of renewable power generation facilities, which could create viable GHG offset credits provided that the Fund's assets meet the applicable eligibility requirements under the federal offset program.

Concurrently, the federal government is developing a parallel framework for managing air pollutant emissions such as NOx, sulphur oxides, volatile organic compounds and particulate matter. Specific caps on pollutants for each sector, including electricity generation, are expected to be set in late 2008 or 2009 and are currently scheduled to come into effect in 2015. It is anticipated that the electricity generation sector will also experience tighter caps on mercury emissions. Until the federal government announces the targets and compliance mechanisms for these air pollutants, the Fund cannot estimate the impact of such targets and compliance mechanisms on its operations.

### **Provincial Requirements**

Alberta's government enacted the Specified Gas Emitters Regulation for GHG reductions in 2007. The Whitecourt biomass facility emits less than 100,000 tonnes of CO2 annually, which is the threshold for the Alberta legislation.

Ontario legislation that came into effect in 2004 introduced a cap and trade system with respect to NOx emissions. Under this system, facilities subject to the legislation receive a maximum yearly emission compliance limit, which may be achieved by source emission control or reduction, or by trading NOx allowances. For 2007, Cardinal received 984 tonnes of NOx allowances based on actual generation in 2005. Cardinal expects to retire 369 tonnes of NOx allowances for 2007, leaving a cumulative allowance balance of 3,066 tonnes. NOx emissions from Cardinal's existing generating equipment fall below the levels mandated by legislation.

On June 2, 2008, the Ontario and Quebec governments announced a memorandum of understanding on a regional cap-and-trade system to reduce GHG emissions. Further, on July 18, 2008, the Ontario government announced that it has been accepted into the Western Climate Initiative ("WCI"), an organization that also includes British Columbia ("B.C."), Quebec, Manitoba and seven U.S. states. The WCI seeks to develop regional strategies to address climate change, including setting an overall regional goal to reduce GHG emissions and the design of a market-based mechanism to help achieve the reduction goal.

In B.C., the provincial government introduced legislation in April 2008 to create a cap-and-trade system for GHGs. This enabling legislation provides the framework for the province to participate in the WCI's cap-and-trade system. The details of B.C.'s cap-and-trade system will be developed in conjunction with the WCI, which released its draft design recommendations for the WCI's regional cap-and-trade program (the "WCI Program") in September 2008. The WCI Program limits the use of offsets as a compliance mechanism to 49% of total emission reductions from 2012 to 2020. It is anticipated that the WCI Program will start trading on January 1, 2012. The existence of the WCI Program is expected to increase liquidity for carbon instruments across its member jurisdictions and create potential opportunities for eligible Fund assets to generate offset credits.

The details of these agreements and the impact on emitting entities have not yet been determined. Moreover, it is not yet clear how these initiatives would coordinate with federal and other provincial plans. As a result, at this time the Fund cannot estimate the impact of these agreements on its operations.

### **RISKS AND UNCERTAINTIES**

To effectively manage MPT's business and execute its strategy to create value for unitholders, the Manager analyzes all risks and uncertainties associated with the Fund's operations and objectives. These risks and uncertainties could have an adverse impact on MPT's business, operating results and financial condition, which could negatively affect MPT's ability to pay distributions to its unitholders.

MPT seeks to mitigate the risks and uncertainties that may affect its performance through a process of identifying, assessing, reporting and managing risks of significance. The Manager continuously monitors risks and uncertainties at both the Fund and asset level and reports annually to the Board of Trustees about risk management actions and plans. Every year, the Manager re-evaluates risks and addresses new risks resulting from operational changes or external factors.

For an overview of the risks and uncertainties associated with the Fund's business, please refer to the "Risks and Uncertainties" section of the Fund's annual report for the fiscal year ended December 31, 2007 and in

the Fund's Annual Information Form dated March 21, 2008, both of which are available on the Canadian Securities Administrators system for electronic document analysis and retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com). It is management's view that the risk factors disclosed in the annual report and Annual Information Form remain substantially unchanged except as noted below.

## **RISKS RELATED TO POWER INFRASTRUCTURE**

### **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, and may not be able to do so 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. Any disruption to service could affect production at the facility. In addition, any further increase in the cost of transportation of gas, which is regulated by the National Energy Board, could result in higher operating costs.

Cardinal uses gas swap agreements with MGL 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 MPT to losses that could occur under various circumstances, such as the counterparty defaulting on its obligations under the gas swap agreements or if the gas swap agreements provide an imperfect hedge.

Whitecourt and Chapais have long-term contracts with substantial forest products companies to supply wood waste. Any interruption in supply could affect the ability of the biomass facilities to operate. Upon expiry of each of these fuel supply agreements, the Fund will have to renegotiate the agreements or enter into new fuel supply agreements, and may not be able to do so on terms that are similar to the current fuel supply agreements, if at all. The facilities are also dependent on the transportation of fuel to them. Any disruption to service could affect production at the facilities.

The 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.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The unaudited interim consolidated financial statements have been prepared in accordance with GAAP. The significant accounting policies are described in note 2 to the unaudited interim consolidated financial statements and note 3 of the 2007 annual report. The critical accounting policies and estimates are detailed on pages 57 to 59 of the 2007 annual report.

### **Adoption of New Accounting Policies**

On January 1, 2008, the Fund adopted four new standards that were issued by The Canadian Institute of Chartered Accountants ("CICA"): Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation and Section 3031, Inventories. The principal changes due to the adoption of these accounting standards are described below:

#### *Sections 3862 and 3863, Disclosure and Presentation Requirements*

Sections 3862 and 3863 provide guidance for additional required disclosures relating to financial instruments. These sections replaced Section 3861, Financial Instruments – Disclosure and Presentation and provide guidance on what disclosure should be included in the financial statements relating to items such as significance of financial instruments to the financial position and the performance of the Fund and the nature and extent of risks associated with financial instruments.

#### *Section 1535, Capital Disclosures*

This section requires an entity to disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance.

### *Section 3031, Inventories*

Section 3031 relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The adoption of this new standard resulted in the reclassification of spare parts for capital assets from inventory with the following impact on the opening financial position:

	December 31, 2007 As reported	December 31, 2007 Restated
Inventory	1,055	265
Capital assets	432,311	433,101

### **New Pronouncements**

#### *Section 3064, Goodwill and Intangible Assets and Section 1000, Financial Statement Concepts*

The CICA issued a new accounting standard, Section 3064, Goodwill and Intangible Assets, which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset and as a result, start-up costs must be expensed as incurred. Section 1000, Financial Statement Concepts was also amended to provide consistency with the new standard. The new standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after October 1, 2008. The Fund plans to adopt these standards effective January 1, 2009. These standards are not expected to have a significant effect on the Fund's consolidated financial statements.

#### *International Financial Reporting Standards ("IFRS")*

In 2005, the Accounting Standards Board ("AcSB") announced that accounting standards in Canada are to be converged with IFRS. On February 13, 2008, the AcSB confirmed that the use of IFRS will be required by January 1, 2011 with appropriate comparative data from the prior year. Under IFRS, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy that must be addressed. The impact of these new standards on the Fund's consolidated financial statements is currently being evaluated by management.

### **CONTROLS AND PROCEDURES**

The Fund's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), on behalf of the Fund's Board of Trustees, are required by various of 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 the Canadian Securities Administrators' 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 time frames specified by such securities regulators.

The Fund's management, under the supervision of and with the participation of the CEO and CFO, have designed internal controls over financial reporting, as defined in MI 52-109. The purpose of internal controls over financial reporting is to provide reasonable assurance regarding the reliability of the Fund's financial reporting, in accordance with GAAP, focusing in particular on controls over information contained in the audited annual and unaudited interim consolidated financial statements. The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

There were no changes made in the Fund's internal controls over financial reporting during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

# MACQUARIE POWER & INFRASTRUCTURE INCOME FUND

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited, in thousands of dollars unless otherwise noted)	September 30, 2008	December 31, 2007 Restated – note 2
<b>Current Assets</b>		
Cash and cash equivalents	48,143	21,934
Short-term investments (note 11)	5,042	-
Accounts receivable	11,453	25,516
Inventory	220	265
Prepaid expenses	2,136	5,048
Current portion of loans receivable	701	641
Current portion of swap contracts at fair value (note 11)	397	-
Deferred charges	3,230	442
Cash in escrow related to GRS (note 12)	5,559	5,695
	<hr/> 76,881	<hr/> 59,541
Loans receivable	7,078	7,612
Long-term investments (note 3)	59,743	67,428
Capital assets	418,686	433,101
Intangible assets	152,680	159,749
Embedded derivative asset (note 11)	18,717	17,718
Future income tax asset (note 5)	10,898	10,509
Goodwill	43,279	42,294
<b>Total Assets</b>	<hr/> <hr/> 787,962	<hr/> <hr/> 797,952
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (note 9)	11,524	15,730
Distributions payable	4,370	4,289
Current portion of long-term debt (note 4)	2,900	2,778
Current portion of capital leases	185	181
Current portion of swap contracts at fair value (note 11)	38	475
Accounts payable and accrued liabilities related to GRS (note 12)	5,559	5,695
	<hr/> 24,576	<hr/> 29,148
Long-term debt (note 4)	220,424	197,422
Convertible debentures	38,918	38,918
Levelization amounts	18,972	18,262
Capital lease obligations	415	555
Future income tax liability (note 5)	85,555	79,517
Embedded derivative liability (note 11)	8,629	13,658
Swap contracts at fair value (note 11)	1,598	662
Liability for asset retirement (note 6)	1,824	1,475
Electricity supply and gas purchase contracts	10,197	11,418
<b>Total Liabilities</b>	<hr/> 411,108	<hr/> 391,035
<b>Unitholders' Equity</b>	<hr/> 376,854	<hr/> 406,917
<b>Total Liabilities and Unitholders' Equity</b>	<hr/> <hr/> 787,962	<hr/> <hr/> 797,952

Commitments and contingencies (note 10)

See accompanying notes to the consolidated financial statements.



# MACQUARIE POWER & INFRASTRUCTURE INCOME FUND

## CONSOLIDATED STATEMENT OF UNITHOLDERS' EQUITY

(Unaudited, in thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
<b>Unitholders' Capital</b>				
Opening balance	466,979	467,747	467,006	253,476
Trust unit issuance – net of issuance costs of \$400	-	-	-	214,272
Trust units redeemed (note 7)	(189)	(667)	(216)	(668)
Ending balance	466,790	467,080	466,790	467,080
<b>Class B Exchangeable Units</b>	35,500	35,500	35,500	35,500
<b>Accumulated Other Comprehensive Income (Loss)</b>				
Opening balance	1,434	1,730	1,606	1,832
Equity share of other comprehensive loss of Leisureworld (note 3)	(353)	(51)	(525)	(153)
Ending balance	1,081	1,679	1,081	1,679
<b>Cumulative Earnings (Loss)</b>				
Opening balance	18,068	(17,899)	11,853	6,405
Net income (loss) for the period	3,811	(4,947)	10,026	(29,251)
Ending balance	21,879	(22,846)	21,879	(22,846)
<b>Total Comprehensive Income (Loss)</b>	22,960	(21,167)	22,960	(21,167)
<b>Cumulative Distributions</b>				
Opening balance	(135,282)	(83,297)	(109,048)	(66,106)
Distributions declared to Unitholders for the period	(13,114)	(12,882)	(39,348)	(30,073)
Ending balance	(148,396)	(96,179)	(148,396)	(96,179)
<b>Total Unitholders' Equity</b>	376,854	385,234	376,854	385,234

See accompanying notes to the consolidated financial statements.

## MACQUARIE POWER & INFRASTRUCTURE INCOME FUND

### CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited, in thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenue	31,542	30,432	108,688	80,988
<b>Costs and expenses</b>				
Operating costs	19,476	18,248	62,417	49,216
Administrative expenses	811	1,310	6,787	5,185
Depreciation and amortization	7,205	6,495	21,613	12,179
	27,492	26,053	90,817	66,580
	4,050	4,379	17,871	14,408
Unrealized gain (loss) on swap contracts (note 11)	4,896	345	(102)	727
Unrealized gain (loss) on embedded derivative instruments (note 11)	(5,197)	(5,467)	6,028	6,346
Gain on sale of capital assets	-	-	10	-
Foreign exchange loss	(10)	(1,239)	(12)	(1,311)
Net interest expense (note 11)	(3,152)	(3,325)	(9,719)	(3,851)
Equity accounted income (loss) from long-term investments (note 3)	172	(202)	458	(2,134)
Income (loss) before income taxes	759	(5,509)	14,534	14,185
Current income tax recovery (expense) (note 5)	-	(4)	10	(4)
Future income tax recovery (expense) (note 5)	3,052	566	(4,518)	(43,433)
<b>Net income (loss)</b>	<b>3,811</b>	<b>(4,947)</b>	<b>10,026</b>	<b>(29,252)</b>
Basic and diluted weighted average number of trust units and Class B exchangeable units outstanding ("Unit")	49,968	50,052	49,969	37,156
Basic and diluted net income (loss) per Unit	0.076	(0.099)	0.201	(0.787)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(Unaudited, in thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net income (loss)	3,811	(4,947)	10,026	(29,252)
Equity share of comprehensive loss of Leisureworld (note 3)	(353)	(51)	(525)	(153)
<b>Total comprehensive income (loss)</b>	<b>3,458</b>	<b>(4,998)</b>	<b>9,501</b>	<b>(29,405)</b>

See accompanying notes to the consolidated financial statements.

# MACQUARIE POWER & INFRASTRUCTURE INCOME FUND

## CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited, in thousands of dollars unless otherwise noted)	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Cash flows from operating activities:				
Net income (loss)	3,811	(4,947)	10,026	(29,252)
Add back:				
Depreciation and amortization	7,205	6,495	21,613	12,179
Unrealized (gain) loss on swap contracts (note 11)	(4,896)	(345)	102	(727)
Unrealized (gain) loss on embedded derivative instruments (note 11)	5,197	5,467	(6,028)	(6,346)
Foreign exchange loss	-	1,176	-	1,248
Future income tax expense (recovery) (note 5)	(3,052)	(566)	4,518	43,433
Premium on convertible debentures	-	158	-	158
Unpaid interest on levelization amounts	216	211	628	211
Amortization of deferred financing costs	64	50	192	62
Accretion of asset retirement obligations (note 6)	24	18	71	54
Equity accounted (income) loss from long-term investments (note 3)	(172)	202	(458)	2,134
Gain on sale of capital assets	-	-	(10)	-
Non-cash changes in working capital				
Decrease (increase) in accounts receivable	1,186	(4,570)	14,063	8,704
Decrease (increase) in inventory	125	(2)	45	32
Decrease (increase) in prepaid expenses	1,300	(1,599)	2,912	(767)
Increase in deferred charges	(2,351)	-	(2,788)	-
Decrease in accounts payable and accrued liabilities	(108)	(4,315)	(4,206)	(9,154)
<b>Total cash flows from operating activities</b>	<b>8,549</b>	<b>(2,567)</b>	<b>40,680</b>	<b>21,969</b>
Cash flows from investing activities:				
Purchase of short-term investments	(5,042)	-	(5,042)	-
Proceeds from sale of assets	-	-	10	-
Net cash acquired on acquisition	-	-	-	14,133
Transaction costs paid from acquisition	-	-	-	(13,233)
Receipt of loans receivable	162	146	474	146
Distributions received from long-term investments (note 3)	2,588	2,588	7,763	7,762
Investment in capital assets	(372)	(114)	(1,070)	(165)
<b>Total cash flows from investing activities</b>	<b>(2,664)</b>	<b>2,620</b>	<b>2,135</b>	<b>8,643</b>
Cash flows from financing activities:				
Trust unit issuance costs	-	-	-	(400)
Proceeds from debt issuance	-	16,300	25,000	72,075
Repayment of long-term debt	(699)	(5,560)	(2,068)	(45,777)
Redemption of convertible debentures	-	(15,961)	-	(15,961)
Redemption of units (note 7)	(189)	(667)	(216)	(667)
Repayment of lease obligations	(44)	(57)	(136)	(63)
Proceeds from (repayment of) levelization amounts	145	-	82	(19)
Distributions paid to former CPIF Unitholders	-	-	-	(2,090)
Distributions paid to Unitholders	(13,117)	(12,889)	(39,268)	(28,363)
<b>Total cash flows from financing activities</b>	<b>(13,904)</b>	<b>(18,834)</b>	<b>(16,606)</b>	<b>(21,265)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(8,019)</b>	<b>(18,781)</b>	<b>26,209</b>	<b>9,347</b>
Cash and cash equivalents, beginning of period	56,162	40,270	21,934	12,142
<b>Cash and cash equivalents, end of period</b>	<b>48,143</b>	<b>21,489</b>	<b>48,143</b>	<b>21,489</b>
<b>Supplemental information :</b>				
Interest paid	2,398	3,327	7,767	4,184
Taxes recovered	-	-	(10)	-

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 power infrastructure assets employing technologies in wind, hydro and biomass. As at September 30, 2008, the Fund indirectly owns the CPIF investments through a 100% interest in Clean Power Operating Trust (“CPOT”), which includes an indirect 31.3% interest in one of the two classes of preferred shares of Chapais Électrique Limitée (“Chapais”).

Macquarie Power Management Ltd. (“MPML” or the “Manager”) is an indirect wholly-owned subsidiary of Macquarie Group Limited (“MGL”), 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. ACCOUNTING POLICIES

### Basis of Presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and follow the same accounting policies and methods described in the audited consolidated financial statements for the year ended December 31, 2007, except as described below. Under GAAP, additional disclosures are required in annual financial statements, therefore, these unaudited interim consolidated financial statements should be read in conjunction with the Annual Information Form which is filed electronically on SEDAR ([www.sedar.com](http://www.sedar.com)) and the audited consolidated financial statements for the year ended December 31, 2007. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows of the Fund as at September 30, 2008 and 2007 have been included.

### Adoption of New Accounting Standards

On January 1, 2008, the Fund adopted four new accounting and disclosure standards that were issued by The Canadian Institute of Chartered Accountants (“CICA”): Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 3031, Inventories. The principal changes due to the adoption of these accounting standards are described below:

#### *Sections 3862 and 3863, Disclosure and Presentation Requirements*

Sections 3862 and 3863 provide guidance for additional required disclosures relating to financial instruments. These sections replaced Section 3861, Financial Instruments – Disclosure and Presentation and provide guidance on what disclosure should be included in the consolidated financial statements relating to items such as significance of financial instruments to the financial position and the performance of the Fund and the nature and extent of risks associated with financial instruments. The disclosure requirements of these sections are addressed in note 11.

#### *Section 1535, Capital Disclosures*

This section requires an entity to disclose information that enables users of its financial statements to evaluate an entity’s objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. Disclosures required as a result of adopting this section can be found in note 13.

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*Section 3031, Inventories*

Section 3031 relates to the accounting for inventories and revises and enhances the requirements for assigning costs to inventories. The adoption of this new standard resulted in the reclassification of spare parts for capital assets from inventory with the following impact on the opening financial position:

	December 31, 2007 As reported	December 31, 2007 Restated
Inventory	1,055	265
Capital assets	432,311	433,101

### 3. LONG-TERM INVESTMENTS

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

	Quarter ended September 30, 2008	Nine months ended September 30, 2008	Year ended December 31, 2007
<b>Leisureworld</b>			
Opening balance	62,512	67,584	77,592
Transitional adjustments	-	-	1,832
Adjusted opening balance	62,512	67,584	79,424
Equity accounted income (loss)	172	302	(1,286)
Equity share of other comprehensive loss	(353)	(525)	(204)
Equity share of future income taxes	-	145	-
Distributions received	(2,588)	(7,763)	(10,350)
Ending balance	59,743	59,743	67,584
<b>Chapais</b>			
Opening balance	-	(156)	-
Equity accounted loss	-	156	(156)
Ending balance	-	-	(156)
<b>Total</b>	<b>59,743</b>	<b>59,743</b>	<b>67,428</b>

### 4. LONG-TERM DEBT

	Effective Interest Rate	Maturing	September 30, 2008	December 31, 2007
Cardinal term loan	3.82% - 5.18% <sup>(i)</sup>	May 16, 2011	35,000	35,000
CPOT credit facility	3.74% - 3.90% <sup>(i)</sup>	June 26, 2010	75,000	50,000
Erie Shores project debt				
Tranche A	5.96%	April 1, 2026	67,414	68,988
Tranche B	5.28%	April 1, 2016	6,418	6,912
Tranche C	5.05%	April 1, 2011	40,000	40,000
			113,832	115,900
			223,832	200,900
Less: Deferred financing fees				
CPOT credit facility			(508)	(700)
Total debt, net of deferred financing fees			223,324	200,200
Less: Current portion of long-term debt			(2,900)	(2,778)
Total long-term debt			220,424	197,422

<sup>(i)</sup> Advances under the Cardinal credit facility are made in the form of a series of three-month BAs. Interest paid is based on the then current BA rate plus a stamping fee based on Cardinal's ratio of consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization and unrealized gains and losses.

<sup>(i)</sup> Advances under the CPOT credit facility are made in the form of a series of one and three-month BAs. Interest paid is based on the then current BA rate plus a stamping fee based on CPOT's ratio of consolidated debt to consolidated earnings before interest, taxes, depreciation and amortization and unrealized gains and losses and a minimum interest coverage ratio.

As of September 30, 2008, the Fund has interest rate swap contracts on a notional amount of \$85,000 to mitigate its interest rate risk on the Cardinal and CPOT credit facilities until maturity. Under each agreement, the Fund will pay a fixed rate in return for a floating rate equal to the then current three-month BA rate.



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The terms of the swap agreements are as follows:

Credit Facility	Maturity	Notional Amount	Fixed rate
Cardinal term loan	May 16, 2011	11,700	3.39%
	May 16, 2011	11,600	3.39%
	May 16, 2011	11,700	3.41%
CPOT term loan	June 26, 2010	10,000	3.04%
	June 28, 2010	40,000	3.07%

The following table summarizes total payments required under each of the Fund's facilities in the next five years and thereafter:

Year of Repayment	Cardinal Term Loan	CPOT Credit Facility	Erie Shores Project Debt	Total
2008	-	-	710	710
2009	-	-	2,942	2,942
2010	-	75,000	3,117	78,117
2011	35,000	-	43,302	78,302
2012	-	-	3,497	3,497
Thereafter	-	-	60,264	60,264
	35,000	75,000	113,832	223,832

## 5. FUTURE INCOME TAXES

On June 22, 2007, the government's tax proposals pertaining to taxation of distributions paid by income trusts and changes to the personal tax treatment of trust distributions were passed into law. Applicable starting in 2011, the taxable portion of distributions will be subject to income tax by the Fund while taxable Canadian unitholders will receive the favourable tax treatment on distributions currently applicable to qualifying dividends. For the quarter ended September 30, 2008, the Fund recognized a future income tax recovery of \$3,052 (YTD - \$4,508 expense). The tax effect of these temporary differences is as follows:

Future income tax asset	September 30, 2008	December 31, 2007
Capital loss carryforwards	15,230	15,100
Loan premium and deferred financing costs	656	317
Non-capital loss carryforwards	161	168
Debt retirement	2,742	2,742
Levelization amounts	4,374	4,374
Deferred gains	189	197
Equity investments	179	-
Asset retirement obligation	511	413
Capital assets	897	936
Intangible assets	1,350	1,530
Total	26,289	25,777
Less: Valuation allowance <sup>0</sup>	(15,391)	(15,268)
Future income tax asset	10,898	10,509

<sup>0</sup> The Fund records a valuation allowance to the extent the future income tax asset exceeds the amount that is more likely than not to be realized.

Future income tax liability	September 30, 2008	December 31, 2007
Capital assets	(44,379)	(40,289)
Intangible assets	(37,997)	(38,091)
Loan premium and deferred financing costs	(354)	-
Financial instruments	(2,825)	(1,137)
Future income tax liability	(85,555)	(79,517)

As at September 30, 2008, certain entities consolidated into the Fund have accumulated aggregate non-capital and capital losses of approximately \$558 and \$108,783, respectively that may be used to reduce taxable income in the future.

These tax loss carry-forwards expire as follows:

\$558 non-capital losses	2025 - 2027
\$108,783 capital loss	no expiry date

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The provision for income taxes on the consolidated statement of operations reflects an effective tax rate that differs from the statutory rate for the following reasons:

	Quarter ended September 30, 2008	Nine months ended September 30, 2008
Income before income taxes	759	14,534
Income tax payable at 46.41%	352	6,745
Income distributed to Unitholders	(352)	(6,745)
Income tax related to Leisureworld acquisition	-	(145)
Impact of tax post-2010 <sup>(i)</sup>	(2,902)	4,370
Other	(150)	283
Total income taxes (recovery)	(3,052)	4,508

<sup>(i)</sup> Included in impact of tax post-2010 is an adjustment of \$3,536 reversing future income tax expense originally recorded in the quarter ended March 31, 2008.

## 6. LIABILITY FOR ASSET RETIREMENT

The Fund recognizes a liability for the future retirement obligations associated with its Cardinal, Erie Shores and Hydro facilities. The carrying value of these obligations is based on probability weighted scenarios and estimated cash flows ranging from \$nil to \$2,513 required to settle these obligations in present day costs. The timing of expected settlement dates ranges from 2014 to 2042. Inflation rates assumed to estimate the cash flows in the future range from 2.1% to 2.6%. A credit-adjusted risk-free rate ranging from 5.3% to 5.8% is used to discount the future cost of these liabilities.

An assessment of the expected costs associated with these liabilities is performed annually in the second quarter of each year. Accretion of \$24 and \$71 has been taken in the quarter and nine months ended September 30, 2008 (Q3 2007 - \$18; YTD 2007 - \$54) in the consolidated statement of operations and will continue until the date of expected settlement of the retirement obligations.

## 7. UNITS ISSUED BY THE FUND

During the quarter and nine months ended September 30, 2008, 26,660 and 30,245 units, respectively, were redeemed for a total cost of \$189 and \$216 (Q3 - \$667 and YTD 2007 - \$668). In total, 46,692,194 units remain outstanding as at September 30, 2008 (December 31, 2007 - 46,722,439 units). In addition, the Fund had 3,249,390 Class B exchangeable units outstanding as at September 30, 2008 (December 31, 2007 - 3,249,390 units).

## 8. SEGMENTED INFORMATION

The Fund's presentation of reportable segments is based on how management has organized the business in making operating and capital allocation decisions and assessing performance. The Fund operates in one geographic segment, Canada, and has two reportable segments:

- (i) Power infrastructure, which consists of the Fund's investments in gas cogeneration, wind, hydro and biomass assets; and
- (ii) Social infrastructure, which consists of the Fund's 45% indirect ownership of Leisureworld.

The performance of these segments is evaluated by the Manager primarily on revenue, net income and operating cash flows.

Revenue, net income and total assets by reportable segment are as follows:

	Quarter ended September 30, 2008				Quarter ended September 30, 2007			
	Power	Social	Fund	Total	Power	Social	Fund	Total
Revenue	31,542	-	-	31,542	30,432	-	-	30,432
Net income (loss)	2,207	(91)	1,695	3,811	(1,894)	(102)	(2,951)	(4,947)
Total assets	716,638	59,799	11,525	787,962	577,726	69,477	132,563	779,766
Additions to capital assets	372	-	-	372	114	-	-	114
Depreciation and amortization of capital assets	5,244	-	5	5,249	5,045	-	-	5,045
Goodwill	43,279	-	-	43,279	101,646	-	-	101,646
Net interest expense	2,492	-	660	3,152	2,572	-	753	3,325
Future income tax recovery	(44)	-	(3,008)	(3,052)	(566)	-	-	(566)
Current income tax expense	-	-	-	-	4	-	-	4

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	Nine months ended September 30, 2008				Nine months ended September 30, 2007			
	Power	Social	Fund	Total	Power	Social	Fund	Total
Revenue	108,688	-	-	108,688	80,988	-	-	80,988
Net income (loss)	20,272	(560)	(9,686)	10,026	22,568	(2,032)	(49,788)	(29,252)
Total assets	716,638	59,799	11,525	787,962	577,726	69,477	132,563	779,766
Additions to capital assets	1,021	-	49	1,070	165	-	-	165
Depreciation and amortization of capital assets	15,750	-	13	15,763	9,065	-	-	9,065
Goodwill	43,279	-	-	43,279	101,646	-	-	101,646
Net interest expense	7,745	-	1,974	9,719	3,053	-	798	3,851
Future income tax expense	255	-	4,263	4,518	43,433	-	-	43,433
Current income tax expense (recovery)	(15)	-	5	(10)	4	-	-	4

## 9. 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. MPML provides the Fund and the Trust with certain administrative and support services. Annual management and administrative fees charged are escalated annually by the consumer price index.

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.

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 following table summarizes total amounts recorded with respect to services provided by MPML:

	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Management fees	445	435	1,320	977
Administrative fees	27	27	81	79
Incentive fees	(675)	(966)	645	677
Cost reimbursement <sup>(i)</sup>	874	682	2,505	1,863

<sup>(i)</sup> \$334 and \$731 of cost reimbursement for the quarter and nine months ended September 30, 2008, were capitalized in capital assets and deferred charges. 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.

All related party transactions have been measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

Included in accounts payable and accrued liabilities on the consolidated statement of financial position is \$1,674 (December 31, 2007 – \$4,780) of amounts payable to MPML as at September 30, 2008.

The Fund has gas swap agreements with an affiliate of MGL to hedge against fluctuations in the price of excess gas sold under the gas mitigation clause of Cardinal's gas purchase contract for the seven-month period from April to October for each of the years from 2009 to 2011. The gas swap contracts require Cardinal to pay variable payments to MGL 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. These transactions were carried out under normal arm's length commercial terms.

## 10. COMMITMENTS AND CONTINGENCIES

The Fund, either directly or indirectly through its subsidiaries, has entered into various contracts and commitments as at September 30, 2008 as described below:

### Electricity Supply Contracts

The Fund has agreements expiring between 2014 and 2042 to sell substantially all electricity produced at its facilities, less the amount of electricity consumed in the operation of the facilities, to creditworthy customers including government agencies. Rates for power sales are fixed through long-term power purchase agreements ("PPAs") and most include escalation clauses.

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### Swap Contracts

Cardinal has gas swap contracts for the seven-month period from April to October in the years 2008 to 2011. These contracts require Cardinal to make variable payments to the counterparties 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.

CPOT has an interest rate swap contract on a notional amount of \$20,000 to mitigate some of the refinancing risk associated with the Erie Shores project debt. Under the contract, CPOT will pay a fixed rate of 5.63% for a period of five years from December 1, 2011 to December 1, 2016. In return, CPOT will be paid a floating rate equal to the then current three-month BA rate.

During the quarter, the Fund entered into five new interest rate swap contracts on a notional amount of \$85,000 to mitigate its interest rate risk on the Cardinal and CPOT credit facilities until maturity. Under each agreement, the Fund will pay a fixed rate in return for a floating rate equal to the then current three-month BA rate. The terms of the agreements are as follows:

Credit Facility	Maturity	Notional Amount	Fixed rate
Cardinal term loan	May 16, 2011	11,700	3.39%
	May 16, 2011	11,600	3.39%
	May 16, 2011	11,700	3.41%
CPOT term loan	June 26, 2010	10,000	3.04%
	June 28, 2010	40,000	3.07%

None of the swap contracts above have been designated for hedge accounting.

### Leases

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.

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

Erie Shores has an easement agreement with each landowner for a term of 20 years with an option to renew for a further 20 years. Under the agreements, Erie Shores is obligated to compensate each landowner an amount equal to the greater of \$5 per turbine per year; and the sum of \$1.5 per turbine per year and 2% of Erie Shores' annual gross revenue from electricity sales attributable to all of the turbines sited upon the easement lands during the calendar year.

The Fund has a number of capital leases with terms ranging from four to nine years, expiring between 2010 and 2012 and bearing interest rates from 6.6% to 7.0%. The following table summarizes total principal and interest payments on the Fund's capital leases for the next five years:

Year	Annual Payment	Interest	Principal
2008	55	10	45
2009	221	32	189
2010	140	22	118
2011	133	13	120
2012	133	5	128
Total	682	82	600

### Operations and Management Agreements

CPOT has an Operations and Management agreement with Regional Power Inc. ("Regional") to operate and maintain the hydro facilities, expiring on November 30, 2011 with automatic renewal terms. Regional is to be paid a monthly management fee and an annual incentive fee.

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Whitecourt has an Operations and Management Agreement with Probyn Whitecourt Management Inc. ("PWMI") to operate and maintain the Whitecourt biomass facility, expiring on November 30, 2011 with automatic renewal terms. PWMI receives a monthly management fee and an annual incentive fee.

Chapais has a management agreement with Probyn Power Services Inc. ("PPSI") expiring on November 30, 2011 to operate and maintain the Chapais biomass facility. PPSI receives a monthly management fee.

Under a fixed-price service and maintenance agreement that expires on July 25, 2010, General Electric Canada provides operating and management services to Erie Shores. Under a separate agreement, General Electric Company agreed to provide the project with a four-year revenue reimbursement and performance warranty commencing July 26, 2006.

### **Gas Purchase Contracts**

Cardinal has a long-term purchase agreement for natural gas that expires in 2015. The minimum commitment for natural gas under the agreement is 9,289,104 MMBtu per year through to expiration in 2015. Cardinal is required to purchase a minimum volume of gas equivalent to 80% of the contract maximum.

### **Wood Waste Supply Agreement**

The Whitecourt biomass facility has entered into a long-term agreement to ensure an adequate supply of wood waste. The agreement expires in 2014.

### **Guarantees**

As at September 30, 2008, 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 Gas Recovery Systems, LLC ("GRS"), in excess of a certain amount. At September 30, 2008, there has been no reduction in the guarantee amount.

The Fund also provides three guarantees relating to CPIF's former investment in GRS. As at September 30, 2008, no claims have been made on these guarantees.

### **Easements**

Erie Shores has an easement agreement with the Town of Tillsonburg and the Corporation of the Municipality of Bayham for a term of 40 years commencing June 28, 2005. Under the agreement, Erie Shores is obligated to compensate the Town of Tillsonburg and the Municipality of Bayham an annual amount that is equal to the greater of \$18 and 4% of the Landowner Compensation. Landowner Compensation is the aggregate annual compensation in relation to the gross revenue from electricity sales received by each of the landowners on whose land a wind turbine is sited by Erie Shores.

## **11. FINANCIAL INSTRUMENTS**

Financial instruments primarily consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable, distributions payable, loans receivable, long-term debt, convertible debentures, levelization amounts and gas and interest rate swap contracts. The Fund also has embedded derivatives on one of its commodity contracts.

### **Financial Instruments Designated as Held-for-trading:**

*Cash and Cash Equivalents, Short-term Investments and Cash in Escrow Related to GRS*

The Fund invests its cash and cash in escrow balances in financial instruments of highly rated financial institutions and government securities with original maturities of 90 days or less.

The Fund has also short-term investments consisting of a \$5,000 Bankers' Acceptance ("BA"), maturing on July 6, 2009. This investment is with a highly rated Canadian financial institution, bearing interest at a rate of 3.57%. As of September 30, 2008, the carrying value of the investment of \$5,042, including accrued interest, approximates its fair value.

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**Loans and Receivables:**

*Accounts Receivable*

The Fund's accounts receivable consist of trade and interest receivable recorded at fair value. A substantial portion of the Fund's accounts receivable is from the Ontario Electricity Financial Corporation ("OEFEC") and the associated credit risks are deemed to be minimal.

*Loans Receivable*

The Fund's loans receivable are measured at amortized cost using the effective interest method.

**Other Liabilities:**

*Accounts Payable, Distributions Payable and Accounts Payable and Accrued Liabilities Related to GRS*

The Fund's accounts payable and distributions payable are short-term liabilities with carrying values that approximate their fair values. As at September 30, 2008, the Fund has recorded accounts payable and accrued liabilities relating to GRS equal to the amount that was held in escrow. The carrying value of these liabilities approximates their fair value.

*Long-Term Debt, Convertible Debentures, Levelization Amounts and Capital Lease Obligations*

The Fund's long-term debt, convertible debentures, levelization amounts and capital lease obligations are recorded at amortized cost using the effective interest method.

**Financial Instruments Classified as Held-for-trading:**

*Swap Contracts*

The Fund has gas and interest rate swap contracts outstanding as of September 30, 2008. Total amounts recorded in respect of these contracts are as follows:

The Fund's gas swap contracts effectively fix the revenue derived from the sales of excess gas. These contracts mitigate exposure to natural gas price fluctuations from sales of excess natural gas in the years from 2008 to 2011. They do not meet the effectiveness criteria for hedge accounting and accordingly, changes in fair value of the contracts are reflected in the consolidated statement of financial position. The estimated liability with respect to the gas swaps as at September 30, 2008 was \$378, of which \$38 is short-term (December 31, 2007 - \$475).

The Fund has an interest rate swap contract on a notional amount of \$20,000 to mitigate some of the refinancing risk associated with the Erie Shores project debt. Under this contract, the Fund will pay a fixed rate of 5.63% for a period of five years from December 1, 2011 to December 1, 2016. In return, the Fund will receive a floating rate equal to the then current three-month BA rate. As of September 30, 2008, the estimated liability with respect to the interest rate swap was \$940 (December 31, 2008 - \$662).

During the quarter, the Fund entered into five new interest rate swap contracts on a notional amount of \$85,000 to mitigate its interest rate risk on the Cardinal and CPOT credit facilities until maturity. Under each agreement, the Fund will pay a fixed rate in return for a floating rate equal to the then current three-month BA rate. Since these swap contracts have not been designated for hedge accounting, their fair values are reported in the consolidated statement of operations for the quarter ended September 30, 2008. As of September 30, 2008, the Fund recorded an asset and a liability of \$397 and \$318 with respect to these interest rate swaps (December 31, 2007 - \$nil).

The amounts included in the consolidated statement of operations in respect of these swaps are as follows:

	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Unrealized gain on gas swap contracts	4,824	603	97	1,102
Unrealized gain (loss) on interest rate swap contracts	72	(258)	(199)	(375)
Total unrealized gain (loss) on swap contracts	4,896	345	(102)	727



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*Embedded Derivatives*

The Fund has determined that its gas purchase contract contains embedded derivative features, which include mitigation options and electricity indexing features requiring separation and measurement at fair value. As at September 30, 2008, the embedded derivative asset and liability that have been recorded at fair value were \$18,717 (December 31, 2007 - \$17,718) and \$8,629 (December 31, 2007 - \$13,658), respectively.

Changes in the fair value of these financial instruments during the quarter have been recorded in the consolidated statement of operations as follows:

	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Unrealized gain (loss) on embedded derivative asset	(9,231)	(3,077)	999	(2,240)
Unrealized gain (loss) on embedded derivative liability	4,034	(2,390)	5,029	8,586
Total unrealized gain (loss) on embedded derivative instruments	(5,197)	(5,467)	6,028	6,346

**Determination of Fair Value**

The carrying values of cash and cash equivalents, short-term investments, cash in escrow related to GRS, accounts receivable, accounts payable, distributions payable and accounts payable and accrued liabilities related to GRS approximate their fair values due to their short-term nature.

The fair value of the Fund's loans receivable will differ from their carrying value due to changes in interest rates and the underlying risk associated with the debtor. It is determined using a discounted cash flow analysis.

The carrying value of the Fund's capital leases approximates their fair value.

The fair values of the Fund's floating rate debt and levelization amounts approximate their carrying values. The fair value of the Fund's fixed rate debt is determined through the use of a discounted cash flow analysis using relevant risk-free bond rates plus an applicable risk premium.

The fair value of the Fund's convertible debentures is obtained through multiplying the current market price per debenture unit by the number of convertible units outstanding as at the period end. The Fund pays a fixed 6.75% rate of interest on these convertible debentures and therefore is not subject to market fluctuations on interest rates.

The fair value of the Fund's gas swap contracts fluctuates with changes in market interest rates and prices for natural gas. Therefore, a forward gas price and interest rate curve is used in a discounted cash flow analysis to determine their fair value.

The fair value of the Fund's interest rate swap contracts fluctuates with changes in market interest rates. For the quarter ended September 30, 2008, a discounted cash flow analysis and a forward interest rate curve was used to determine their 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 that refer to observable market data. The determination of the fair value of the Fund's embedded derivatives requires the use of option pricing models involving significant judgement based on management's estimates and assumptions. 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, and fixed and variable gas transportation costs. Changes in one or a combination of these estimates may have a significant impact on the fair value of the embedded derivatives given the volume of gas and length of contract involved. As new information becomes available, management may choose to revise these estimates and, in particular, where there is an absence of reliable observable market data.

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The following table provides a comparison of carrying and fair values for each classification of financial instruments as at September 30, 2008:

	September 30, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial instruments designated as held-for-trading:				
Cash and cash equivalents	48,143	48,143	21,934	21,934
Short-term investments	5,042	5,042	-	-
Cash in escrow related to GRS	5,559	5,559	5,695	5,695
	58,744	58,744	27,629	27,629
Loans and receivables:				
Accounts receivable	11,453	11,453	25,516	25,516
Loans receivable	7,779	9,472	8,253	9,005
	19,232	20,925	33,769	34,521
Other liabilities:				
Accounts payable and accrued expenses	(11,524)	(11,524)	(15,730)	(15,730)
Distributions payable	(4,370)	(4,370)	(4,289)	(4,289)
Capital lease obligations	(600)	(600)	(736)	(736)
Long-term debt <sup>®</sup>	(223,832)	(221,178)	(200,900)	(199,319)
Levelization amounts	(18,972)	(18,972)	(18,262)	(18,262)
Convertible debentures	(38,918)	(38,529)	(38,918)	(38,237)
Accounts payable and accrued liabilities related to GRS	(5,559)	(5,559)	(5,695)	(5,695)
	(303,775)	(300,732)	(284,530)	(282,268)
Financial instruments classified as held-for-trading:				
Gas swap contracts	(378)	(378)	(475)	(475)
Interest rate swap contract, net	(861)	(861)	(662)	(662)
Embedded derivative asset	18,717	18,717	17,718	17,718
Embedded derivative liability	(8,629)	(8,629)	(13,658)	(13,658)
	8,849	8,849	2,923	2,923

<sup>®</sup> For comparison purposes, the carrying values of long-term debt as at September 30, 2008 and December 31, 2007 exclude deferred financing fees of \$508 and \$700, respectively.

## Income and Expenses from Financial Instruments

	Quarter ended September 30, 2008	Quarter ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Financial instruments designated as held-for-trading:				
Interest income on cash and cash equivalents <sup>®</sup>	343	305	826	745
Interest income on short-term investments <sup>®</sup>	42	-	42	-
Loans and receivables:				
Interest income from loans receivable <sup>®</sup>	196	750	601	781
Other liabilities:				
Interest expense on long-term debt <sup>®</sup>	(2,748)	(3,151)	(8,242)	(4,088)
Interest expense on levelization amounts <sup>®</sup>	(325)	(318)	(972)	(333)
Interest expense on convertible debentures <sup>®</sup>	(660)	(753)	(1,974)	(798)
Put premium on convertible debentures <sup>®</sup>	-	(158)	-	(158)
Financial instruments classified as held-for-trading:				
Unrealized gain on gas swap contracts	4,824	603	97	1,102
Unrealized gain (loss) on interest rate swap contracts	72	(258)	(199)	(375)
Unrealized gain (loss) on embedded derivative asset	(9,231)	(3,077)	999	(2,240)
Unrealized gain (loss) on embedded derivative liability	4,034	(2,390)	5,029	8,586

<sup>®</sup> Net interest expense for the quarter and nine months ended September 30, 2008 of \$3,152 and \$9,719 (Q3 2007 - \$3,325; YTD 2007 - 3,851) includes interest income from loans receivable and cash balances, offset by interest expense on long-term debt, levelization amounts and convertible debentures.

## NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The following discussion is limited to the nature and extent of risks arising from financial instruments, as defined under CICA Section 3862.

The Fund's normal operating, investing and financing activities expose it to a variety of financial risks including market risk (including commodity price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Fund's overall risk management process is designed to identify, manage and mitigate business risk, which includes, among others, financial risk.

### *Market Risk*

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that the Fund is exposed to include gas and power prices (commodity risk), foreign currency exchange rates, interest rates, and other indices that could adversely affect the value of the Fund's financial assets, liabilities or expected future cash flows.

#### *i) Commodity price risk*

Cardinal's gas purchase agreement protects Cardinal from exposure to changes in the market price of gas. This agreement expires on May 1, 2015. Upon expiry of the agreement, Cardinal will have to renegotiate the agreement or enter into a new agreement, and may not be able to do so on terms that are similar to the existing agreement, if at all.

While the excess power capacity of some of the facilities may be sold in the open market, thus exposing the assets to fluctuations in energy prices, most of the electricity that is generated at the facilities is sold to large utilities or creditworthy customers under long-term PPAs, which provide a specified rate for a defined period of time.

Cardinal uses gas swap agreements to mitigate the effect of gas price fluctuations on the net proceeds that Cardinal receives for the sale of natural gas in excess of the plant's requirements.

#### *ii) Interest Rate Risk*

Interest rate risk arises as the fair value of future cash flows from a financial instrument can fluctuate because of changes in market interest rates. The Fund is exposed to interest rate risk on its floating rate debt and levelization amounts. Currently, the Fund has interest rate swap contracts on a notional amount of \$105,000 to mitigate some of the risks associated with its long-term debt.

#### *iii) Foreign Currency Exchange Risk*

The Fund's exposure to foreign currency exchange risk is limited to the U.S. dollars held in its escrow account and accounts payable and accrued liabilities related to GRS.

### *Credit Risk*

Financial instruments that potentially subject the Fund to concentrations of credit risk consist of cash and cash equivalents, accounts and loans receivable and swap contracts.

The Fund deposits its cash and holds its short-term investments with reputable financial institutions and therefore management believes the risk of loss to be remote. All short-term investments held by the Fund as of September 30, 2008 are invested at a credit rating of R1 or higher.

Credit risk concentration with respect to trade receivables is limited due to the Fund's customer base being predominantly government authorities. As of September 30, 2008, over 66% of the Fund's trade receivables relate to sales to the OEFC. Since the OEFC is a government authority, management does not believe there to be significant credit risk. As at September 30, 2008, the maximum exposure with respect to receivables from the OEFC was \$7,519 and there are no accounts receivable that are past due.

The Fund has loans receivable from Chapais maturing in 2015. The Fund carries these loans receivable at amortized cost, having originally recorded them at fair value at acquisition. During the quarter, the Fund has recorded an allowance of \$45 (YTD - \$134) relating to interest receivable on Tranche B of the Chapais loans receivable (Q3 and YTD 2007 - \$47) as no interest payments have been received to date. As at September 30, 2008, the carrying value of the loans receivable was below their fair value.

The swap agreements could expose MPT to losses under certain circumstances, such as the counterparty defaulting on its obligations under the swap agreements or if the swap agreements provide an imperfect

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hedge. Counterparties to the Fund's interest rate and gas swap contracts are major financial institutions that have been accorded investment grade ratings by a primary rating agency, therefore management believes there to be low credit risks associated with its swap contracts.

*Liquidity Risk*

Liquidity risk is the risk that the Fund may encounter difficulties in meeting obligations associated with financial liabilities and commitments. The Fund has the following credit agreements in place relating to the power infrastructure facilities: the Cardinal credit agreement (expires in 2011), the Erie Shores credit agreement (expires in 2026) and the CPOT credit agreement (expires in 2010). These credit agreements contain a number of standard financial and other covenants.

A failure by Cardinal, Erie Shores 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.

In the event of default, there can be no assurance that Cardinal, Erie Shores or CPOT could:

- 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; or
- refinance these credit agreements or obtain additional financing on commercially reasonable terms, if at all. Cardinal's and CPOT'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.

The following table summarizes the maturity dates for each of the Fund's financial liabilities as at September 30, 2008:

Financial Liabilities	Date of Maturity	September 30, 2008	December 31, 2007
Accounts payable and accrued liabilities	Within 1 year	11,524	15,730
Distributions payable	Within 1 year	4,370	4,289
Capital lease obligations <sup>(i)</sup>	December 2012	600	736
Convertible debentures	December 2010	38,918	38,918
Levelization amounts <sup>(i)</sup>	June 2042	18,972	18,262
Swap contracts			
Gas swap <sup>(i)</sup>	October 2011	378	475
Interest rate swap on Cardinal credit facility <sup>(i)</sup>	May 2011	205	-
Interest rate swap on CPOT credit facility <sup>(i)</sup>	June 2010	113	-
Interest rate swap on ESWF project debt <sup>(i)</sup>	December 2016	940	662
Embedded derivative liability <sup>(i)</sup>	May 2015	8,629	13,658
Long-term debt			
Cardinal term loan	May 2011	35,000	35,000
CPOT credit facility <sup>(i)</sup>	June 2010	75,000	50,000
Erie Shores project debt			
Tranche A <sup>(i)</sup>	April 2026	67,414	68,988
Tranche B <sup>(i)</sup>	April 2016	6,418	6,912
Tranche C	April 2011	40,000	40,000

<sup>(i)</sup> These financial liabilities are repaid over the term to maturity and are not due on demand at maturity.

<sup>(ii)</sup> The carrying values of long-term debt as at September 30, 2008 and December 31, 2007 presented here exclude deferred financing fees of \$508 and \$700, respectively.

## SENSITIVITY ANALYSIS

Section 3862 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of changes in market variables (commodity prices, foreign exchange rates and interest rates) to the Fund's financial position and performance as a result of changes in the fair value of cash flows associated with the Fund's financial instruments. The sensitivity analysis provided discloses the effect on profit or loss for the quarter and nine months ended September 30, 2008, assuming that a reasonably possible change in the relevant risk variable has occurred at September 30, 2008 and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or historical data.

The sensitivity analysis has been prepared based on September 30, 2008 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, the proportion of energy contracts that are financial instruments and the proportion of financial instruments in foreign currencies in place at

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September 30, 2008 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments under Section 3855.

The sensitivity analysis provided is hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Fund's actual exposure to market rates is constantly changing as the Fund's portfolio of commodity, debt, foreign currency and equity contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Fund.

Quarter ended September 30, 2008		Interest Rate Risk		Foreign Exchange Rate Risk	
		- 1 %	+ 1 %	- 10 %	+ 10 %
Carrying Amount		Income	Income	Income	Income
Financial Assets:					
Cash and cash equivalents <sup>(i)</sup>	48,143	(120)	120	-	-
Short-term investment <sup>(ii)</sup>	5,042	(13)	13	-	-
Cash in escrow related to GRS <sup>(iii)</sup>	5,559	(14)	14	556	(556)
Interest rate swap contract <sup>(iv)</sup>	397	(34)	34	-	-
Financial Liabilities:					
Long-term debt <sup>(iv)</sup>	223,832	275	(275)	-	-
Interest rate swap contract <sup>(iv)</sup>	1,258	(828)	828	-	-
Accounts payable and accrued liabilities related to GRS <sup>(iii)</sup>	5,559	14	(14)	(556)	556

Nine months ended September 30, 2008		Interest Rate Risk		Foreign Exchange Rate Risk	
		- 1 %	+ 1 %	- 10 %	+ 10 %
Carrying Amount		Income	Income	Income	Income
Financial Assets:					
Cash and cash equivalents <sup>(i)</sup>	48,143	(361)	361	-	-
Short-term investments <sup>(ii)</sup>	5,042	(38)	38	-	-
Cash in escrow related to GRS <sup>(iii)</sup>	5,559	(42)	42	556	(556)
Interest rate swap contract <sup>(iv)</sup>	397	(34)	34	-	-
Financial Liabilities:					
Long-term debt <sup>(iv)</sup>	223,832	825	(825)	-	-
Interest rate swap contract <sup>(iv)</sup>	1,258	(828)	828	-	-
Accounts payable and accrued liabilities related to GRS <sup>(iii)</sup>	5,559	42	(42)	(556)	556

<sup>(i)</sup> Cash and cash equivalents include deposits at call which are at floating interest rates. Sensitivity to a  $\pm 1\%$  movement in interest rates would have a \$120 and \$361 impact on income for the quarter and nine months ended September 30, 2008, respectively.

<sup>(ii)</sup> Short-term investments consist of the Fund's investment in a one-year BA for \$5,000 plus accrued interest. Sensitivity to a  $\pm 1\%$  movement in interest rates would result in \$13 and \$38 impact on income for the quarter and nine months ended September 30, 2008, respectively.

<sup>(iii)</sup> Cash in escrow and accounts payable and accrued liabilities related to GRS are denominated in US dollars. Sensitivity to a  $\pm 1\%$  movement in interest rates would result in \$14 and \$42 impact on income for the quarter and nine months ended September 30, 2008, respectively. A  $\pm 10\%$  movement in foreign exchange rates would result in \$556 movement in income for the quarter and nine months ended September 30, 2008.

<sup>(iv)</sup> Long-term debt includes \$110,000 of floating rate debt. Sensitivity to a  $\pm 1\%$  movement in interest rates would have a \$275 and \$825 impact on income for the quarter and nine months ended September 30, 2008, respectively. Carrying value of long-term debt excludes deferred financing fees of \$508.

<sup>(v)</sup> As of September 30, 2008, the Fund has interest rate swap contracts on a notional amount of \$105,000 to mitigate interest rate risk on the Cardinal and CPOT credit facility and some of the refinancing risk associated with the Erie Shores project debt. These swaps are recorded at fair value based on the use of a forward interest rate curve. A  $\pm 1\%$  shift in interest rates would cause income for both the quarter and nine months ended September 30, 2008 to fluctuate by \$862.

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Quarter and Nine months ended September 30, 2008		Natural Gas Price Risk		DCR Risk	
		- 10%	+ 10%	- 10%	+ 10%
	Carrying Amount	Income	Income	Income	Income
Financial Assets:					
Embedded derivative asset <sup>(i)</sup>	18,717	(2,699)	2,706	148	(154)
Financial Liabilities:					
Gas swap contracts <sup>(ii)</sup>	378	1,216	(1,216)	-	-
Embedded derivative liability <sup>(i)</sup>	8,629	-	-	2,980	(3,103)

<sup>(i)</sup> The Fund has recorded an embedded derivative asset and liability relating to the gas mitigation option and electricity indexing features of Cardinal's gas purchase contract at fair value. The determination of fair value of these financial instruments requires the use of a number of variables including forward gas and DCR curves. For the embedded derivative asset, a +10% shift in the Canadian dollar equivalent gas curve and DCR curve would result in an increase in income of \$2,706 and decrease in income of \$154, respectively, for the quarter and nine months ended September 30, 2008. A -10% shift in the Canadian dollar equivalent gas curve and DCR curve would result in a decrease in income of \$2,699 and increase in income of \$148, respectively, for the same period. For the embedded derivative liability, a +10% shift in the DCR curve would cause a \$3,103 decrease in income for the quarter and nine months ended September 30, 2008; and a -10% shift in the DCR curve would cause a \$2,980 increase in income for the same period.

<sup>(ii)</sup> The Fund has gas swap contracts to mitigate its exposure to natural gas price fluctuations from sales of excess gas in the years from 2008-2011. The gas swap contracts are recorded at fair value based on the use of a forward gas curve. Sensitivity to a ±10% shift in the forward gas curve would have a \$1,216 impact on income for the quarter and nine months ended September 30, 2008.

## 12. CASH IN ESCROW AND LIABILITIES RELATED TO GRS

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 Co., 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 September 30, 2008. These escrowed funds, or a portion thereof, will be payable if certain conditions are met. In addition, should the dispute be resolved fully in 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 September 30, 2008 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.

## 13. CAPITAL DISCLOSURE

The Fund defines its capital as its long-term debt, convertible debentures, levelization amounts, unitholders' equity and cash and cash equivalents.

The Fund's objectives when managing capital are to: (i) maintain a capital structure that provides financing options to the Fund when a financing or a refinancing need arises to ensure access to capital, on commercially reasonable terms, without exceeding its debt capacity; (ii) maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and distribution payments; and (iii) to deploy capital to provide an appropriate investment return to its unitholders.

The Fund's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Fund may issue additional units, issue additional debt, issue debt to replace existing debt with similar or different characteristics, and adjust the amount of distributions paid to unitholders. The Fund's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Fund's needs and economic conditions at the time of the transaction.

The Board of Trustees of the Fund reviews the level of distributions paid to unitholders on a quarterly basis. As of September 30, 2008, the Fund is in compliance with all financial and non-financial covenants on its credit facilities. Collateral for the Cardinal term loan facility is provided by a first ranking hypothec covering the



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assets of Cardinal. As at September 30, 2008, the carrying value of the assets of Cardinal exceeds total amounts drawn on the Cardinal credit facility. The Erie Shores project debt is secured only by the assets of Erie Shores, with no recourse to the Fund's other assets. As at September 30, 2008, the carrying value of the assets of Erie Shores exceeds the total amount of project debt.

There were no changes in the Fund's approach to capital management during the quarter.

#### **ADDITIONAL INFORMATION**

Please refer to the SEDAR website ([www.sedar.com](http://www.sedar.com)) for additional information about the Fund including the Fund's annual information form, dated March 21, 2008.

#### **INVESTOR INFORMATION**

##### **TRANSFER AGENT, REGISTRAR**

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1500 University St., Suite 700, Montreal, QC H3A 3S9  
1 (800) 564 6253

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Harry Atterton, Vice President and 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.

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