

Macquarie Power Income Fund

Financial Report
For the Quarter and Year Ended
December 31, 2005

February 21 , 2006



MACQUARIE

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

Macquarie Power Management Ltd. ("MPML") is the Manager of the Fund and is an indirect wholly owned subsidiary of Macquarie Bank Limited, incorporated in Australia.

Investments in the Fund are not deposits with, or other liabilities of, Macquarie Bank Limited, or any entity in the Macquarie Bank Group and are subject to investment risk, including possible delays in repayment and loss of income and capital invested. Neither MPML, nor any member of the Macquarie Bank Group, guarantees the performance of the Fund, the repayment of capital or the payment of a particular rate of return on the Fund's units.

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

Macquarie Power Income Fund
Management's Discussion and Analysis
For the Quarter and Year Ended,
December 31, 2005

This report for the Macquarie Power Income Fund (the "Fund") summarizes the financial results for the quarter and year ended, December 31, 2005. This discussion and analysis dated February 21, 2006 of the Fund's consolidated operating results, cash flow and financial position presented herein should be read in conjunction with the consolidated financial statements and related notes contained in this financial report, as well as the audited December 31, 2004, and unaudited March 31, June 30 and September 30, 2005 consolidated financial statements and related notes, the December 31, 2004 Management's Discussion and Analysis, the Annual Information Form and the Short Form Prospectus dated September 22, 2005, all of which are filed electronically on SEDAR.

Non-GAAP measures

The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). This report also contains figures that are not performance measures according to GAAP. For instance, the Fund measures earnings before interest, taxes, depreciation and amortization and unrealized gains and losses ("EBITDA") because this method allows management to assess the financial performance of the Fund's operations. Additional information in the section dealing with non-GAAP measures compares the non-GAAP figures with the most comparable financial information.

Forward-looking statements

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

Consolidation and comparison of operating results

The discussion and analysis of the operating results reflect the consolidated operations of the Fund, Macquarie Power Income Trust (the "Trust"), Cardinal Inc. ("Cardinal G.P."), Cardinal Power of Canada L.P. ("Cardinal"), MPT LTC Holding Ltd. ("LTC G.P.") and MPT LTC Holding L.P. ("LTC Holding L.P."). LTC Holding L.P. has an indirect 45% investment in Leisureworld Senior Care L.P., ("Leisureworld") (formerly Macquarie Senior Care L.P.) which is accounted for using the equity method. On the basis of revenue and EBITDA, the operating results for the consolidated entity are virtually identical to those of Cardinal as a stand-alone entity. As such, it is possible to compare the consolidated results of the Fund for the quarter and the year with the operating results of the Cardinal plant for the same period in the prior year. The investment in Leisureworld was completed on October 18, 2005. As a result, all financial information presented in relation to Leisureworld will be for the 75 days ended December 31, 2005.

The following discussion and analysis compares the actual results of the Fund for the quarter and year ended December 31, 2005 to the results of the Fund for the quarter ended and of Cardinal for the year ended December 31, 2004. Results presented for the year ended December 31, 2004 include results for the four months ended April 30, 2004, a period of time before which the Fund owned Cardinal. For these reasons, comparative results provide a basis of comparison that is approximate, since the results of operations combine periods of time when different owners managed Cardinal. All amounts have been expressed in thousands of Canadian dollars unless otherwise stated.

Overview and outlook

The Fund has completed the fourth quarter and its first full year result in a strong financial position, underpinned by an excellent performance from Cardinal and increased stability in the Fund's long-term cash flows following the recent investment in the Leisureworld long-term care ("LTC") business. The Fund has maintained its Standard & Poor's stability rating at SR-2 and achieved a payout ratio for the year ended 2005 of 85.5% (eight months ended 2004 – 97.5%). Distributable cash for the year was \$1.12 per unit. The Fund's financial position also improved during the year with positive working capital of \$17,805 (2004 - \$12,935) including \$3,158 of uncommitted cash reserves.

Cardinal performed strongly throughout 2005, with availability of 98.5% (2004 – 98.0%) and a capacity load factor of 95.4% (2004 – 96.0%) for the year. Cardinal's current operating revenue for 2005 increased by 4.8%, driven by a sustainable increase in electricity rates under Cardinal's Power Purchase Agreement ("PPA") with Ontario Electricity Finance Corporation. As the Fund announced in its third quarter results to September 30, 2005, the total market cost of electricity ("TMC") to industrial customers increased significantly during 2005 and ended the year 19% up on 2004. The Direct Customer Rate ("DCR") is calculated based on a three year average of the TMC, and therefore the high prices experienced in 2005 will have a continuing impact on the DCR through 2007. Cardinal's fuel costs were also lower than expected for 2005 due to decreased transportation costs.

The Fund completed the acquisition of its 45% interest in Leisureworld on October 18, 2005 and, as part of the transition process, operating structures including financial reporting and governance frameworks were established during the fourth quarter. The transition was achieved at a lower cost than anticipated in the acquisition plan. In addition, Leisureworld's operating performance was in line with expectations. The Fund received \$1,852 in distributions from Leisureworld for the 75 days of ownership in 2005.

On December 13, 2005 the Fund announced a more than 5% increase in monthly cash distributions to unitholders due to the Fund's strong financial position and the excellent financial performance of the Fund and its assets during 2005.

The outlook for the Fund continues to be positive in 2006, reflecting the continued strength and expected growth in cash flows from the underlying businesses. It is also significant that 2006 capital expenditure programs at both Cardinal and Leisureworld have already been fully funded.

For 2006 Cardinal is expected to perform in line with 2005. The reduction in revenue from the major maintenance activity during the year is expected to be largely offset by the benefit of increased electricity rates and expected lower gas transportation costs. As part of the 2006 maintenance program and in keeping with Cardinal's continued focus on operational improvements, Cardinal will install gas turbine cooling and a new online gas turbine wash system. This should result in more efficient conversion of gas to electricity especially in the summer period, and slightly enhance overall electricity generation capacity.

Leisureworld's operating performance is expected to continue to improve in 2006 as the business realizes its strategy to optimize occupancy and resident mix, and provide high quality accommodation and services. The development of the Class A facility in Orillia will also provide 160 beds during the second half of 2006 and replace the 120-bed Class D Spencer House facility in the Leisureworld portfolio. Spencer House is expected to close and be sold concurrent with the Orillia opening. Importantly, the Orillia community has been identified as an area where LTC requirements are currently under-served and Leisureworld is confident there will be strong demand for beds on opening.

In addition to managing its existing assets, the Fund will continue to explore infrastructure opportunities to expand its portfolio during 2006. The Fund is particularly focused on enhancing the diversity and average asset life of the portfolio as well as increasing the Fund's size and liquidity for the benefit of investors. Importantly, the Fund will remain disciplined in its investment approach and adhere to its investment criteria which requires that any new acquisition will result in a sustainable increase in distributable cash for unitholders.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

	Quarter Ended December 31, 2005	Quarter Ended December 31, 2004	Year Ended December 31, 2005	Year Ended December 31, 2004
Revenue for the period	\$24,620	\$24,256	\$90,101	\$85,958
DCR adjustments in respect of prior years	-	-	134	2,835
Total revenue	24,620	24,256	90,235	88,793
EBITDA ⁽ⁱ⁾	6,417	8,532	26,060	29,722
Depreciation and amortization	3,128	3,131	12,498	(ii)
Unrealized loss (gain) on gas swap contracts	598	(213)	3,240	(ii)
Net interest expense	190	332	1,146	(ii)
Equity accounted loss from Leisureworld	804	-	804	-
Net income	1,697	5,282	8,372	(ii)
<i>Per trust unit (\$)</i>	<i>0.060</i>	<i>0.250</i>	<i>0.364</i>	(ii)
<i>Per fully diluted trust unit (\$)</i>	<i>0.058</i>	<i>0.250</i>	<i>0.360</i>	(ii)
Cash flow from operating activities	(782)	6,184	20,230	(ii)
Distributable cash ⁽ⁱ⁾	7,786	7,614	25,989	(ii)
<i>Per fully diluted trust unit (\$)</i>	<i>0.264</i>	<i>0.360</i>	<i>1.117</i>	(ii)
Distributions declared to Unitholders	7,136	5,028	22,220	(ii)
<i>Per fully diluted trust unit (\$)</i>	<i>0.242</i>	<i>0.238</i>	<i>0.950^(iv)</i>	(ii)
Payout ratio ⁽ⁱⁱⁱ⁾	91.7%	66.0%	85.5%	(ii)
Weighted average number of trust units and class B exchangeable units outstanding – fully diluted ('000s)	29,448	21,169	23,271	(ii)
Sale of electricity ('000s MWh)	325	336	1,282	1,281
Sale of steam ('000s lbs)	186	181	683	691
Total assets	320,404	232,209	320,404	232,209
Total long-term liabilities	38,580	35,517	38,580	35,517

(i) See “Additional information about non-GAAP performance measures” for a reconciliation of EBITDA and Distributable Cash to Net Income and Cash Flows from Operations Activities for the quarter. EBITDA and Distributable Cash are not recognized measures under GAAP and do not have a standardized meaning prescribed by GAAP. Therefore, EBITDA and Distributable Cash may not be comparable to similar measures presented by other issuers.

(ii) Financial results from the prior year have been presented only if comparable to the current year.

(iii) The payout ratio is defined as distributions declared as a proportion of distributable cash. Payout ratio is not a recognized measure under GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, it may not be comparable to similar measures presented by other issuers.

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

Revenue

The Cardinal plant generated revenue for the quarter of \$24,620, slightly ahead of 2004 revenue of \$24,256. During the quarter the plant performed well with electricity sales of 325,000 MWh (2004 – 336,000 MWh), availability of 98.7% (2004 – 97.9%) and capacity of 93.7% (2004 – 96.8%). Plant availability was excellent and slightly ahead of 2004. The sale of electricity and capacity were both lower reflecting higher curtailments in the fourth quarter. The plant curtailed 360 hours (2004 – Nil) to benefit from the temporary escalation in the spot price of gas through reduced net fuel costs. This impact on revenues was more than offset by a 3.8% increase related to the 2005 First Interim DCR.

EBITDA

The total EBITDA generated by the Fund during the quarter was \$6,417, a decrease of \$2,115 when compared to 2004. Operationally, Cardinal's transportation costs were lower by \$400 and gas sales were higher by \$200 but were offset by increased maintenance costs of \$700 related to preparation for the major maintenance scheduled in the second quarter of 2006. At the same time, administration expenses were higher by \$2,351 in the quarter primarily due to the Fund's very active pursuit of potential investments. Also included in the Fund's administration expenses in the quarter is an incentive fee of \$1,260 (2004 – \$204) payable to the Manager as a result of the strong annual cash flow performance of the Fund including the Leisureworld acquisition.

Unrealized (gain) loss on gas swap contracts

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

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

An unrealized loss of \$598 (2004 – gain of \$213) was recorded for the quarter and \$3,240 (eight months 2004 – gain of \$213) in the year ended December 31, 2005 to reflect the movement in fair value of certain of the contracts entered into for 2007 and 2008. This unrealized loss had no impact on the operating cash flows or distributable cash for the quarter and year ended.

Net interest expense

In fiscal 2004, the Fund converted its term loan from a prime rate loan to a series of banker acceptances (BAs), which are renewed at their respective maturities. The borrowing costs on these loans are paid at the inception date of the respective transactions and are amortized over the term of the respective maturities. Borrowing costs of \$358 (eight months 2004 – \$382) were amortized in the quarter and \$1,406 (2004 – \$824) in the year ended December 31, 2005.

Distributable cash

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

Distributable cash is based on cash flow from operating activities, the GAAP measure reported in the Fund's consolidated statement of cash flows. Cash flow from operations is adjusted for changes in the reserve accounts and distributions received from Leisureworld. In addition, the impact of changes in non-cash working capital is excluded (the movements in trade related current assets and liabilities) as the Manager believes it should not be considered in a period calculation intended to demonstrate the degree to which cash flow from earnings support the financial obligations of the Fund.

The Fund has reviewed the calculation of distributable cash and has determined that, to better reflect the Fund's performance, the calculation should be amended to exclude releases from the capital expenditure reserve account. Previously this amount was added back to distributable cash.

	Quarter Ended December 31, 2005	Quarter Ended December 31, 2004	Year Ended December 31, 2005	8 months Ended December 31, 2004
Cash flows from operating activities	\$(782)	\$6,184	\$20,230	\$13,072
Add:				
Release from major maintenance reserve account	391	85	1,958	215
Distributions received from Leisureworld	1,852	-	1,852	-
Changes in working capital	7,018	2,025	4,720	2,327
Less:				
Net Allocation to (from) major maintenance reserve account	(8)	581	1,769	1,549
Allocation to capital expenditure reserve account	701	99	1,002	263
Distributable cash for the period	\$7,786	\$7,614	25,989	\$13,802
Add:				
Release from capital expenditure reserve account	-	246	-	366
Distributable cash for the period fully diluted (as previously stated)	-	\$7,860	-	\$14,168
Fully diluted weighted average number of trust units and Class B exchangeable units outstanding (units)	29,447,956	21,168,997	23,271,173	21,168,997
Distributable cash per trust unit and Class B exchangeable unit for the period fully diluted (\$)	0.264	0.360	1.117	0.652
Distributable cash per trust unit and Class B exchangeable unit for the period, (as previously stated) (\$)	-	0.371	-	0.669

During the quarter, the Fund re-allocated \$600 from major maintenance reserve to capital expenditure reserve in order to better reflect anticipated requirements. The Fund declared distributions to unitholders of \$7,136 for the quarter and \$22,220 for the year. This represents a payout ratio of 91.7% for the quarter (2004 – 66.0%) and 85.5% for the year (eight months ended 2004 – 95.0%) (payout ratio is defined as distributions declared as a proportion of distributable cash).

On September 30, 2005, the Fund closed an offering of 5,630,000 subscription receipts, each representing a right to receive one unit of the Fund. Concurrently, the Fund also entered into a commitment to issue 3,249,390 Class B exchangeable units, whereby each unit is exchangeable into one trust unit of the Fund. On closing of the transaction, October 18, 2005, the subscription receipts were exchanged for units of the Fund and the exchangeable units were issued. The Class B exchangeable units are eligible to receive distributions under the same terms and conditions as trust units.

Leisureworld operations

Leisureworld is the third largest operator of LTC facilities in the Province of Ontario, Canada. The Leisureworld operation includes 19 LTC facilities (3,147 beds), two retirement homes (87 beds) and one independent living facility (53 beds) as well as two related businesses, Preferred Health Care Services and Ontario Long-term Care, both of which provide services to the LTC business. The investment is accounted for as an equity investment and as such the Fund records its share (45%) of any income or loss for the period.

As at December 31, 2005, Leisureworld had 3,147 LTC beds, with occupancy at all but two of the Leisureworld homes having surpassed the threshold rate of 97% so they are now considered mature facilities.

The threshold rate is significant because, if a LTC home's average annual occupancy meets or exceeds 97%, it is the Province's policy to provide funding based on 100% occupancy. Only two homes, constructed since September 2003, remain in "ramp up" phase and are expected to achieve the 97% occupancy level by the fourth quarter of 2006.

The Fund records its 45% pro rata portion of the Leisureworld results using the equity method. The Fund's share of the Leisureworld net loss was \$804 in the 75 day period ended December 31, 2005. Included in the Fund's pro rata portion of net loss was depreciation and amortization of \$1,938. In addition, Leisureworld received construction funding during the period of \$501 (the Fund's pro rata share). This funding is not recorded in the net loss as it is a reimbursement of costs related to the cost of construction of Class A homes. During the period, Leisureworld paid \$1,852 in cash distributions to the Fund.

Liquidity and financial resources

As at December 31, 2005, unrestricted cash and cash equivalents totalled \$11,738 (2004 - \$10,883).

	December 31, 2005	December 31, 2004
Major maintenance reserve	\$4,145	\$4,334
Capital expenditure reserve	1,435	897
General reserve	3,000	3,000
Total reserve accounts	8,580	8,231
Other cash and cash equivalents	3,158	2,652
Total cash and cash equivalents	\$11,738	\$10,883

The Fund has a \$15,000 revolving operating line of credit available (2004 - \$15,000). As at December 31, 2005 there is no amount outstanding on the facility. As at December 31st, 2005 term debt outstanding is \$35,000 (2004 - \$35,000).

Seasonality

Since Cardinal has a long-term PPA and gas purchase contracts with fixed prices, its results are not significantly affected by fluctuations resulting from the market prices for electricity or the volatility in the price of natural gas. However, the PPA contains lower power rates during the six-month period from April to September (and higher prices from October to March) which originally reflected differences in market demand between these two different segments of the year.

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

The readers are referred to the Management Discussion and Analysis included in the 2004 Annual Report and the Quarterly Financial Reports for an analysis of results of the financial performance of the Fund in prior quarters.

Related party transactions

Under the terms of the Administration and Management Agreements, the Fund makes payments to the Manager for administration and management fees, incentive fees and cost reimbursement. The Fund incurred administration and management fees of \$265 (2004 - \$170) for the quarter and \$782 (2004 - \$454) for the year; incentive fees of \$1,260 (2004 - \$204) for the year which were recorded in this quarter; and cost reimbursement of \$1,187 (2004 - \$189) for the quarter and \$1,460 (2004 - \$189) for the year. Of the cost reimbursement, \$239 (2004 - Nil) was charged to unitholders' capital as it directly related to the issuance of subscription receipts associated with the acquisition of Leisureworld. 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 adjusted the amount of the incentive fee in 2005 for the impact on the 2004 incentive fee had the 2004 incentive fee utilized the current calculation format of distributable cash.

A subsidiary of the Fund entered into an agreement with a subsidiary of Macquarie Bank Limited dated as of September 12, 2005, which provided for the acquisition by the Fund of an indirect 45% ownership interest in Leisureworld (formerly Macquarie Senior Care L.P.) and its general partner. Following this acquisition and immediately prior to the closing of the Leisureworld business acquisition, the Fund made an investment, indirectly, in Leisureworld (collectively with such acquisition, the "Investment") in order to partially fund the Leisureworld business acquisition and costs associated with the Investment. Included in the acquisition costs was \$15,172 paid to an affiliate of Macquarie Bank Limited by Leisureworld for advisory services for which the Fund's pro rata share is \$6,827. During the period, Leisureworld has incurred charges for advisory and administration services from an affiliate of Macquarie Bank Limited in the amount of \$647.

Contractual obligations and other commitments

There were no significant changes in the Fund's obligations and commitments since March 21, 2005, the date of the Fund's Annual Information Form, other than as identified above with respect to the subscription receipt offering and the issuance of exchangeable units. The following describe the more significant contractual obligations and commitments of the Fund as of December 31, 2005.

Long-term debt

The term debt facility is a three year term loan for an amount of \$35,000 (2004 – \$35,000) maturing April 29, 2007. Collateral for the facility is provided by a first ranking hypothec covering the assets of Cardinal. Utilization of the facility is subject to certain financial and non-financial covenants. Advances under the facility are made in the form of BAs or prime rate loans. In the case of BAs, interest is charged at the BA rate plus a stamping fee based on the Fund's ratio of consolidated total debt to consolidated EBITDA. In the case of prime rate loans, interest is charged at the bank's prime rate plus an applicable margin based on the same ratio. At December 31, 2005, the Fund's term debt was in the form of a series of instruments as follows:

Type of instrument	Draw down amount	Maturity	All-in rate
BA	\$11,700	May 1, 2006	3.92%
BA	\$11,600	June 13, 2006	3.89%
BA	\$11,700	December 16, 2006	4.99%

Borrowing costs, including interest, are paid at the inception of each BA loan. These costs are capitalized and amortized over the life of each respective loan. As at December 31, 2005, the unamortized portion of the capitalized borrowing costs totalled \$881 (2004 – \$833) and is included in the statement of financial position.

Gas purchase contracts

Cardinal has entered into long-term purchase agreements for natural gas and gas transportation that expire on May 1, 2015 and October 31, 2014, respectively. Minimum commitments under such agreements are 9,289,104 MMBtu per year through to expiration in 2015. Under its long-term purchase agreement for natural gas, Cardinal is required to purchase a minimum volume of gas equivalent to 80% of the contract maximum, or the supplier is entitled to financial compensation from Cardinal.

Lease

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

Gas swap contracts

Cardinal has entered into gas swap contracts to hedge itself against fluctuations in the price of excess gas sold under the gas mitigation clause of the gas purchase agreement. The gas swap contracts require Cardinal to pay variable payments to the counterparty based on 436,814 MMBtu of gas at the market rate of natural gas in exchange for receiving fixed payments based on 436,814 MMBtu of gas at a fixed price per MMBtu for up to

five years ending October 31, 2008. The contracts cover the sale of gas for the seven-month period from April to October for each of the remaining contracts. As at December 31, 2005, the following contracts remained:

Period covered by contract

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

Reconciliation of net income and EBITDA

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

The following table reconciles EBITDA to net income:

	Quarter Ended December 31, 2005	Quarter Ended December 31, 2004	12 months Ended December 31, 2005	8 months Ended December 31, 2004
Net income for the period	\$1,697	\$5,282	\$8,372	\$7,236
Net interest expense	190	332	1,146	941
Depreciation and amortization	3,128	3,131	12,498	8,340
Unrealized loss (gain) on the fair value of gas swap contracts	598	(213)	3,240	(213)
Equity accounted loss from Leisureworld	804	-	804	-
EBITDA for the period	<u>\$6,417</u>	<u>\$8,532</u>	<u>\$26,060</u>	<u>\$16,304</u>

Selected quarterly information

	Quarter Ended December 31, 2005	Quarter Ended September 30, 2005	Quarter Ended June 30, 2005	Quarter Ended March 31, 2005
Revenue	\$24,620	\$20,689	\$19,698	\$25,228
Net income	1,697	1,656	800	4,219
Net income per fully diluted weighted average of trust units and Class B exchangeable units outstanding (\$)	0.058	0.078	0.038	0.199
Cash flow from operating activities per fully diluted weighted average of trust units and Class B exchangeable units outstanding (\$)	(0.027)	0.269	0.228	0.431
Distributions declared per fully diluted weighted average of trust units and Class B exchangeable units outstanding (\$)	0.242	0.238	0.238	0.238

	Quarter Ended December 31, 2004	Quarter Ended September 30, 2004	Quarter Ended June 30, 2004
Revenue	\$24,256	\$18,650	\$12,942
Net income	5,282	876	1,078
Net income per fully diluted weighted average of trust units and Class B exchangeable units outstanding (\$)	0.249	0.041	0.051
Cash flow from operating activities per fully diluted weighted average of trust units and Class B exchangeable units outstanding (\$)	0.317	0.307	0.072
Distributions declared per fully diluted weighted average of trust units and Class B exchangeable units outstanding (\$)	0.238	0.238	0.160

Since Cardinal has a long-term PPA and gas purchase contracts with fixed prices, the Fund's results are not significantly affected by fluctuations resulting from the market prices for electricity or the volatility in the price of natural gas. However, the PPA contains lower power rates during the six-month period from April to September (and higher prices from October to March) which is reflected in the variations in quarterly results above. The results for the quarter ended December 31, 2005 included the equity accounted loss of \$804 from the investment in Leisureworld.

Risks and uncertainties

The Manager is of the opinion that there have been no significant changes in risks and uncertainties since September 22, 2005. Please refer to the Risk Factors in the Short Form Prospectus issued by the Fund on September 22, 2005 in connection with the investment in Leisureworld and the Annual Information Form which is filed electronically on SEDAR.

Critical accounting policies and estimates

The Fund has adopted certain accounting policies which require the use of estimates and assumptions about matters that are uncertain at the time the estimates are made.

The preparation of financial statements in accordance with GAAP requires the Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingencies, and the reported amounts of revenues and expenses during the quarter. Actual results could differ from those estimates.

Gas swap contracts

The Fund uses swap contracts to manage its exposure to price fluctuations on sales of excess natural gas. The Fund has adopted Accounting Guideline 13, Hedging Relationships ("AcG-13") issued by the CICA, which set out the criteria for applying hedge accounting for these financial instruments. Swap contracts that have been designated and function effectively as hedges under AcG-13 will have the current period revenue or expenses generated recognized in the same period as adjustments to operating expenses. Swap contracts that do not qualify for hedge accounting under AcG-13 are recorded in the statement of financial position at fair value established by the market, changes in fair value are recorded as adjustments to net income in the statement of income. In analyzing the effectiveness of swap contracts, it is necessary for the Fund to rely on publicly available future price curves for natural gas.

Impairment of assets

Long-lived assets are reviewed for impairment during the second quarter of the fiscal year, or when indications of impairment arise during the year. An impairment loss is recognized when the fair value of the asset is less than the carrying amount. Fair value is based on estimates of future cash flows. The determination of fair value requires the Manager to make significant assumptions about future operating performance, market prices for

natural gas and electricity, retirement costs and discount rates. The impairment review performed in 2005 continues to support the carrying value of the Fund's long-lived assets.

Asset retirement obligation

The Fund recognizes a liability for the present value of the expected future costs of retirement of the Cardinal plant. Expected values are probability weighted to deal with the risk and uncertainties inherent in the timing and amount of settlement of many asset retirement obligations. Expected values are discounted at the risk-free interest rate adjusted to reflect the entity's current credit standing. Determining asset retirement obligations requires estimating the life of the related asset and the costs of activities such as demolition, dismantling, restoration and remedial work based on present-day methods and technologies. These estimates are reviewed each fiscal year and adjusted prospectively if required.

Long-Term investment

The Fund has significant influence over its' investment in Leisureworld and accounts for it using the equity method. Under the equity method, the cost of the investment is increased by the Fund's proportionate share of income and reduced by any distributions payable to the Fund by the LTC Holding L.P. and the LTC G.P.

Maintenance and repairs

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

Useful life of the Cardinal plant

Plant and equipment are amortized for accounting purposes over their estimated useful life of 20 years. The Manager estimates useful life based on current facts and past experience, and takes into consideration the anticipated physical life of the asset, existing long-term sales agreements and contracts, current and forecasted demand and the potential for technological obsolescence.

New accounting pronouncements

Variable interest entities

On January 1, 2005, the Fund prospectively adopted the requirements of CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG-15"), which is effective for fiscal year 2005 and provides guidance for applying the principles in Section 1590, "Subsidiaries" to those entities defined as Variable Interest Entities ("VIEs"), in which either the equity at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties, or equity investors lack either voting control, an obligation to absorb expected losses, or the right to receive residual returns. AcG-15 requires consolidation of VIEs by the primary beneficiary. The primary beneficiary is defined as the party that has exposure to the majority of a VIE's expected losses and/or residual returns. The Fund has evaluated its interests in electricity supply and gas purchase contracts and has determined that the Fund is the primary beneficiary at December 31, 2005 and should continue to consolidate Cardinal Power of Canada, L.P.

Financial instruments – recognition and measurement, CICA Handbook Section 3855

Section 3855 prescribes when a financial asset, financial liability, or non-financial derivative is to be recognized in the statement of financial position and at what amount – sometimes using fair value; other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented.

Section 3855 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year that ends on or after December 31, 2004. The Fund will not be adopting this standard in 2006 and is reviewing Section 3855 to determine the impact this standard will have on the accounting for the Fund's financial instruments.

Hedges, CICA Handbook Section 3865

Section 3865 is applicable whenever a company chooses to designate a hedging relationship for accounting purposes. It builds on existing Accounting Guideline AcG-13 "Hedging Relationships," by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Section 3865 applies for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year that ends on or after December 31, 2004. The Fund will not be adopting this standard in 2006 and is reviewing Section 3865 to determine the impact this standard will have on the accounting for the Fund's financial instruments.

Comprehensive income, CICA Handbook Section 1530

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

Section 1530 applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Earlier adoption is permitted only as of the beginning of a fiscal year ending on or after December 31, 2004. Financial statements of prior periods are required to be restated for certain comprehensive income items. The Fund will not be adopting this standard in 2006 and is reviewing Section 1530 to determine the impact this standard will have on the accounting for the Fund's financial instruments.

An entity adopting this Section for a fiscal year beginning before October 1, 2006 must also adopt Section 3855 "Financial Instruments – Recognition and Measurement," and Section 3865 "Hedges".

Macquarie Power Income Fund
Consolidated Statement of Financial Position
(unaudited)

	December 31, 2005 (\$000s)	December 31, 2004 (\$000s)
Current Assets		
Cash and cash equivalents (note 4)	11,738	10,883
Accounts receivable	17,641	8,753
Inventory	93	88
Prepaid expenses and borrowing costs	1,274	1,223
Total Current Assets	<u>30,746</u>	<u>20,947</u>
Investment in Leisureworld (note 5)	90,643	-
Property, plant and equipment (note 6)	141,006	148,240
Electricity supply and gas purchase contracts (note 6)	39,986	44,786
Gas swap contracts at fair value (note 13)	-	213
Goodwill	18,023	18,023
Total Assets	<u>320,404</u>	<u>232,209</u>
Current Liabilities		
Trade payables and accrued expenses	10,562	6,336
Distributions payable	2,379	1,676
Total Current Liabilities	<u>12,941</u>	<u>8,012</u>
Long-term debt (note 8)	35,000	35,000
Gas swap contracts at fair value (note 13)	3,027	-
Liability for asset retirement	553	517
Total Liabilities	<u>51,521</u>	<u>43,529</u>
Unitholders' Equity (notes 9 and 10)	<u>268,883</u>	<u>188,680</u>
Total Unitholders' Equity and Liabilities	<u>320,404</u>	<u>232,209</u>

Macquarie Power Income Fund
Consolidated Statement of Unitholders' Equity
For the Quarter and Year Ended, December 31, 2005
(unaudited)

	Unitholders' Capital (\$000s)	Class B Exchangeable Units (\$000s)	Subscription Receipts (\$000s)	Retained Earnings (\$000s)	Cumulative Distributions (\$000s)	Total (\$000s)
Balance, December 31, 2004	194,907	-	-	7,236	(13,463)	188,680
Net income for the quarter ended March 31, 2005	-	-	-	4,217	-	4,217
Distributions declared to Unitholders for the quarter ended March 31, 2005 (note 10)	-	-	-	-	(5,028)	(5,028)
Balance, March 31, 2005	194,907	-	-	11,453	(18,491)	187,869
Net income for the quarter ended June 30, 2005	-	-	-	800	-	800
Distributions declared to Unitholders for the quarter ended June 30, 2005 (note 10)	-	-	-	-	(5,028)	(5,028)
Balance, June 30, 2005	194,907	-	-	12,253	(23,519)	183,641
Issuance of subscription receipts, net of issuing costs of \$3,876 (note 9)	-	-	60,869	-	-	60,869
Net income for the quarter ended September 30, 2005	-	-	-	1,656	-	1,656
Distributions declared to Unitholders for the quarter ended Sept. 30, 2005 (note 10)	-	-	-	-	(5,028)	(5,028)
Balance, September 30, 2005	194,907	-	60,869	13,909	(28,547)	241,138
Conversion of subscription receipts, net of issuing costs of \$3,876 to units	60,869	-	(60,869)	-	-	-
Return of capital to subscription receipts holders	(446)	-	-	-	-	(446)
Costs incurred in relation to subscription receipts offering	(1,870)	-	-	-	-	(1,870)
Issuance of Class B exchangeable units by LTC Holding L.P. (note 5)	-	35,500	-	-	-	35,500
Net income for the quarter ended December 31, 2005	-	-	-	1,697	-	1,697
Distributions declared to Unitholders for the quarter ended Dec. 31, 2005 (note 10)	-	-	-	-	(7,136)	(7,136)
Balance, December 31, 2005	253,460	35,500	-	15,606	(35,683)	268,883

Macquarie Power Income Fund
 Consolidated Statement of Income
 For the Quarter and Year Ended, December 31, 2005
 (unaudited)

	Quarter ended December 31, 2005 (\$000s)	Quarter ended December 31, 2004 (\$000s)	Year ended December 31, 2005 (\$000s)	8-months ended December 31, 2004 (\$000s)
Revenue	24,620	24,256	90,235	55,848
Costs and expenses				
Operating costs	15,166	15,038	59,806	38,382
Administrative expenses	3,037	686	4,369	1,162
Depreciation and amortization	3,128	3,131	12,498	8,340
	21,331	18,855	76,673	47,884
Income from operations	3,289	5,401	13,562	7,964
Unrealized gain (loss) on gas swap contracts (note 13)	(598)	213	(3,240)	213
Net interest expense	(190)	(332)	(1,146)	(941)
Equity accounted (loss) from Leisureworld	(804)	-	(804)	-
Net income for the period	1,697	5,282	8,372	7,236
Weighted average number of trust units outstanding (units)	28,407,630	21,168,997	22,993,529	21,168,997
Basic income per trust unit	0.060	0.250	0.364	0.342
Fully diluted weighted average number of trust units and Class B exchangeable units outstanding (units)	29,447,956	21,168,997	23,271,173	21,168,997
Fully diluted income per trust unit and Class B exchangeable units (\$)	0.058	0.250	0.360	0.342

Macquarie Power Income Fund
Consolidated Statement of Cash Flow
For the Quarter and Year Ended, December 31, 2005
(unaudited)

	Quarter ended December 31, 2005 (\$000s)	Quarter ended December 31, 2004 (\$000s)	Year ended December 31, 2005 (\$000s)	8-months ended December 31, 2004 (\$000s)
Cash flows from operating activities:				
Net income	1,697	5,282	8,372	7,236
Add back:				
Movement of fair value of gas swap contracts	598	(213)	3,240	(213)
Depreciation and amortization	3,128	3,131	12,498	8,340
Amortization of prepaid borrowing costs	358	382	1,406	824
Accretion of asset retirement liability	9	9	36	36
Equity accounted losses from Leisureworld	804	-	804	-
Prepayment of borrowing costs and interest	(565)	(521)	(1,454)	(1,657)
Non-cash changes in working capital				
(Increase) in accounts receivable	(9,064)	(2,827)	(8,888)	(2,039)
Decrease (increase) in inventory	14	(6)	(5)	48
Decrease (increase) in prepaid expenses	326	318	(5)	(360)
Increase in trade payables and accrued expenses	1,913	629	4,226	857
Total cash flows from operating activities	(782)	6,184	20,230	13,072
Cash flows from investing activities				
Cash paid to acquire Cardinal Power L.P., net of cash acquired	-	-	-	(219,943)
Investment in Leisureworld	(57,799)	-	(57,799)	-
Distributions received from Leisureworld	1,852	-	1,852	-
Investment in property, plant and equipment	(9)	(246)	(464)	(366)
Total cash flows from investing activities	(55,956)	(246)	(56,411)	(220,309)
Cash flows from financing activities:				
Cash proceeds received from public offering	-	-	64,745	211,690
Costs in relation to public offering	(1,870)	-	(5,746)	(16,783)
Return of capital to subscription receipt holders	(446)	-	(446)	-
Cash proceeds received from the term loan	-	-	-	35,000
Distributions paid to Unitholders	(6,433)	(5,028)	(21,517)	(11,787)
Total cash flows from financing activities	(8,749)	(5,028)	37,036	218,120
Increase (decrease) in cash and cash equivalents	(65,487)	910	855	10,883
Cash and cash equivalents at the beginning of period	77,225	9,973	10,883	-
Cash and cash equivalents at the end of period	11,738	10,883	11,738	10,883
Interest paid	565	521	1,522	1,657

1. Organization

Macquarie Power Income Fund ("Fund") Fund is an unincorporated open-ended trust established on March 15, 2004, under the laws of the Province of Ontario. The Fund began its operations on April 30, 2004 and indirectly acquired 100% of the equity of Cardinal. Cardinal is a 156-megawatt, gas-fired combined cycle cogeneration plant located in Cardinal, Ontario. On October 18, 2005 the Fund acquired an indirect 45% interest in Leisureworld, a LTC care provider in Ontario.

MPML, a wholly owned subsidiary of Macquarie North America Ltd., provides administrative services to the Fund and Macquarie Power Income Trust ("Trust") in accordance with an administration agreement, and management services to the Fund, the Trust, Cardinal and LTC Holding L.P.. in accordance with a management agreement.

2. Significant accounting policies

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

Basis of presentation

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

In addition to the Fund, these consolidated financial statements include the assets and liabilities and results of operations of the Trust, Cardinal Power Inc., (Cardinal G.P.) and Cardinal, MPT LTC Holding Ltd. ("LTC G.P."), MPT LTC Holding L.P. ("LTC Holding L.P."), all of which are 100% owned subsidiaries of the Fund.

The Fund through its wholly owned subsidiaries LTC G.P. and LTC Holding L.P. uses the equity method to account for its 45% indirect interest in Leisureworld.

All inter company balances and transactions have been eliminated upon consolidation.

Revenue recognition

Revenue from the sale of electricity and steam is recognized when delivered to the customer and priced in accordance with the provisions of the applicable power and steam sales agreements. The Power Purchase Agreement ("PPA") provides for an electricity rate adjustment, which is updated periodically both for current and prior periods. The Fund accounts for such adjustments in the period when the adjustments are determined.

Use of estimates

The financial information contained in the accompanying financial statements has been prepared in accordance with Canadian generally accepted accounting principles, which require the Manager to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses during the reporting quarter. Actual results could differ from the estimates and the differences could be significant.

Macquarie Power Income Fund
Notes to the Consolidated Financial Statements
December 31, 2005 Quarterly Financial Report (unaudited)
(in thousands of dollars except for Trust Units and per Trust Units amounts)

Long-term investment

The Fund has significant influence over its' investment in Leisureworld and accounts for it using the equity method. Under the equity method, the cost of the investment is increased by the Fund's proportionate share of income and reduced by any distributions payable to the Fund by LTC Holding L.P. and LTC G.P.

Property, plant and equipment

Property, plant and equipment have been recognized at cost of acquisition and are included in the statement of financial position. Plant and equipment are depreciated over their useful lives, ranging from five to 20 years using the straight-line method.

Maintenance and repairs

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

Impairment of assets

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

Contracts

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

Goodwill

Goodwill is recorded at cost and is tested for impairment in the second quarter of each fiscal year or when indications of impairment arise. An impairment loss is recognized when the fair value of goodwill is less than its carrying amount.

Derivative instruments

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

The Fund has adopted CICA Handbook Section 3865 "Hedges", issued by The Canadian Institute of Chartered Accountants, which establishes the criteria for applying hedge accounting for derivative instruments. Derivatives that have been designated and function effectively as hedges in accordance with the CICA Handbook Section 3865, are accounted for using hedge accounting principles. These principles require that the income or expense generated by the contracts be recognized during the period in which the underlying hedged transactions occur as adjustments to operating expenses.

Derivatives that do not qualify for hedge accounting are recorded in the statement of financial position at fair value. Changes in fair value are recorded in the statement of income.

Asset retirement obligation

The Fund recognizes a liability for the future retirement obligations associated with the Cardinalplant. These obligations are initially measured at fair value, which is the discounted future cost of the liability. The liability accretes until the date of expected settlement of the retirement obligations.

Macquarie Power Income Fund
Notes to the Consolidated Financial Statements
December 31, 2005 Quarterly Financial Report (unaudited)
(in thousands of dollars except for Trust Units and per Trust Units amounts)

Income taxes

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

Variable interest entities

On January 1, 2005, the Fund prospectively adopted the requirements of CICA Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG 15"), which is effective for fiscal year 2005 and provides guidance for applying the principles in Section 1590, "Subsidiaries," to those entities defined as Variable Interest Entities ("VIEs"), in which either the equity at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties, or equity investors lack either voting control, an obligation to absorb expected losses, or the right to receive residual returns. AcG 15 requires consolidation of VIEs by the primary beneficiary. The primary beneficiary is defined as the party that has exposure to the majority of a VIE's expected losses and/or residual returns. The Fund has evaluated its interests in electricity supply and gas purchase contracts and has determined that the Fund is the primary beneficiary at December 31, 2005 and should continue to consolidate Cardinal Power of Canada, L.P.

Earnings per trust unit

Earnings per trust unit is established by dividing net income, as determined above, by the Weighted Average Number of Units Outstanding during the quarter and year to date.

3. Segmented Information

The Fund has two reportable industry segments, power generation and LTC, both of which relate to one geographic segment (Canada). Power generation consists of the operation of the Cardinal power station. The LTC segment consists of the Fund's indirect 45% investment in Leisureworld, the third largest operator of LTC facilities in Ontario, Canada. The Leisureworld indirect investment is accounted for using the equity method and is presented in these consolidated results as "Equity accounted loss from Leisureworld" in the Consolidated Statement of Income. All other information presented in the Consolidated Statement of Income relates to the power generation segment.

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

4. Cash and cash equivalents

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

	December 31, 2005	December 31, 2004
Major maintenance reserve	\$4,145	\$4,334
Capital expenditure reserve	1,435	897
General reserve	3,000	3,000
Total reserve accounts	8,580	8,231
Other cash and cash equivalents	3,158	2,652
	<u>\$11,738</u>	<u>\$10,883</u>

Macquarie Power Income Fund
Notes to the Consolidated Financial Statements
December 31, 2005 Quarterly Financial Report (unaudited)
(in thousands of dollars except for Trust Units and per Trust Units amounts)

5. Investment in Leisureworld

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

Leisureworld is the third largest operator of LTC care facilities in the Province of Ontario, Canada. The Leisureworld operation includes 19 LTC facilities (3,147 beds), two retirement homes (87 beds) and an independent living facility (53 beds) as well as two related businesses, Preferred Health Care Services and Ontario Long-term Care, both of which provide services to the LTC business. Further details of the Leisureworld business can be found in the subscription receipts offering prospectus dated September 22, 2005.

The 45% equity pickup of the net loss of Leisureworld has been included in income from October 18, 2005, the acquisition date. Total consideration was \$93,060 and was paid in Cash and Class B exchangeable units as follows:

Working capital	\$(1,032)
Property, plant and equipment	258,789
Long-term receivable	92,477
Goodwill and intangibles	166,578
Long-term debt	(310,000)
	<u>\$206,812</u>
45% share ^①	\$93,065
Allocation	
Cash	57,560
Class B exchangeable units	35,500
	<u>\$93,060</u>

^① 45% share includes certain costs not borne by the Fund.

The investment in Leisureworld comprises as follows:

	<u>December 31, 2005</u>
Acquisition cost	\$93,060
Transaction costs	239
Equity accounted (loss) for the period	(804)
Distributions received in the period	(1,852)
	<u>\$90,643</u>

Macquarie Power Income Fund
Notes to the Consolidated Financial Statements
December 31, 2005 Quarterly Financial Report (unaudited)

(in thousands of dollars except for Trust Units and per Trust Units amounts)

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

Property, plant and equipment	Cost	Accumulated Depreciation	December 31,	December 31,
			2005 Net Book Value	2004 Net Book Value
Balance, opening	\$153,366	\$(5,126)	\$148,240	\$153,000
Purchases of property, plant and equipment	464	-	464	366
Amortization	-	(7,698)	(7,698)	(5,126)
Ending Balance	\$153,830	\$(12,824)	\$141,006	\$148,240

Electricity supply and gas purchase contracts	Cost	Accumulated Depreciation	December 31,	December 31,
			2005 Net Book Value	2004 Net Book Value
Opening Balance	\$48,000	\$(3,214)	\$44,786	\$48,000
Amortization	-	(4,800)	(4,800)	(3,214)
Ending Balance	\$48,000	\$(8,014)	\$39,986	\$44,786

7. Bank credit facility

The Fund has a \$15,000 operating line of credit. At maturity, this facility can be replaced by a facility with similar terms and conditions and for successive periods of 364 days. Collateral for the facility is provided by a first ranking hypothec covering the assets of Cardinal. The utilization of the facility is subject to certain financial and non-financial covenants. Advances under the facility are made in the form of BAs or prime rate loans. In the case of BAs, interest is charged at the BA rate plus a stamping fee based on the Fund's ratio of consolidated total debt to consolidated EBITDA. In the case of Prime Rate loans, interest is charged at the bank's Prime Rate plus an applicable margin based on the same ratio. As at December 31, 2005, no amount is outstanding under the facility.

8. Long-term debt

The term debt facility is a three-year term loan for an amount of \$35,000 (2004 – \$35,000) maturing April 29, 2007. Collateral for the facility is provided by a first ranking hypothec covering the assets of Cardinal. Utilization of the facility is subject to certain financial and non-financial covenants. Advances under the facility are made in the form of BAs or prime rate loans. In the case of BAs, interest is charged at the BA rate plus a stamping fee based on the Fund's ratio of consolidated total debt to consolidated EBITDA. In the case of prime rate loans, interest is charged at the bank's Prime Rate plus an applicable margin based on the same ratio. At December 31, 2005, the Fund's term debt was in the form of a series of instruments as follows:

Type of instrument	Draw down amount	Maturity	All-in rate
BA	\$11,700	May 1, 2006	3.92%
BA	\$11,600	June 13, 2006	3.89%
BA	\$11,700	December 16, 2006	4.99%

Borrowing costs, including interest, are paid at the inception of each BA loan. These costs are capitalized and amortized over the life of each respective loan. As at December 31, 2005, the unamortized portion of

Macquarie Power Income Fund
Notes to the Consolidated Financial Statements
December 31, 2005 Quarterly Financial Report (unaudited)

(in thousands of dollars except for Trust Units and per Trust Units amounts)

the capitalized borrowing costs totalled \$881 (2004 – \$833) and is included in the statement of financial position.

9. Units issued by the Fund

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

- (i) 90% of the daily weighted average price per unit during the period of the last ten days; and
- (ii) an amount equal to either:
 - (a) the closing price of the units on the date on which the units were tendered for redemption;
 - (b) the average of the highest and lowest prices of units on the date on which the units were tendered for redemption; or
 - (c) the average of the last bid and ask prices on the date on which the units were tendered for redemption.

The total amount payable in cash by the Fund in respect of such units and all other units tendered for redemption in the same calendar month shall not exceed \$50 (provided that such limitation may be waived at the discretion of the trustees of the Fund). In total, 26,798,997 units have been issued and were outstanding as at December 31, 2005 comprised as follows:

	December 31, 2005	December 31, 2004
Units issued – beginning of period	21,168,997	-
Issued during the period:		
Initial public offering	-	21,168,197
Issued for Leisureworld acquisition	5,630,000	-
Trust units outstanding	26,798,997	21,168,997
Class B exchangeable units issued during the period:		
Issued for Leisureworld acquisition	3,249,390	-
Total units and exchangeable units issued – end of period	30,048,387	21,168,197

The Fund also issued 3,249,390 Class B exchangeable units. These exchangeable units are exchangeable into one unit of the Fund. The Class B exchangeable units are eligible to receive distributions under the same terms and conditions as units of the Fund.

The holders of the Class B exchangeable units cannot acquire any additional units of the Fund (other than pursuant to the exchange of the Class B exchangeable units or pursuant to a distribution reinvestment plan, if the Fund should implement such a plan) without the consent of the Fund until the tenth anniversary of the Acquisition Closing Date. Each Class B exchangeable unit will convert into units of the Fund on the tenth anniversary of the Acquisition Closing Date unless converted earlier at the option of the unitholders. The Class B exchangeable unitholders cannot sell more than 5% of the aggregate outstanding trust units in any four-month period and are not eligible to vote any units it receives on exchange of its Class B exchangeable units until they, together, hold 1% or less of the aggregate outstanding units.

Macquarie Power Income Fund
Notes to the Consolidated Financial Statements
December 31, 2005 Quarterly Financial Report (unaudited)
(in thousands of dollars except for Trust Units and per Trust Units amounts)

10. Distributions to Unitholders

Distributions to unitholders are paid on the last business day of each month, one month in arrears. The following distributions have been declared to unitholders including Class B exchangeable units for the year ended, December 31, 2005:

Period of distribution	Date of payment	Amount declared	Amount declared (per unit)
January 1 to 31, 2005	February 28, 2005	\$1,676	\$0.07917
February 1 to 28, 2005	March 31, 2005	1,676	0.07917
March 1 to 31, 2005	April 29, 2005	1,676	0.07917
April 1 to 30, 2005	May 31, 2005	1,676	0.07917
May 1 to 31, 2005	June 30, 2005	1,676	0.07917
June 1 to 30, 2005	July 29, 2005	1,676	0.07917
July 1 to 31, 2005	August 31, 2005	1,676	0.07917
August 1 to 31, 2005	September 30, 2005	1,676	0.07917
September 1 to 30, 2005	October 31, 2005	1,676	0.07917
October 1 to 31, 2005	November 30, 2005	2,379	0.07917
November 1 to 30, 2005	December 30, 2005	2,379	0.07917
December 1 to 31, 2005	January 31, 2006	2,378	0.07917
Year ended, December 31, 2005		\$22,220	\$0.9500

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

11. Related party transactions

MPML provides management services to Cardinal, LTC Holding L.P., the Fund and the Trust under 20-year management agreements. MPML received a fee of \$680 (2004 - \$ 387) in respect of the fiscal year 2005 for these services. MPML is entitled to seek reimbursement for all costs and expenses incurred in carrying out its management services. MPML may also earn an annual incentive fee equal to 25% of the amount by which the distributable cash per unit in a calendar year exceeds \$0.95 multiplied by the weighted average number of units of the Fund outstanding for the relevant fiscal year or part thereof.

Pursuant to a 20-year administration agreement, MPML provides the Fund and the Trust with certain administrative and support services. MPML received an annual fee of \$102 (2004 - \$67). In respect of the 2005 fiscal year for these services and is entitled to be reimbursed for all reasonable costs and expenses incurred in carrying out such services as approved by the independent trustees.

The Fund recorded cost reimbursements payable to MPML of \$1,460 (2004 - \$189) for the year. Additionally, an incentive fee of \$1,260 (2004 - \$204) payable to MPML was recorded for the year for exceeding the distributable cash per unit target of \$0.95.

A subsidiary of the Fund entered into an agreement with a subsidiary of Macquarie Bank Limited dated as of September 12, 2005, which provided for the acquisition by the Fund of an indirect 45% ownership interest in its general partner. Following such acquisition and immediately prior to the closing of the Leisureworld business acquisition, the Fund made an investment, indirectly (collectively with such acquisition, the "Investment,") in order to partially fund the Leisureworld business acquisition and costs associated with the Investment. Acquisition costs and deferred financing fees of \$15,172 were paid by Leisureworld to an affiliate of Macquarie Bank Limited for advisory services for which the Fund was responsible for its pro rata share of \$6,827. During the period, Leisureworld has incurred charges for advisory and administrative services from an affiliate of Macquarie Bank Limited in the amount of \$647.

12. Commitments and contingencies

Electricity supply contract

Cardinal has entered into an agreement to sell all electricity produced at its facility, less the amount of electricity consumed in the operation of the facility, to the OEFC until December 31, 2014.

Gas purchase contracts

Cardinal has entered into long-term purchase agreements for natural gas and gas transportation that expire on May 1, 2015 and October 31, 2014, respectively. Minimum commitments under such agreements are 9,289,104 MMBtu per year through to expiration in 2015. Under its long-term purchase agreement for natural gas, Cardinal is required to purchase a minimum volume of gas equivalent to 80% of the contract maximum, or the supplier is entitled to financial compensation from Cardinal.

Gas swap contracts

Cardinal has entered into gas swap contracts to hedge itself against fluctuations in the price of excess gas sold under the gas mitigation clause of the gas purchase agreement. The gas swap contracts require Cardinal to pay variable payments to the counterparty based on 436,814 MMBtu of gas at the market rate of natural gas in exchange for receiving fixed payments based on 436,814 MMBtu of gas at a fixed price per MMBtu for up to five years ending October 31, 2008. The contracts cover the sale of gas for the seven-month period from April to October for each of the remaining contracts. As at December 31, 2005, the following contracts remained:

Period covered by contract

April 1 to October 31, 2006

April 1 to October 31, 2007

April 1 to October 31, 2008

Lease

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

13. Financial instruments

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

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

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

The Fund has entered into gas swap contracts to fix the revenue derived from the sale of excess gas (refer to note 12). One of these contracts meets the effectiveness criteria for hedge accounting and accordingly, the fair value of this contract has not been reflected in the financial statements. The fair value of this derivative at December 31, 2005 is estimated to be a liability to the Fund of \$2,317 (2004 – liability of \$652). However, the Fund intends to hold the contract to maturity to mitigate exposure to gas price fluctuations from sales of excess gas volumes in 2006.

Macquarie Power Income Fund
Notes to the Consolidated Financial Statements
December 31, 2005 Quarterly Financial Report (unaudited)

(in thousands of dollars except for Trust Units and per Trust Units amounts)

There are two other gas swap contracts that do not meet the effectiveness criteria for hedge accounting and accordingly, the fair value of these contracts has been included in the statement of financial position with a corresponding unrealized loss of \$3,240 (2004 – unrealized gain of \$213) for the year recorded in the Statement of Income. The fair value of these derivatives at December 31, 2005 is estimated to be a liability to the Fund of \$3,027 (2004 – asset of \$213). The Fund intends to hold these contracts to maturity to mitigate exposure to gas price fluctuations from sales of excess gas volumes in 2007 and 2008.

14. Economic dependence

For the year, approximately 98.9% (2004 – 98.8%) of the Fund's revenue was derived from the sale of electricity to Ontario Electricity Financial Corporation (“OEF”). Approximately 97.5% (2004 – 97.0%) of the accounts receivable balance was due from OEF relating to electricity sales.

For the year, approximately 86.8% (2004 – 94.8%) of the Fund's cost of goods sold derived from the purchase of gas from Husky Energy Marketing Inc. (“Husky”) under a long-term gas purchase contract. Approximately 42.1% (2004 – 74.8%) of the trade payables and accrued expenses was payable to Husky relating to gas purchases.

ADDITIONAL INFORMATION

For additional information about the Fund, please refer to the SEDAR website (www.sedar.com) for the prospectus, dated April 19, 2004 and September 22, 2005, and the annual information form, dated March 21, 2005.

INVESTOR INFORMATION

TRANSFER AGENTS, REGISTRAR AND TRUSTEE

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EXCHANGE LISTING:

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

WEB SITE:

www.macquarie.com/mpt