

Macquarie Power & Infrastructure Income Fund Second Quarter Results Conference Call
Thursday August 6, 2009 – 8:30 AM ET

CONFERENCE CALL PARTICIPANTS

Sarah Borg-Oliver
Vice President, Investor Relations

Michael Bernstein
President and Chief Executive Officer

Harry Atterton
Vice President, Chief Financial Officer and Secretary

PRESENTATION

Operator

Good morning and welcome to the Macquarie Power & Infrastructure Income Fund Second Quarter Results Conference Call for August 6, 2009. Your host for today will be Sarah Borg-Oliver. Ms. Borg-Oliver, please go ahead.

Sarah Borg-Oliver

Thank you very much, Jeanette, and good morning everyone. Thank you for joining us to discuss MPT's unaudited results for the second quarter ended June 30, 2009.

Today's call will be hosted by Michael Bernstein, MPT's Chief Executive Officer. Also on the call is Harry Atterton, Chief Financial Officer. Our news release was issued yesterday after market close and is available on our website at www.macquarie.com/mpt.

I should also note that today's conference call is being webcast live with accompanying slides and will be archived on our website along with the transcript of the event.

Before we begin, I would like to remind everyone that during the course of this conference call we may make various forward looking statements that involve known and unknown risks and uncertainties that may cause actual results to differ materially. For information about such risks and uncertainties, I will refer you to the risk factors in the Fund's Annual Information Form, which was filed on March 27, 2009.

And with that, I will turn the call over to Michael.

Michael Bernstein

Thank you. Good morning, everyone. Thank you for joining us.

I'll start today with a review of our operations and achievements during the quarter. Harry will run through the financials, and then I'll be back to discuss our outlook and objectives for the balance of the year.

Our results for the second quarter of 2009 were affected by planned maintenance requirements as well as the seasonality that is inherent in our operation. As a result, power production was down 6.6 percent from the same period last year.

First, Cardinal's production was down about 7.3 percent from the same period last year. Cardinal completed its scheduled 13 day hot gas path inspection in April. There were also more hours of curtailment requested by the Ontario Electricity Financial Corporation as demand in Ontario was lower in the spring because of the economic situation as well as a cold period.

During curtailment, the plant continues to produce electricity by the less than full capacity. Because of the curtailment, the plant generated less revenue than expected, which was offset by lower fuel expense, resulting in an approximately \$44,000 impact on distributable cash.

Second, production at Whitecourt went down 11.7 percent, reflecting the shutdown of the plant to correct the higher than normal vibration of the turbine that we identified late in 2008. The outage required 31 days in the quarter and a total of 48 days to completely resolve the issue, rather than the 24 days originally expected. The plant went back on line on July 18th and is now running very smoothly. I'll provide a little bit more detail on that later.

Third, production at the hydro power facilities was down about 7.4 percent. We experienced lower than expected water flows at our Wawatay hydro power facility in Ontario where we continued to see colder temperatures and less precipitation than usual. At 14 megawatts, Wawatay is our second largest hydro power facility. We also had about a 6 day unplanned outage at our 3 megawatt Hluey Lakes hydro facility in B.C. That was due to flooding in early June that damaged the transmission line and took us down for about 6 days.

All these factors were partially offset by 2.8 percent increase in production at Erie Shores Wind Farm where wind speed and density were particularly strong.

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In addition, Leisureworld performed consistently. Revenue increased 6.7 percent, reflecting increases in private accommodation and government funding rates, which were up about 2.5 percent from the same period last year. Average total occupancy for the quarter was generally consistent with 2008 at 98 percent. The average occupancy, however, did increase and private accommodation increased to 94.7 percent from 92.2 percent.

Since joining MPT in April, I've spent a lot of time visiting our assets and getting to know our management teams. I'm pleased to say that our businesses are fundamentally sound and performing relatively well in the current environment. I'm equally confident about how MPT is positioned heading into 2011.

A major achievement during the quarter was a refinancing of two of our credit facilities this past May. These credit facilities were scheduled to mature in June 2010 and May 2011, respectively. We replaced them with a new \$182.5 million credit facility that matures in June 2012. This initiative has largely eliminated refinancing risk for the fund over the next three years.

Since April, I've also spent time meeting with our unitholders as well as the investment community. I've really appreciated the opportunity to hear directly from our investors. Your feedback and insight is extremely important to us as we develop our strategy for 2011 and beyond.

I'll say more on our guidance for the balance of the year in a minute. First, I'll turn it over to Harry to review the financials.

Harry Atterton

Thanks, Mike, and good morning, everyone.

Revenue for the quarter was \$32.6 million compared with \$34.9 million last year. This reflects all the factors that Mike just discussed as well as the typically seasonally low nature of the second quarter for our power assets.

We maintained stable distributions to unitholders of \$0.262 per unit during the quarter representing a payout ratio of 128 percent compared with 117 percent in the same quarter last year. For the year to date, the payout ratio was 104 percent compared to 95 percent in the same period last year.

Given our maintenance activities during the quarter, it probably bears repeating that the maintenance costs at

each of the facilities are funded through our major maintenance reserve accounts. So they do not affect the determination of distributable cash.

Operating costs increased slightly to \$23.1 million from \$22.9 million in the same period last year due to higher major maintenance expenses at Cardinal and Whitecourt. This expense was partially offset by lower fuel and gas transportation costs at Cardinal and by lower operating expenses at Whitecourt due to the outage.

Administrative expenses were lower primarily due to lower business development costs and lower incentive payments during the quarter.

Over the course of the second quarter, we significantly deleveraged, bringing our total long-term debt down from \$219 million at March 30th to \$190.3 million at June 30th. Our current debt includes:

- \$85 million on the new credit facility Mike talked about earlier; and
- \$111.6 million in fixed price project debt for Erie Shores. Of this amount, \$40 million matures in 2011 and the remainder fully amortizing by 2026.

We also have about \$38.9 million of 6.75 percent convertible unsecured subordinated debentures outstanding that are due on December 31, 2010.

We ended the quarter with a solid financial position, including positive working capital of \$10.5 million. Cash on hand totalled \$5 million and our general major maintenance and capital expenditure reserve accounts were funded in the amount of \$11.2 million.

Finally, the Fund's debt to capital ratio at the year end was 45.1 percent, which is conservative relative to the low risk profile over assets.

I'll now turn it back to Mike.

Michael Bernstein

Thanks, Harry.

At Cardinal, we expected lower revenue in 2009 than in 2008. That's mostly due to the recent hot gas path inspection that we do once every six years. While the 2009 gas transportation rates is below the average 2008 level, transportation costs remain relatively high. Together, these factors mean the cash flow from Cardinal will be slightly lower in 2009 than in 2008 but right now

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we are actually tracking ahead of our original planned budget for the year.

We expect Erie Shores to generate slightly less than our estimated annual long-term production of 249,800 megawatt hours, which reflects a generally lower wind speed and density in 2009 to date. As you will recall, we had a poor first quarter. Although we made up almost all this lost production in April --- leading to a strong second quarter --- wind conditions in the month of July were particularly weak so we are back below budget right now. Wind speed and density are typically strongest during the fall and winter months.

We expect the hydro power facilities to generate less electricity in the average long-term annual production of 166,360 megawatt hours due to unusually poor hydrology conditions in the first half of the year. Production at the hydro power facilities is subject to water flows, which are typically strongest in the spring and fall months.

And for those of you who are in Ontario wondering what all this rain has been lately, I can say that right now, as of the end of July, our figures for the Ontario plants are quite good and tracking ahead of schedule. If you've been following the news and seen what's happening out west, our B.C. facilities are behind schedule. So we are still anticipating that this will be an overall below average year for our hydrology facilities.

In the third quarter we will be undertaking a couple of projects with our hydro facilities. At Dryden's Wainwright station, we are planning to replace a turbine. This is about a \$950,000 capital project and it will require this station to be shut down for about three months. Wainwright has a capacity of about 1.1 megawatts so the impact on revenue will be relatively minimal, about \$60,000 to \$80,000. And as Harry mentioned, we fully fund our capital as well as major maintenance through our reserve accounts.

At our Sechelt facility we are automating the storage and release of water in the lakes that serve this facility. The on-site operators will then be able to remotely control the flow of water which helps to maximize production. This is an approximately \$80,000 investment and we expect to see a full payback on it in about one year.

Turning to Whitecourt, as I mentioned previously, the maintenance work in June took longer than expected to complete, requiring a total of 48 days. When we opened the turbine casing, it became apparent that more repairs would be required and not just fixing the vibration issue. Because the outage was extended, we took the opportunity to complete the work originally planned for

the fall of 2009. That's a four-day outage that we completed as part of this maintenance cycle. We also decided to complete various enhancements on the generator and balance of plant. These enhancements should help extend the useful life of various components. They should also improve the facility's efficiency, potentially adding approximately 0.5 megawatts in production on an annual basis with no incremental operating costs.

I'm pleased to say that the plant is now running smoothly, thanks to the great effort of the Whitecourt team. To give you an example, the two turbine bearings and two generator bearings --- so, four in total --- operate in a range of 0 mil to 5 mils, which refers to 1/1000th of an inch. Back in the fall and winter, we were running between 4 mils and 5 mils. At the 5 mils level the vibration does trigger an alarm and we take the plant off line. That's why we decided to redo the major maintenance. The two bearings are now operating at about 1 mil and about 2.5 mils, respectively, which is an excellent outcome. The generator bearings are both running at about 1 mil and I'm told by the plant crew that this is as low as they've seen it in many, many a year. As a result, we expect the turbine to operate reliably into the next scheduled major maintenance inspection, which occurs every seven years. We expect the plant to achieve an availability of approximately 80 percent to 83 percent in 2009 rather than the 86 percent to 90 percent that we had budgeted for. For 2010, Whitecourt should return to its five-year average availability of approximately 95 percent.

On the fuel supply front, Whitecourt currently has an adequate and stable fuel supply for 2009 and we're continuing to work closely with Miller Western to ensure the long-term viability of their fuel supply. At Leisureworld, management is continuing to enhance the quality of care and accommodation across its homes, which contributes to a continuing high level of occupancy. We expect Leisureworld's operating results to be in line with or slightly a bit better than previous performance and than what we had budgeted for the year. Based on that outlook, we expect Leisureworld's distribution policy to remain unchanged in 2009.

Also, as we mentioned in the release, in July, the Ministry of Health and Long-Term Care advised that long-term care operators will be provided a special one-time funding in 2009/2010 fiscal year within the "other accommodation" portion of the accommodation funding envelope. This funding will be retroactive to April 1st, 2009. Although we are awaiting further details, the Ministry has indicated that the funding will represent approximately \$1.55 per resident per day. For

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Leisureworld, that's about \$600,000 in additional funding per quarter.

We expect to hold our distributions to unitholders at \$1.05 per unit in 2009, barring any significant developments or growth initiatives. But based on our operations to date, and our outlook for the balance of the year, we expect that distributions will slightly exceed 100 percent of distributable cash. If we exceed 100 percent, we will draw upon our general reserve account to support distributions to unitholders. This account was established at the time of our IPO with \$3 million and has since been further funded with an additional \$2 million for this very purpose so it now stands at \$5 million.

Beyond managing our operations for 2009, we are focused on two objectives. The first one is that we are currently working with our tax and legal advisors to develop a strategy to address the impact of taxation in 2011. This includes determining the right time for conversion, most likely to a high dividend-paying corporation, and what the appropriate distribution profile will be. We know that certainty is important to our investors --- we heard that when we were out on the road with them over the last several months. We are committed to providing further guidance on both our future structure and distribution levels before the end of 2009. While we anticipate that 2010 will be a year of transition for the Fund, our commitment to providing an attractive yield to our investors will not change.

Our second objective is to identify appropriate growth opportunities for the Fund that will help to: lengthen the Fund's cash flow profile; diversify our portfolio to enhance long-term cash flow reliability for investors; and increase the Fund's size, scale and liquidity.

Given the market climate, we are being selective in what transactions we evaluate and choose to pursue. With approximately \$85 million in capacity under our new credit facility, we are confident that the Fund has the ability to complete a small to mid-sized transaction or potentially two smaller transactions.

The renewable power space is particularly attractive. Favourable government policies across the country are contributing to strong economics and helping to create new investment opportunities. We will also look to continue to extend our portfolio into new categories of infrastructure such as roads, bridges or water distribution including through public-private partnerships.

While the second quarter was disappointing due to the maintenance outages and poor hydrology, I am confident in the underlying strength of our businesses. Our

portfolio has performed relatively well through the economic environment due to the:

- Stable demand for the essential services of our assets;
- Strong competitive advantage by virtue of the contractual or regulatory framework in which our assets operate; and
- Predictable, long duration cash flows, which act as a hedge against inflation throughout the economic cycle.

I'd also like to take this opportunity to thank Harry for his service to the Fund since 2005. Harry will be leaving Macquarie later this month and we wish him all the best in his future endeavours. On the next call, you will have a chance to hear from Michael Smerdon, who will be stepping into the role of chief financial officer on August 14th after a smooth transition with Harry.

With that, we'd now be pleased to take your questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. If you have a question, please press star one on your telephone keypad. If at any time you wish to cancel your question you may press the pound sign. Please press star one at this time if you have a question.

Our first question is from Michael McGowan from BMO Capital Markets. Please go ahead.

Michael McGowan, BMO Capital Markets

Good morning. I just wondered if you could talk a little bit about the one-time funding that Leisureworld may be eligible for and whether or not there are any stipulations associated with that.

Harry Atterton

Hi, Mike, it's Harry. Sure, absolutely.

Short answer, there are no stipulations attached to the funding. Currently, the Ministry has announced the funding will come through for this year and that it will be effective April 1. We are being contacted by the LHINs, or Local Health Integration Networks, which will handle the actual distribution. We've had a number of letters come to our homes and the respective areas and so that

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funding will absolutely come through. It is one-time funding at this point in time. The Ontario Long-Term Care Association (OLTCA) has been having a lot of dialogue on this topic with the Ministry, and the Ministry has obviously identified this as necessary funding. The Association is continuing to look to have this fit into the base funding, but at this point in time, we've been allocated annual funding starting April 1st that goes for one year.

Michael Bernstein

And, sorry, that's retroactive to April 1st, 2009.

Michael McGowan, BMO Capital Markets

So the disclosure in the investor presentation signified that you are eligible for about \$600,000 per quarter so that would be four quarters or \$2.4 million a year?

Harry Atterton

Approximately, that's correct.

Michael McGowan, BMO Capital Markets

Okay. And just regarding some of the work you performed at Whitecourt, is there any chance, do you have any recourse to maybe any of the general contractors or engineering firms that originally did the major maintenance work last year?

Michael Bernstein

It's only been a couple of weeks since we finished the work at Whitecourt. So at this point, we're going to look for the engineering report. At that stage, we'll assess if there is any recourse or avenues to pursue because as you know we were hoping that major maintenance last year would have taken care of it for the next seven years. So we will be looking at that.

Michael McGowan, BMO Capital Markets

Okay. And would it be possible to also get an update on the biomass availability at that facility?

Michael Bernstein

Well, right now there is no update. I guess the good news about being on outage for awhile is that --- Rob Roberti and I were out a couple of weeks ago --- there was a big, big pile. I think we're now at about 50 days to 60 days of supply. We also went to the Miller Western mill, which is picking up production, so that's continuing. Our view, however, remains the same: that we have a contract in place until 2016 and Miller Western has a requirement and obligation to continue to deliver the wood supply. We will be meeting with them over the next several weeks and chatting a bit about the future but right now we are still very confident that we'll have all the wood we need for the facility.

Michael McGowan, BMO Capital Markets

Okay, great. Thanks a lot. Those are my questions.

Michael Bernstein

Thank you, Michael.

Operator

Thank you. Our next question is from Robert Kwan from RBC Capital Markets. Please go ahead.

Robert Kwan, RBC Capital Markets

Good morning. Mike, can you maybe just talk about --- you mentioned about the acquisition strategy --- your capacity for small to mid-sized transactions. You've also mentioned a few different potential assets that would be very large. So what's the kind of general strategy you would like or that we should be expecting you to buy you know, kind of wholly-owned smaller assets or are you looking to try to diversify into some of the larger infrastructure classes where you might be taking very small slices?

Michael Bernstein

I think we are open to both. That was one of the ideas and reasons we went out to speak to our investors and the investment community on what would make sense. I think the easier one to do, obviously when you look at the acquisitions, is wholly-owned smaller acquisitions. Those are the ones where you can fully control the process.

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Anytime you get involved in a consortium, then that adds to the complexity. However, if it's the right asset with the right cash flow profile, and particularly with the Macquarie network, then we'll look at those opportunities. I won't comment further on specific opportunities, but doing the smaller ones or singles are generally easier to do than trying to do the megadeals.

Robert Kwan, RBC Capital Markets

Kind of where are you seeing the opportunities right now, and should we expect kind of the smaller wholly-owned assets being kind of the focus here?

Michael Bernstein

Yeah, I think those are the ones that, particularly in this environment, are the ones that are easier to do and will be better received by the market. That's consistent with what we're seeing right now in opportunities.

Robert Kwan, RBC Capital Markets

And just my other question, with respect to some of the discussions that have been going on at the OEFC with respect to Cardinal, can you just give an update as to where you are with that, and whether very weak Ontario power prices has kind of slowed things down?

Michael Bernstein

Well, things have slowed down a little bit. We are working through APPrO, the Association of Power Producers of Ontario, and there have been quite a few initiatives on the electricity side in Ontario, including the Green Energy Act and their FIT Program, their feed-in tariff. So the Ministry has been very focused on working through the legislation and the details of that and that's what has kept them busy over the summer.

As well, you would have seen there was a major announcement on postponing --- I'll use that word --- the Darlington nuclear program, which was a very significant platform for the future of base load generation for Ontario. So that's raised a lot of questions.

So I think we are still having progress, there is still dialogue between APPrO as well as the Ministry. I would personally think that what's happening on the nuclear side is potentially more beneficial for gas cogen such as ourselves. I'm actually a proponent of nuclear, but things

have to be done at a cost that's affordable for rate payers. So, not a heck of a lot of advancements since our last chat, Robert, but I'd say that the trend lines and macro issues are still positive for Cardinal.

Robert Kwan, RBC Capital Markets

Can you give a rough sense of or where you expect timing on resolution of this issue?

Michael Bernstein

Unfortunately, I can't. For me to estimate on how quickly government may want to move on certain items, I'm not brave enough of a man to do that.

Robert Kwan, RBC Capital Markets

Let me put it slightly differently, then: Is it at all likely that something could be done by the end of the year or are we looking at something that's kind of much longer horizon here?

Michael Bernstein

We'd like to get a priority and get involved in some better dialogues with the OPA and the OEFC in the fall. So at what stage that gets to something concrete, don't know, but we'd be hopeful that we can have some framework set out over the next several months. Perhaps something that everyone has agreed to and announced by the end of the fall, I would say that's unlikely, but who knows?

Robert Kwan, RBC Capital Markets

And then just with respect to you conducting negotiations via APPrO, are the APPrO members kind of cohesive as a group as to what you are all looking for or are there a number of different things that various members are looking for in terms of contracts or form of contracts?

Michael Bernstein

It's generally consistent. I mean with the Ontario markets, and if you've seen what's happening in the pricing, over the last several years it's definitely moved toward the more managed market. So all of us are consistent in saying that getting a contractual framework is important to be able to reinvest and to make sure that we have

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stable and adequate supply in the future for Ontario. So I don't think there is any difference in views.

I'd also like to state, though, Robert, that we're not only looking at things through APPrO. You know, Casco is our partner on the facility so, you know, we are working with Casco as well in what's the best thing for the facility, for the community, for the economy as well.

Robert Kwan, RBC Capital Markets

And I guess, since you brought that up, are there any kind of considerations we should be aware of with respect to Casco and their operations or their cost structure?

Michael Bernstein

Nothing that I'd comment on. I mean, they are a public company, so you can call the Corn Products International guys, but they have invested in the plant and have a specialized product so we think they are a great customer.

Robert Kwan, RBC Capital Markets

Okay. And you are feeling good about the potential for lease extension?

Michael Bernstein

Yes. I mean there's --- it's a very synergistic relationship. We provide the steam and power and they worry about producing their products. And we're happy to provide it to them. So I'm feeling that this mutually beneficial relationship should continue long into the future.

Robert Kwan, RBC Capital Markets

Okay, great. Thanks, Mike.

Michael Bernstein

Thanks.

Operator

Thank you. Once again, if you have a question, please press star one.

We have no further questions. I'd like to turn the call back over to Mr. Bernstein. Please go ahead.

Michael Bernstein

Okay, guys. I'd just like to thank everyone for joining us this morning and for your questions and have yourselves a good month of August. Thank you.

Operator

Thank you. The conference has now ended. Please disconnect your lines at this time. We thank you for your participation.
